

Audited Financial Statements

for the year ended 31 December 2017



World Health
Organization

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2017 Statement of Internal Control

Scope of responsibility

As Director-General of the World Health Organization, I am accountable to the World Health Assembly for the administration of the Organization and the implementation of its programmes. Under Financial Regulations I and XII, I am accountable for maintaining a sound system of internal control, including internal audit and investigation, to ensure the effective and efficient use of the Organization's resources and the safeguarding of its assets. Pursuant to Financial Regulation I, I have delegated authority and accountability to Regional Directors, Deputy Directors-General, Assistant Directors-General, Directors, WHO Heads of Country Offices and other relevant staff. Every individual in the Organization has, to varying degrees of responsibility, a role to play in internal control.

Purpose of internal control

Internal control is designed to reduce and manage, rather than eliminate the risk of failure to achieve the Organization's aims, objectives and related policies. It therefore provides reasonable but not absolute assurance of effectiveness. It is an ongoing process designed to identify the principal risks, evaluate the nature and extent of those risks, and manage them efficiently, effectively and economically.

Internal control is a key role of management and an integral part of the overall process of managing operations. As such WHO management at all levels has the responsibility to:

- establish an environment and culture that promotes effective internal control;
- identify and assess risks that may affect the achievement of objectives, including the risk of fraud and corruption;
- specify and implement policies, plans, operating standards, procedures, systems and other control activities to manage the risks associated with any exposure identified;
- ensure an effective flow of information and communication so that all WHO personnel have the information they need to fulfil their responsibilities; and
- monitor the effectiveness of internal control.

From an operational perspective, WHO's internal control system operates continually at all levels of the Organization through internal control processes to ensure the above objectives.

This is WHO's second statement of internal control and applies for the year ended 31 December 2017, up to the date of the approval of the Organization's 2017 financial statements.

WHO's operating environment

WHO operates in more than 150 countries in some very challenging environments, and is therefore exposed to situations with a high level of inherent risk, including for the security of employees and its ability to maintain high standards of internal control. The security situation in each country in which WHO (and the United Nations in general) operates is closely monitored, and strategic decisions are taken where necessary to adapt WHO's operations and to manage and mitigate the risk exposure of its personnel. All risks at budget centre level are captured in a formal risk register, which is subject to regular review by managers and advanced to more senior levels for attention, as required.

The Internal Control Framework and risk management

The WHO Accountability Framework, along with the corporate risk management policy and the WHO Internal Control Framework, are critical systems and structures to ensure that the Organization fulfils its mandate and achieves its objectives. Well-grounded risk management and internal control policies, systems and processes help to better understand the risks that the Organization is exposed to, ensure that appropriate accountabilities and controls are in place to address those risks, and effectively pursue the Organization's operations.

For the third year, WHO has used internal control self-assessment checklists, completed by each of the Organization's budget centres, as a key tool to assess the status and effectiveness of its internal controls and raise awareness of the importance of internal control issues. In 2017, following a recommendation from WHO's external auditors, self-assessment data has been reviewed and validated systematically by the respective regional directors and assistant directors-general.

The WHO corporate risk management policy firmly embeds risk management in WHO's strategic and operational planning and budgeting cycles, as well as in the accountability and internal control frameworks. The key objective is to ensure that all of the risks inherent to the Organization's operations are fully understood, and the appropriate strategy chosen to manage them. In 2017, to increase staff awareness and build capacity in risk management, training in risk management was organized throughout the Organization.

During 2017, using a newly developed on-line risk management tool, budget centres have continued to identify risks related to their objectives, evaluate those risks according to likely impact and probability, and develop response plans to deal with them. This bottom-up risk management process is complemented by a top-down phase of validation and escalation. At the global level, the biggest challenges that WHO encounters in achieving its mandate are reflected in a corporate level risk register ("WHO Principal Risks"), which is discussed and reviewed by the Global Policy Group. An annual risk report is subsequently presented to Member States through the Executive Board.

As the Director-General of the Organization, I have the ultimate responsibility for assessing the risks associated with the implementation of programmes and projects and the overall operations of the Organization. I am assisted in this task by the Regional Directors, as well as the newly established WHO Risk Committee, led by the Deputy Director-General for Corporate Operations. The Committee plays a key role in ensuring that the most critical risks are identified and addressed in an efficient manner. Furthermore, I am supported by the Office of Compliance, Risk Management and Ethics, which facilitates and guides the Organization-wide risk management process. At the same time, as highlighted in the WHO corporate risk management policy, every WHO staff member has the responsibility to identify risks at his or her own level of work.

Review of the effectiveness of internal controls

My review of the effectiveness of WHO's system of internal control is based on the following.

- (a) An annual "letter of representation". This is reviewed and approved by all Regional Directors, Deputy Directors-General and Assistant Directors-General, and confirms the importance of ensuring that adequate internal controls are in place, along with other assurances. All issues raised in the letter of representation feed into the annual audit and financial statements.
- (b) The internal control self-assessment checklist. This is completed and submitted by all budget centre managers, including all WHO Representatives. The checklist is used by each budget centre manager to review all key controls and rate compliance. The results of the 2017 internal control framework self-assessment exercise concluded that Organization-wide internal controls are strong. Globally, the most room for improvement has been identified in the areas of travel planning, systematic monitoring of budget centres' compliance with rules and regulations, and implementation of risk responses. The need for further improvement was also noted in the areas of procurement planning,

timeliness of recruitment processes, succession planning and asset management procedures. The results of the self-assessments are being shared with the relevant business owners to ensure that corrective action can be taken.

(c) Reports issued by the Office of Internal Oversight. These reports provide objective information on compliance and control effectiveness, together with recommendations for improvement. Critical findings from these reports were transmitted separately to Member States, through the audits conducted in 2017.

(d) Reports issued by the WHO External Auditor. The external audit provides independent oversight and reporting on WHO's compliance with financial rules and regulations. The Republic of the Philippines Commission on Audit presents an update of its work and key findings to the governing bodies. A key area reviewed in 2017 was the review of implementation of the transition provisions for property, plant and equipment in respect of the International Public Sector Accounting Standards (IPSAS). For further information, see the report of the External Auditor to the Seventy-first World Health Assembly (document A71/32).

(e) The work of the Independent Expert Oversight Advisory Committee. The Committee reviews all audit reports, risk reports, and financial reports, as well as other information relevant to the overall control framework. The Committee's reports are presented to the Executive Board, which identifies areas for potential improvement and advises how to address weaknesses with regard to risk management, and financial and internal control matters.

Significant risk issues noted

After each WHO budget centre completed the risk register in 2017, the consolidated findings were reviewed by the Office of Compliance, Risk Management and Ethics and presented to WHO senior management and the WHO Risk Committee. Having reviewed the findings, I have concluded that the most significant risks currently facing the Organization are as summarized in the table below.

Risk	Examples of ongoing and planned risk response actions
Financing of the 2018–2019 Programme budget (primary risk related to flexible funding due to reduction in core voluntary contributions and uncertainty regarding future funding prospects)	<ol style="list-style-type: none"> 1. Targeted resource mobilization, including with potential new donors. 2. Running a financing campaign. 3. Creating a strong, integrated external relations function. 4. Taking internal measures to reduce expenditures. 5. Effective and timely implementation of funds according to donor agreements.
Financing and operational readiness of the WHO Health Emergencies Programme	<ol style="list-style-type: none"> 1. The Independent Oversight and Advisory Committee for the Health Emergencies Programme reviewed and made recommendations on the Programme's overall progress, structure and risks.¹ 2. The report by the Director-General to the Seventieth World Health Assembly on Health Emergencies – WHO's response in severe, large-scale emergencies, provides an overview of WHO's operations in grade 3 emergencies.²
Polio transition, notably risks to programmes or offices most dependent on polio funds; financial liabilities associated with the fixed-term staff of those programmes; and potential delays to the timely eradication of polio	The latest update on the polio transition planning was presented to the Executive Board in January 2018. ³

¹ See document A70/8.

² See document A70/9.

³ See document EB142/11.

Risk	Examples of ongoing and planned risk response actions
Funding of long-term liabilities, notably the after-service health care costs	<ol style="list-style-type: none"> 1. Introducing and implementing cost containment and efficiency measures (through governance of staff health insurance). 2. Increasing staff and WHO contribution levels.
Fraud/corruption/misconduct	<ol style="list-style-type: none"> 1. <u>Prevention</u>: enhanced training in high-risk areas (such as ethics, fraud); strict enforcement of relevant policies and the Code of ethics and professional conduct; rapid resolution of audit recommendations. 2. <u>Detection</u>: Whistle-blower hotline; implementation of automated system controls (Global Management System) and exception reporting; enhanced monitoring. 3. <u>Response</u>: enhancement of investigation capacity; proactive and rapid action in case of fraud/corruption/misconduct.
Business continuity risks linked to major incidents affecting WHO operations (for example, natural disaster or major terrorist attack)	<ol style="list-style-type: none"> 1. Updating business continuity plans across the Organization. 2. Conducting simulation exercises. 3. Implementing a United Nations-wide organizational resilience policy.
Security of WHO staff and premises	<ol style="list-style-type: none"> 1. Prioritizing security in programme planning and financing decisions. 2. Developing a structured financing model that ensures security is budgeted and financed as an integral part of donor contributions.
Cyber security (such as hacking of digital assets)	<ol style="list-style-type: none"> 1. Implementing the Organization-wide cyber security road map. 2. Global implementation of information technology projects with defined security standards. 3. Developing and implementing policies related to cyber security.

Each of the above risks has been discussed by the WHO Risk Committee, as well as with the relevant risk owners, to ensure that appropriate action is taken to address these risks.

Statement

Internal control, while operating effectively, has inherent limitations, including the possibility of circumvention, no matter how well designed, and therefore can provide only reasonable assurance. Furthermore, because of changes of conditions, the effectiveness of internal control may vary over time.

I am committed to addressing any weaknesses in internal controls that may be noted during the year and brought to my attention.

Based on the above, I conclude that, to the best of my knowledge and information, there are no material weaknesses that would prevent the external auditor from providing an unqualified opinion on the Organization's financial statements, nor are there other significant matters arising that would need to be raised in the present document for the year ended 31 December 2017 and up to the date of approval of the financial statements.



Dr Tedros Adhanom Ghebreyesus

Director General

Geneva, 23 March 2018

Certification of financial statements for the year ended 31 December 2017

In accordance with Article 34 of the Constitution and Financial Regulation XIII of the World Health Organization, attached are the financial statements for the year ended 31 December 2017. The financial statements, accounting policies and notes to the financial statements have been prepared in compliance with International Public Sector Accounting Standards (IPSAS). The financial statements are also prepared according to the Financial Regulations of the World Health Organization and its Financial Rules. The financial statements and notes have been audited by the Organization's External Auditor, the Republic of the Philippines Commission on Audit, whose opinion is included in this report.

Although the Organization has adopted an annual financial reporting period as stipulated in the revised Financial Regulation XIII,¹ the budgetary period remains a biennium (Financial Regulation II). Therefore, for the purposes of making comparisons between the actual expenses and the planned budget, the biennium's budget is set against two years of annual expenses. The Statement of Comparison of Budget and Actual Amounts (Statement V) provides this comparison by category.

In addition to the General Fund (the programme budget), two other fund groups are included in WHO's financial statements: Member States – other and the Fiduciary Fund. Details of the revenue and expenses for each of these three main fund groups can be found in Schedule I of the report.

In 2017, the Organization provided services to five other entities: The Trust Fund for the Joint United Nations Programme on HIV/AIDS (UNAIDS), the International Drug Purchase Facility (UNITAID), the International Agency for Research on Cancer (IARC), the International Computing Centre (ICC), and the Staff Health Insurance (SHI). Separate financial statements are prepared for each entity, and these are subject to separate external audits. The funds managed by WHO on behalf of these entities² are included within the Statement of Financial Position (Statement I).

The financial statements for the year ended 31 December 2017, together with the notes to the statements and supporting schedules I, II and III, have been reviewed and approved.

The audited financial statements should be viewed together with the WHO Results Report, Programme Budget 2016-2017 (A71/28).



Nicholas R. Jeffreys
Comptroller



Dr Tedros Adhanom Ghebreyesus
Director General

Geneva, 23 March 2018

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