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## **REPORT OF THE CHAIR OF THE AUDIT AND OVERSIGHT COMMITTEE**

### **Introduction**

1. During the intersessional period, the Audit and Oversight Committee (AOC) continued to discharge its mandate in accordance with the revised terms of reference adopted through [Resolution 17 \(EC-72\)](#) – Terms of reference and membership of the Audit and Oversight Committee. It held two meetings, chaired by Mr Tuncay Efendioglu: AOC-35 on 19–21 October 2020; and AOC-36, on 10-12, 17 and 20 May 2021: both by videoconference.

2. In keeping with the revised terms of reference approved by the Executive Council, the AOC continued to focus its oversight and advisory role on the review of the annual Financial Statements and the reports of the External Auditor; the work plans and reports of the Internal Oversight Office; and reports of the United Nations Joint Inspection Unit (JIU), including follow-up of recommendations made in previous reports of the JIU. These reports include notably the recent 2021 JIU report on their review of the management and administration of WMO. The AOC also considered the progress and effectiveness of WMO's enterprise risk management, and other financial and management matters. The Committee's reporting provides findings and recommendations for the Secretary-General and the Executive Council, as appropriate, and also reviewed management's response to various oversight recommendations.

***The AOC's observations and conclusions from relevant findings of the report of the UN JIU on their review of management and administration in the WMO, and from the External Auditors' audit report on their examination of the WMO financial statements for 2020, are set out below, with the summary advice and conclusions of the Audit and Oversight Committee which are submitted for the benefit of the WMO Executive Council and the Secretary-General, in accordance with the Committee's mandate and responsibilities.***

### **Financial Statements, the Report of the External Auditor for 2020, and Internal Control**

3. The AOC reviewed the Financial Statements for 2020 and noted the financial results for the year as reflected in the Secretary-General's introductory statement and the Report of the External Auditor.

4. The AOC noted the employee benefit liabilities of CHF 90.9 million, which is a primary driver for the negative Net Asset position of CHF 4.9 million. The AOC noted the Secretariat's prior analyses and reporting to the WMO Constituent Bodies with respect to addressing the unfunded liability and reiterated the importance of WMO identifying a solution.

5. The AOC noted the impacts of the Covid-19 pandemic on the 2020 Financial Statements, including the significant reductions in travel and project related expenditures as well as the small reduction in revenue from voluntary contributions resulting from delayed implementation of voluntary funded activities.

6. The Secretariat briefed the Committee on the financial impact of the Secretariat reorganization on the 2020 financial statements, including the CHF 2.2 million of termination indemnities and CHF 1.1 million of other separation payments such as accumulated annual leave and repatriation related payments. After request by the AOC, the Secretariat described the process for ensuring that the calculation and payment of termination indemnities and other separation payments were accurate and in-line with the regulatory framework. However, no documentation was provided to the Committee in support of these payments.

7. The AOC noted the challenges faced by the Secretariat with respect to the receipt of assessed contributions during 2020 and noted the improvements that had been made to the outstanding assessed contributions by the end of 2020, although the level of outstanding assessed contributions at the end of 2020 amounted to CHF 25.2 million. The AOC reiterated the importance of having strategies to address potential shortfalls of financing, including ensuring that Members make their payments of assessed contributions in a timely manner.

8. The External Auditors (EA) have provided an unqualified Audit Opinion for 2020, with an Emphasis of Matter in relation to the impact of actual liabilities and negative net assets relating to long-term employee benefits. The audit opinion confirms the External Auditors judgement that the financial statements present fairly the financial position of the WMO as at 31 December 2020, even though the EA report draws attention to a number of areas where internal controls need to be improved. This is a welcome result and, in the light of the unqualified audit opinion, the Audit and Oversight Committee concluded that there was no impediment to the Secretary-General signing the Financial Statements for 2020 and submitting them for adoption by the Executive Council.

9. Notwithstanding the overall acceptability of the Financial Statements for 2020, the AOC considered the Secretary-General's Statement on Internal Control (SIC) — which supports submission of the Financial Statements for 2020 and which concludes on the adequacy of the system of internal control for the year and up to the date of approval of the financial statements — and the Annual Accountability Report of the Internal Oversight Office (IOO) for 2020, in the light of both the 2021 report of the JIU on their review of management and administration in the WMO, and the findings of the External Audit Report for 2020.

10. **The AOC identified three clear concerns which they believe WMO needs to address as a matter of priority:**

- **The findings on internal control shortcomings reported by the JIU, which independently reinforce the observations and recommendations in the External Auditors' Report (21 recommendations), and which reflect on the nature, quality and adequacy of management controls, especially at a time of major change and restructuring of the Organization;**
- **The impact or reflection of these same findings on the adequacy of the present internal control environment at WMO; and**
- **Management's responses to the various observations and recommendations, and the need to address all recommendations via a proper management action plan, which was not yet available at the time of our meeting.**

11. The External Auditor's Report on their audit for 2020 refers to a number of areas where internal control needs to be improved in specific respects, i.e. in relation to: credit cards, safe deposit boxes, bank signatories and records, accounting for assessed contributions, and inadequate audit trails (EA Report paragraphs 10–39, 84, 112–113 and recommendations 1–7, 10 and 16, all accepted by the Secretariat).

12. The AOC notes that the JIU report is pertinent and comprehensive, and deals with key findings in relation to a total of 31 recommendations of importance and relevance to major issues for WMO at this time: four couched as “formal” recommendations, with 27 “informal” recommendations aimed at complementing the four key recommendations. The JIU report refers *inter alia* to:

- “An urgent need for a comprehensive accountability and internal control framework”;
- Outdated policies and procedures related to IT which should be updated as soon as possible;
- Restructured Secretariat arrangements which lack logical business sense, compromise internal control and lack segregation of duties;
- Deficient reporting lines for senior functions (Legal Counsel, Risk Officer, Evaluation Officer);
- Critical positions missing — Director of Finance and Administration, Chief Information Officer and Chief Security Officer;
- Failure of management to properly address many observations and recommendations made by the JIU in previous reports on WMO; and
- The need for the secretariat to have strategies for key management areas such as human and financial resources, change management and business continuity management, together with improved reporting to the Executive Council.

13. The AOC recommends that the Secretary-General should take prompt action to put in place improved internal control measures in the areas indicated by the JIU and the External Auditor, as well as considering the issues raised in the restructuring of the Secretariat and the cyberattack incidents which WMO has experienced. The AOC further considers that the nature and importance of the JIU’s findings are such that the Secretariat should take steps as a matter of priority to address all the recommendations made by the JIU, not just the four recommendations that have been the subject of the Secretary-General’s Official WMO Management Response to the JIU review.

### **Internal oversight**

14. The AOC reviewed the IOO Plan of Work covering 2021 and confirmed that it was in accord with the Office’s role and responsibilities. The AOC was apprised that the original plan of work for 2020, containing six (6) engagements, was changed in response to the evolution of risk profiles and demands on IOO services, to include: (a) three consultancy services reviews (independent review of staff appeals being entrusted to IOO); a request to provide a grant audit certificate to IPCC; ad-hoc advice on payroll outsourcing and the new ERP system; and (b) an internal audit of fellowship activities which had been requested and was included in the programme. The external Quality Assurance Review scheduled for the second half of 2020 was postponed to 2021.

15. The AOC was informed that in 2020 IOO issued sixteen (16) reports, including: eleven (11) reports concerning the review of appeals filed by staff members against administrative decisions; one (1) report on a financial audit of a grant received by IPCC from the European Commission as per their request; and six (6) assurance audit reports after completion of the engagements. These reports had not been presented by the Secretariat for formal review and discussion by the AOC. The AOC requested that as from its next session, the IOO’s reports and outputs should be formally included in the agenda for review by the Committee.

16. The AOC reiterated its opinion that IOO should not engage in consultancy activities which could compromise its level of independence, such as engagement in the administrative review of staff appeals; and that IOO should strive to strike the right balance between assurance and advisory/consultancy assignments. In taking note of the proposed revisions to the IOO charter, the AOC suggested that the introduction of a section concerning consulting services appeared premature.

### **Ethics arrangements**

17. The AOC reviewed the activities of the Ethics Office since the seventy-second session of the WMO Executive Council (EC-72). The Ethics Office had dealt with 25 matters on which staff sought individual advice and guidance, the majority dealing with HR-related grievances (19), which may involve disagreements concerning job performance, followed by workplace disputes or grievances (10) which may involve situations of disagreement/conflict, and issues related to conflict of interest (3).

18. As part of its effort to promote ethical awareness, the Ethics Office had organized training sessions on "Preventing Sexual Harassment in the Workplace" and "Resolving Workplace Disputes — A Guide for Managers." The training sessions raised awareness on the ethical standards expected of staff, the relevant policies concerning ethical behaviour, and the role of the Ethics Office and the support provided to staff. Future training activities will concern policies against retaliation.

19. The AOC noted that the matters brought before the Ethics Office relating to HR-related grievances had shown an increase compared to the previous period, and recommended that further attention be devoted to mediation and other informal means of conflict resolution.

### **Risk management**

20. The AOC reviewed the efforts made by the Secretariat in operationalizing the risk management process at all three levels: in relation to entity, programmatic and administrative processes. At the entity level, biannual reviews of the organizational risks (which include the top risks) continued with the active involvement of the Board of Directors. After standardizing the tools and processes at the programmatic level, the focus shifted to assisting business owners at the process level in 2021 and expanding the pool of staff who have received training on risk management. An important step towards building maturity was the development of a risk appetite framework and a draft risk appetite statement. More details on all these aspects were provided to the AOC in annexes and presentations.

21. The AOC expressed appreciation for the progress made by the Secretariat in internalizing risk management at different levels and advised that management should further facilitate continuous and evolving progress by establishing risk management focal points in the different departments; ensuring user-friendliness in inputting and reporting templates; and better connecting risk management with the business process by clearer and better documented decision-making.

22. The AOC questioned the inclusion among top organizational risks of the unspent balance accumulated as a result of restructuring, videoconferencing and the restrictions on travel. The Committee commented that this issue was not so much a real risk since it relates to proper authorizations to be received by the Executive Council to carry forward unspent balance between biennia and/or to redirect funds.

## Cybersecurity

23. The AOC advised that cybersecurity, given the cyberattacks on WMO reported by IOO, should not be limited to data breaches involving financial losses and fraud, but should also include other issues pertaining to the protection of information systems from unauthorised access. To address the risk of cybersecurity breaches, which will continue to be relevant in the future, the AOC advises that Management be strengthened at the senior level by engaging a qualified and experienced Chief Information/Security Officer with relevant technical expertise. WMO could also engage outside technical experts as and when necessary to mitigate the risks, which are real and not to be underestimated. This is extremely important, since cybersecurity threats may not only cause financial losses but even paralyze the business of WMO if not addressed early and on a continuous basis.

## JIU reports and recommendations

24. The AOC took note of WMO responses to previous JIU recommendations on cross-cutting UN matters (EC-73/INF. 7(2)), covering six (6) reports:

- JIU/REP/2020/6 — Multilingualism
- JIU/REP/2020/5 — Enterprise risk management approaches and uses
- JIU/REP/2020/3 — Common premises: current practices and prospects
- JIU/REP/2020/2 — Policies and platforms in support of learning: towards more coherence, coordination and convergence
- JIU/REP/2020/1 — Review of the state of the investigation function: progress made in strengthening the investigation function
- JIU/REP/2019/9 — Review of contemporary practices in the external outsourcing of services to commercial service providers

25. Based on feedback by the Policy Advisory Committee, the report had been revised to include additional information on the nature and type of investigations carried out by IOO in response to Recommendation 9 of JIU/REP/2020/1, with additional information concerning Recommendation 7 to be included in [Draft Decision 7/1 \(EC-73\) — Oversight](#).

26. The AOC was appraised of the findings and recommendations of the JIU review of management and administration in WMO ([JIU/REP/2021/1](#); [Review Highlights and Appendix](#)). See also paragraph 12 above. The review contains four (4) “formal” recommendations, one addressed for the Executive Council’s consideration to be implemented in 2022 (independent evaluation of the constituent bodies reform); and three addressed to the Secretary-General to be implemented in 2021 (a joint review team to conduct a structural and process review to further refine and adjust the overall Secretariat restructuring; a comprehensive accountability and internal control framework to be submitted to the Executive Council; and a comprehensive human resources strategy to be submitted to the Executive Council).

27. In addition, the JIU report contains twenty-seven (27) “informal” recommendations aimed at complementing the four recommendations, and addressing aspects related to: governance reform (3 recommendations); Secretariat restructuring (4 recommendations); oversight and accountability (12 recommendations); and management (8 recommendations).

28. The Secretariat informed the AOC that in the early stage of the management's response, the focus would be on the formal recommendations only, since the numerous informal recommendations would require time to be considered and prioritized. The official [WMO Management Response](#) provided to JIU is available on the JIU website.

29. In the light of the extent and seriousness of the JIU's findings, the AOC recommended the preparation of a detailed management action plan with responsibilities for addressing both formal and informal recommendations of the JIU report to be available for the Committee's review at its next formal session.

30. The WMO restructuring has unfolded over the past year at the most difficult of times for WMO due to the pandemic and reality of a virtual workforce. The AOC has been briefed verbally, but only after requesting documentation was the AOC provided with limited documentation at our last meeting on the outcome of the Secretariat restructuring and post reductions. While it has been a very challenging year, the longer term or future impacts of the restructuring on the operations of the Secretariat and the system of internal controls are yet to be known. It is for this reason that the AOC has made the recommendations provided in this report.

31. The Secretariat and AOC members express appreciation for the work and advice provided by Mr Graham Miller and Mr Fetene Teshome who will complete their terms in June 2021.

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