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## **REPORT OF THE AUDIT COMMITTEE**

### **Introduction**

1. During the intersessional period, the Audit Committee (AC) continued to discharge its mandate as approved by Executive Council Resolution 8 (EC-LXIII) – Terms of reference and membership of the Audit Committee. It held two meetings, on 23–24 October 2018 and 16–18 May 2019, chaired by Ms Catherine Vendat.
2. In keeping with the Terms of Reference approved by the Executive Council, the AC continued to focus its oversight and advisory role on the review of annual Financial Statements and on the reports of the External Auditor, the work plans and reports of the Internal Oversight Office, follow-up of the recommendations of the Joint Inspection Unit (JIU), effectiveness of the Enterprise Risk Management, and on other financial and management matters. It provided recommendations to the Secretary-General and the Executive Council as appropriate and assessed Management actions to various oversight recommendations.

### **Financial statements**

3. The AC reviewed the Financial Statements for 2018 and noted the financial results for the year as reflected in the Secretary-General's foreword (introductory Statement) and the External Auditor's Report. The External Auditor provided an unqualified audit opinion on the Financial Statements.
4. The AC noted that the overall IPSAS deficit was CHF 7.6 million in 2018, representing an improvement of CHF 6.1 million (44.7%) from the IPSAS deficit of CHF 13.7 million in 2017. The lower deficit resulted mainly from the reduction in IPSAS based expenses of CHF 10.1 million (9.6%), which was partially offset by a decrease in overall revenue recognized amounting to CHF 4.0 million (4.4%).
5. Concerning the deficit, the AC noted that yearly deficits were experienced since the adoption of IPSAS in 2010. The causes of deficits within the General Fund were: (a) depreciation of the WMO Headquarters building in excess of net debt payments, which poses no risk to the Organization and (b) long-term employee benefits expense in excess of payments under pay-as-you-go, which have manageable long-term financial implications. The yearly deficits in the other funds were explained as the result of a change in accounting for revenue in 2013. In summary, such deficit is expected and manageable.
6. The AC noted a decrease of CHF 5.2 million in unpaid assessed contributions from CHF 17.5 million at 31 December 2017 to CHF 12.3 million at 31 December 2018, as well as an increase of CHF 3.1 million in unpaid voluntary contributions confirmed in writing from CHF 24.7 million at 31 December 2017 to CHF 27.8 million at 31 December 2018.
7. The AC noted that After Service Health Insurance (ASHI) continues to be a significant liability in WMO as in other UN system organizations and took note of the proposal of the Secretary-General contained in document EC-71/Doc. 6(3) regarding a proposed increase of payroll costs for the funding of the reserve for after-service health insurance benefits from 3 to 4 per cent.

8. Based on the audit opinion, the Audit Committee, in accordance with its Terms of Reference, advised the Secretary-General to sign the Financial Statements for 2018.

9. The AC notes the unqualified audit opinion of the External Auditor for 2018.

### **Report of the External Auditor**

10. The AC reviewed and discussed the report of the External Auditor, which identified a number of areas of improvements made by the Secretariat and summarized the main findings from the 2018 audit work.

11. The AC expressed their appreciation for the comprehensive and useful Report of the External Auditor and drew attention to the fact that WMO has made a special effort in 2018 to implement its recommendations, with 10 recommendations closed and 7 being in process of implementation.

12. The AC expressed concerns about those areas where internal controls were found to be weak and the recommendations remained open. The AC and External Auditor discussed the status of the WMO internal control system in light of the External Audit Report, particularly with regards to identified deficiencies in certain areas audited during 2018. Such areas include travel process, controls at the organizational level, IT general controls, voluntary contributions and project management and closure of accounts and preparation of financial statements.

13. In this regard, the AC inquired about the risks related to IT security and the lengthy time-lines foreseen for the implementation of related recommendations, and recommended the Secretary-General to revise the current timelines and strive to implement high priority recommendations earlier than currently planned timelines, in particular account password parameters and non-personal accounts, as soon as possible. In this relation, the AC further recommended to centralize the creation of new entries and/or modifications in the vendor database to avoid duplicates.

14. In reviewing the accruals, the AC noted a need for a thorough clean-up of unliquidated obligations (ULOs), and recommended the Secretary-General to strengthen the ULO review process.

15. The AC noted the increase in expenditures related to staff and third-party travel and sought clarifications about the planned centralization of services related to travel processes and recommended the Secretary-General to report on the effectiveness and appropriateness of this approach at the spring session of the AC in 2020.

16. The AC noted the increased income in voluntary contributions and the flat level of implementation of projects and recommended the Secretary-General to pay particular attention to sustaining the positive progress in the implementation of controls related to project management to ensure appropriate delivery of project activities.

17. In reviewing the question about the provisions for write-off of the advance payments to WMO staff members that the tax authorities of a Member State refused to reimburse due to a difference in the calculation method, the AC raised an issue as to whether WMO should recover the outstanding balance from the WMO staff members concerned.

18. The External Auditor also carried out a performance audit of the WMO/Sri Lanka Department of Meteorology project to install a weather radar in Sri Lanka. The External Auditor report drew attention to weaknesses in the project's management and oversight, and the loss of investments from voluntary contributions. They presented recommendations designed to improve projects' acceptance, management and oversight in the future. These were accepted by management and implementation is underway.

## **Internal Oversight**

19. The AC reviewed the IOO Plan of Work covering 2018 and confirmed that it was in accord with the Office's role and responsibilities; reviewed progress reports issued by IOO and the Annual Accountability Report of IOO; and advised IOO as appropriate. In its two meetings, the AC considered the following IOO reports:

- Report 2018-01 – IT Governance
- Report 2018-02 – Project Management Framework
- Report 2018-03 – VSP/ERP Implementation
- Report 2018-04 – Travel process
- Report 2018-05 – IT operational costs review
- Report 2018-06 – Letter of Agreements
- Report 2018-07 – Post Implementation Review of EDMS
- Report 2018-08 – Special Accounts for extraordinary works for the building
- Report 2018-09 – Offices in the Africa region

20. The AC noted its satisfaction with the quality, comprehensiveness and usefulness of the Annual Accountability Report and with the individual audit reports issued by IOO. It is notable that in the light of internal control weaknesses reported by External Audit and internal audit, IOO has been able to provide only limited assurance on the effectiveness of the system of internal controls operating during 2018. The AC therefore commends the reporting by internal audit to the Executive Council's attention and notes that the Secretary-General has recognized in his Statement on Internal Control a number of the areas in which IOO called for action.

## **Internal control**

21. The AC reviewed the Secretary-General's Statement on Internal Control (SIC) for 2018. The AC drew attention to the fact that the introduction of additional control measures is recent and their effectiveness cannot yet be demonstrated, and recommended the Secretary-General to ensure implementation of the controls and monitor and report on their effectiveness.

22. The AC underlined that the governance reform could entail changes that may pose challenges to the capacity of the Organization to handle them with existing resources. In this regard, the AC recommended reflecting in the statement not only current challenges but also the future vision.

23. The AC was of the view that there needed to be further acknowledgement of unevenness in the functioning of the internal controls during 2018 based on the observations by external auditor and internal oversight office. The AC also made suggestions to modify the Secretary-General's conclusion on internal controls in the statement. On this basis, the AC advised the SG on signing the SIC for 2018.

## **Ethics arrangements**

24. In the course of its work, the AC reviewed the developing ethics function, established as a shared services arrangement with the International Telecommunication Union (ITU). The AC noted the improved WMO Ethics Framework, promulgated as a dedicated chapter 11 of the Standing Instruction, composed of the key policies and procedures on ethics-related topics. These are divided into two categories: (a) those policies already in existence that are being consolidated into this Chapter - namely, the WMO Code of Ethics, and the Policy on Protection Against Retaliation; (b) new policies - namely, the WMO Policy Against Fraud and Other Proscribed Practices and the Ethics Office Mandate (based on existing provisions spread across a few Service Notes); (c) WMO has promulgating the most recent version of the Standards of Conduct for the International Civil Service - an inter-agency level document reflecting the shared principles of conduct across the UN system. In addition, a new *WMO Code of Conduct for officers of the Organization and members of the Executive Council including its committees and for delegates at constituent body meetings* has been developed and adopted by Resolution 34 (EC-70).

25. The AC took note that, following departure of the Ethics Officer in 2018, the ethics function was supported by the WMO Legal Counsel who served as the Ethics Officer a.i. during the period of recruitment of a new incumbent. The AC noted with satisfaction of the appointment of the Ethics Officer with effect from 3 June 2019. The AC further noted that as of 2018 WMO Ethics Office annual reports have been provided to the Executive Council.

## **Enterprise risk management**

26. The AC continued to review the implementation of enterprise risk management at the Secretariat. The AC expressed high appreciation for the development of a risk management culture and environment in the WMO Secretariat.

27. The AC noted the progress in the implementation of risk management, in particular on the integration of risk management in key business areas of the Organization: (a) strategic and operational planning and performance management, (b) key WMO processes and (c) project-level risk management.

28. In response to the AC recommendation, the Secretariat has been developing a WMO System of Internal Control which mainstreams and consolidates key internal control processes by applying the COSO integrated framework to the requirement of WMO. In this regard, the AC welcomed the introduction of the concept of three-line of defence and detailed roles and responsibilities according to components such as control environment, risk assessment, control activities, informality and communication as well as monitoring activities.

29. The AC also noted that the constituent body reform will be a major change for the Organization, requiring careful risk assessment and change management. To address this high risk, in 2018 the Executive Council established a Transition Plan, including change management and risk management plans, and established the Constituent Body Reform Task Force, comprised of members of Executive Council, to manage the transition process. The establishment of a Transition Team is also proposed to Congress to ensure continuity of critical activities by technical commissions during the transition period. Within the Secretariat, a Change Management Committee identifies and addresses reform-related risks.

30. The AC recommended clear identification of high strategic risks by an overarching risk management statement that should be mainstreamed in a more organic manner with the active involvement of the staff at all levels.

### **JIU reports and recommendations**

31. The AC, in its 32nd session, reviewed the progress in the WMO responses to the recommendations from the Joint Inspection Unit which were relevant to the Organization.

32. The AC took note of the six JIU reports issued since AC-30.

- JIU/NOTE/2017/1 – Results-based management in the United Nations system
- JIU/REP/2017/7 – Review of donor reporting requirements across the United Nations system
- JIU/REP/2017/8 – The United Nations system – Private sector partnership arrangements in the context of the 2030 Agenda for Sustainable Development
- JIU/REP/2017/9 – Review of mechanisms and policies addressing conflict of interest in the United Nations system
- JIU/REP/2018/1 – Review of internship programmes in the United Nations system
- JIU/REP/2018/4 – Review of whistle-blower policies and practices in United Nations system organizations

33. The AC reviewed the management responses to the recommendations in these reports as well as ongoing recommendations from prior periods. AC provided its assessment on status of recommendations and other suggestions to improve the quality of information submitted to the Governing Body.

34. The AC confirmed the timeliness, effectiveness and promptness of responses from the SG to recommendations of the JIU and recommends that the Executive Council endorse the management responses subject to its own consideration.

35. In relation to JIU/NOTE/2017/1, The AC emphasised the importance of maintaining an independent evaluation function in the Secretariat in light of increasing voluntary contributions for projects, including through a sharing arrangement with another Organization, to assess results and their contribution to the mission and objectives of WMO.

### **AC effectiveness**

36. Considering that the last self-assessment was performed in November 2017 at AC-29, the AC considered that the autumn session of 2019 would be the appropriate time for the next self-assessment, including review of the terms of reference taking into account the upcoming JIU report on oversight bodies.

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