



## CORTE DEI CONTI

### LA SEZIONE DI CONTROLLO PER GLI AFFARI COMUNITARI ED INTERNAZIONALI

Composta dai Magistrati:

|          |            |            |              |
|----------|------------|------------|--------------|
| Dott.    | Giovanni   | COPPOLA    | Presidente   |
| Dott.    | Carlo      | MANCINELLI | Consigliere  |
| Dott.    | Gian Luca  | CALVI      | Consigliere  |
| Dott.    | Giulio     | STOLFI     | Referendario |
| Dott.ssa | Maristella | FILOMENA   | Referendario |

Nell'Adunanza del 13 maggio 2021

Visto il D.P. n. 153 del 18 maggio 2020 pubblicato nella G.U. n. 131 del 22 maggio 2020 recante "Regole tecniche e operative in materia di svolgimento delle camere di consiglio e delle adunanze in videoconferenza e firma digitale dei provvedimenti dei magistrati nelle funzioni di controllo della Corte dei conti";

Viste le modalità indicate dalla DGSIA per lo svolgimento delle adunanze e camere di consiglio in videoconferenza - versione 1.0 del 26 maggio 2020;

Viste le regole tecniche della DGSIA riguardanti la procedura per la sottoscrizione con firma digitale dei provvedimenti dei magistrati nelle funzioni di controllo - versione 2.0 del 26 maggio 2020;

Visto il mandato di *external auditor* della *World Meteorological Organization* (WMO), conferito alla Corte dei conti dall'*Executive Council* della WMO nella sua settantunesima sessione tenutasi nel giugno 2019, come comunicato dal

Segretario Generale della WMO con lettera n. 17529/2019/ADM/FIN del 19 giugno 2019;

Visti i principi INTOSAI;

Visti i principi internazionali di audit applicabili all'attività delle Istituzioni superiori di controllo (*International Standards of Supreme Audit Institutions -ISSAI*);

Uditi i relatori, Cons. Carlo Mancinelli e Ref. Maristella Filomena, ed esaminati e discussi su loro proposta *l'audit certificate* e il *report* relativi all'*Audit of the Financial Statements at 31.12.2020 - WMO*;

### **DELIBERA**

di approvare definitivamente *l'audit certificate* e il *report* relativi all'*Audit of the Financial Statements at 31.12.2020 - WMO*, avendo ricevuto i commenti da parte dell'Organizzazione ed avendo espletato il contraddittorio;

### **DISPONE**

di trasmettere copia di detto *Report* al Segretario generale della *World Meteorological Organization* (WMO).

#### **I RELATORI**

Carlo Mancinelli

f.to digitalmente

Maristella Filomena

f.to digitalmente

#### **IL PRESIDENTE**

Giovanni Coppola

f.to digitalmente

Depositata in Segreteria il

Il Dirigente

Maria Pia Gubbiotti

f.to digitalmente



*Corte dei conti*

REPORT OF THE EXTERNAL AUDITOR

**WORLD METEOROLOGICAL ORGANIZATION**

**Audit of the financial statements for 2020**

13 May 2021

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## INTRODUCTION

The legal basis for the External Auditor's audit is set out in Article 15 of the WMO Financial Regulations and Rules and in the Additional Terms of Reference governing the External Audit of WMO.

This report informs the Executive Council of the results of our audits.

The audit looked at the WMO Financial Statements as at 31 December 2020 and their consistency.

This financial period is governed by the above-mentioned WMO Financial Regulations and Rules and the Financial Statements are presented in compliance with the International Public Sector Accounting Standards (IPSAS).

We audited the accounts for the Financial Year 2020, according to the INTOSAI standards, the IPSAS regime and according to the Financial Regulations of the WMO, approved in 2018.

With the letter of Representation signed by the Secretary-General, referring to the Accounts for the Financial Year 2020, we received the report and the finalised version of the Financial Statements.

We planned our activities in line with our audit strategy in order to obtain a reasonable assurance that the Financial Statements were free from material misstatement.

We evaluated the accounting principles made by Management and we assessed the adequacy of the presentation of information in the Financial Statements.

### ***Impact of the pandemic on the audit work***

Due to the Covid-19 pandemic, which affected the whole world during 2020 and the current months of 2021, no on-site presence was possible at WMO, due to Authoritative mobility constraints, and therefore we limited our tests and we have performed analytical procedures where International Auditing Standards provide for direct verification of the underlying transactions. We also decided to postpone some of the substantive testing in the consideration that our mandate will continue in the next years. This is also reflected in the follow-up to the previous External Auditor's recommendations, whose implementation we classified as "outstanding", due to the fact that we had no possibility to follow them up through a real audit activity.

As stated above, the restrictive measures put in place through authoritative decisions of both Italian and Swiss governments affected our capacity to carry-out the audit on-the-spot; the limitation must also be related to the fact that this is our first year

of mandate, which means that the Executive Management and the reference officers were also new to us, as was the structure of the organization. Nevertheless, we planned our controls in order to reach a conclusion in relation to the accounts and disclosures in the Financial Statements. In this context, we would like to underline the usefulness of having a “focal point”, like the Controller, who helped us to establish contacts and organize meetings with all relevant officials, although in our independence we are free to directly contact the relevant officers, as we actually did.

We had meetings with the Secretary-General, Prof. Petteri Taalas, the Deputy Secretary-General, Dr. Elena Manaenkova, the Assistant Secretary-General, Dr. Wenjian Zhang and with Director, Cabinet Office of the Secretary-General, Mr. Paul Egerton. We had also onboarding meetings with all Directors of Departments.

During the audit, all questions were discussed and clarified through emails' exchange, videoconferences and telephone calls with the officials responsible. The audit team, while informing in general terms the Secretary-General on the progress of the audit, had regular meetings with Director, Governance Services Department, Ms. Maja Carrieri, and with Deputy Director, Ms. Brigitta Exterkate, regular meetings and in-depth discussions with Chief Human Resources Section, Mr. Johannes Kratzheller and Chief Finance Section, Mr. Brian Cover, and with members of their staff or staff in other Units, through videoconference and telephone calls, depending on the subject matter under consideration.

Although the audit was performed through alternative procedures, we obtained a sufficient basis for the opinion given in the audit certificate. We have focused our work in the most sensitive areas, from a financial point of view, and we have issued recommendations, with the aim of giving added value to the overall picture, improving some procedures and correcting some specific weaknesses.

Finally, we wish to express our appreciation for the courtesy and helpfulness shown by all WMO officials to whom we had cause to request for information and documents.





# *Corte dei conti*

## **AUDIT CERTIFICATE**

### **Opinion**

We have audited the Financial Statements of the World Meteorological Organization (WMO), which comprise the Statement of Financial Position as at 31 December 2020, the Statement of Financial Performance, the Statement of Changes in Net Assets, the Statement of Cash Flow and the Statement of Comparison of Budget and Actual Amounts for the year then ended, and Notes to the Financial Statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the World Meteorological Organization (WMO) as at 31 December 2020, and its financial performance, its changes in net asset, its cash flows and its comparison of budget and actual amounts for the Regular Programme General Fund for the year then ended, in accordance with IPSAS and the WMO Financial Regulations and Rules.

### **Basis for Opinion**

We conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), and the WMO Financial Regulations and Rules. In the field of financial statements audit, the ISSAIs are a direct transposition from the International Standards on Auditing (ISAs). The Corte dei conti applies the provisions of the ISAs in so far as they are consistent with the specific nature of its audits. Our responsibilities under these standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the WMO in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Nations system, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Responsibilities of the WMO Secretary-General and Those charged with governance for the Financial Statements**

The Secretary-General is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards (IPSAS) and WMO's Financial Regulations, and for such internal control as he determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Secretary-General is responsible for assessing the WMO's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Secretary-General either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the WMO's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Corte dei conti's objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes its opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the WMO's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the WMO's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the WMO to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion, the transactions of WMO that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the WMO Financial Regulations and Rules and its legislative authority.

In accordance with the WMO Financial Regulations (Article 15) and the "Additional terms of reference governing external audit" we have also issued a detailed report on our audit of the WMO Financial Statements for 2020.

### **Emphasis of matter – Impact of actuarial liabilities**

We draw attention to the fact that the Statement of financial position shows a negative Net Asset (-4,878 kCHF), mainly due to the impact of 90,913 kCHF in actuarial liabilities relating to long-term employee benefits recorded in the financial position. Details of our analysis are included in our report. Management is acting according to its competences and powers and is constantly monitoring the situation. Our opinion is not modified in respect of this matter.

Rome, 13 May 2021

*Guido Carlino*  
*President of the Corte dei conti*

## **STRUCTURE OF THE ACCOUNTING STATEMENTS**

1. The WMO's Financial Statements, prepared and presented in compliance with IPSAS 1, included the following elements:
  - Statement of financial position (Statement I) – Balance sheet at 31 December 2020 with comparative figures as at 31 December 2019, showing Assets (divided into Current and Non-current assets), Liabilities (split into Current and Non-current liabilities) and Net assets;
  - Statement of financial performance (Statement II) for the year ended 31 December 2020, with comparative figures as at 31 December 2019, showing the Surplus/Deficit for the financial year;
  - Statement of Changes in Net Assets/Equity for the year ended 31 December 2020 (Statement III), with comparative figures as at 31 December 2019, showing the value of the Net assets, which include the surplus or deficit for the financial year including losses directly recorded in Net assets without being recorded to the Statement of Financial Performance;
  - Cash Flow (Statement IV): table of cash flows for the period closed on 31 December 2020, showing the inflow and outflow of cash and cash equivalents, purposely regarding the operational, investment and financing transactions and the treasury totals at the end of the Financial Year;
  - Comparison of Budget and Actual Amounts (Statement V) for the twelve months ending 31 December 2020;
  - Notes to the financial statements, providing information about accounting policies, segment reporting and additional information necessary for a fair presentation (quoted in this Report as “Note” or “Notes”).

## **STATEMENT OF FINANCIAL POSITION 2020**

### **ASSETS**

2. In 2020, the WMO's Assets amounted to 226,027 thousand CHF (kCHF), with an increase of 4,886 kCHF (2.2%) as compared with the value recorded in 2019 (221,141 kCHF).
3. They consisted of Current assets, amounting to 148,522 kCHF, representing 65.7% of Total Assets (in 2019, the figure was 135,999 kCHF, representing 51.5% of Total Assets), and Non-Current Assets, amounting to 77,505 kCHF, or 34.3 % of Total Assets (in 2019, 85,142 kCHF, or 38.5% of Total Assets).

## **Current Assets**

4. Total Current Assets in 2020 amounted to 148,522 kCHF, representing an increase of 12,523 kCHF (9.2%) as compared with 2019. The main sub-heading, “Cash and cash equivalents”, increased by 27,339 kCHF; all other sub-headings decreased: “Assessed contributions receivable” decreased by 3,727 kCHF, as well as “Voluntary contributions receivable” (-10,673 kCHF), “Inventories” (-2 kCHF), “Advance for project and meetings” (-312 kCHF) and “Other receivables” (-102 kCHF). The basis for evaluating Current Assets is given in the Accounting Policies (Note 2).

## **Cash and cash equivalents**

5. As stated in paragraph 4, the sub-heading “Cash and cash equivalents”, totalling 110.756 kCHF, increased by 27,339 kCHF (32.8%) compared to 83,417 kCHF in 2019.
6. It included unrestricted cash, for an amount of 35,369 kCHF (an increase of 15,883 as compared to 2019), and restricted cash, amounting to 75,387 (an increase of 11,456 over 2019). A detailed breakdown of the sub-heading is shown in Note 3.1.
7. We asked all banks and financial institutions with business relations with WMO to confirm the current account balances as of 31 December 2020.
8. Being at the first year of our mandate, we asked Management to introduce a new model for bank’s account confirmation: agreed to attach to the confirmation letter standard form, utilized by our predecessors, a detailed checklist, in order to increase the level of assurance in all aspects of treasury management. For instance, the checklist obliged counterparties (banks, financial institutions, cash deposit owner, etc.) to provide in specific boxes detailed information over, for example, signature powers and, if existing, further current accounts, safe boxes, warrants, investments, deposits, etc.
9. We received direct confirmation from all banks. We verified that the accounts balances had been properly recorded in the accounts. All variances detected in the banks’ confirmations were explained and justified. It is worth mentioning that we are waiting for receiving the hardcopies of three confirmations, already received by email, and we will verify if these documents are corresponding to the electronical ones when they actually arrive; however, we acknowledge the efforts made by Management to enable us to receive all the statements directly from banks as per our request.

### ***Strengthening internal controls on credit cards***

10. During our audit, in one of the bank confirmations we received, we also found that there are three active corporate credit cards at a bank, linked to a current account.
11. Management has told us that these cards are not bank accounts and, as such, do not have the same format of reconciliation like bank statements; however, Management has explained that the monthly credit card statements are reconciled to approved and authorized transactions on a monthly basis.
12. Furthermore, in the bank confirmation, for these credit cards there is indicated a total threshold of 28,000 CHF; Management referred us that for two of them the limit is 5,000 CHF and for the third one it is 10,000 CHF, and explained also that, as an internal policy of the WMO, the use of them should be limited to a maximum of 20,000 CHF per month.

#### ***Recommendation n. 1***

13. In order to enhance the internal controls and, at the same time, to reduce risks that credit cards might be used for purposes not in line with internal rules, we recommend that Management internally assess if the number and limit of credit cards in use at WMO is appropriate in order to determine if the number of cards should be reduced or if additional internal controls should be implemented.

#### ***Comments by the Secretary-General***

WMO accepts the recommendation and will perform an assessment as to the needs for, and related controls over, the credit cards in use at WMO.

### ***Urgently starting an inventory of safety boxes' contents***

14. During our audit, a bank revealed in its confirmation that other services are currently provided to WMO, among them three safety boxes.
15. Management responsible for WMO Treasury confirmed that these safety boxes had been activated a long time ago. Management further represented that two of them had been utilized by IT for the purpose of IT backup tape storage and the third one by Finance; however, as the boxes had not been accessed for a significant period of time, current WMO staff were not aware of their contents, not having had access to them.

16. Consequently, no inventory has been carried out by WMO, nor by the Internal Auditor or the previous External Auditor.
17. Furthermore, the above-mentioned account statement also contains the names of persons with authority to access this account, to which the safety deposit boxes refer. Some of the persons indicated as having the right of access are no longer staff members of WMO.
18. We considered it urgent to carry out an inventory of these safety boxes; therefore, we asked Management to execute an inventory jointly with the Internal Auditor at the branch where the safe deposit boxes are located. Having the key to only one of the safety boxes, once opened, it was found to be empty. The keys to the other two boxes were not found inside WMO, so those boxes were not opened.
19. The WMO representatives reported to us that they were able to obtain from the bank the timing of the last access to the boxes, provided via a verbal update. According to WMO staff, the last access to one box (the one opened, which was attributed to Finance) was in 2001 and the last accesses to the other two boxes, which were attributed to IT, were in 2014.

***Recommendation n. 2***

20. Considering that holding safety boxes in a public international context must require an extremely strict control over the persons who access them, and the items stored therein, in order to prevent fraud and/or minimizing reputational risk, we recommend that Management urgently should:
  - i) for the two boxes not yet open, reiterate the request to the bank for written confirmation of the timing and the list of persons who accessed the safe deposit boxes in the five years preceding the last access;
  - ii) assess whether WMO generally needs safety boxes and, if so, at the same time, decide who should have the right to access them, establishing a strict protocol on access and deposits;
  - iii) continue the opening of the two safety boxes still not opened and, once obtained, carry out an inventory of the content as soon as possible, ensuring the independence of those opening the two safety boxes.

**Comments by the Secretary-General**

WMO accepts the recommendation and has already initiated the implementation of the recommendations. Requests for detailed information and access registers have been made to the account manager at the bank. Decision has already been made to close the safety boxes and, during the closure process, a final inventory of the contents will be made.

***Enhancing internal controls: dual signature in Field Offices***

21. Rule 111.1. c) of Financial Rules approved in 2018, on Banks accounts, authority and policy, states that “two signatures, or their electronic equivalent, shall be required on all cheques and other withdrawal instructions” and in the meantime it is provided that an exception could be approved by the Assistant Secretary-General for offices or projects located outside of Headquarters.
22. Furthermore, it is worthwhile mentioning that different instructions are provided with reference to the invoices’ approvals, which occur prior to the payment process and are subject to additional internal controls. Invoice approvals are out of the scope of this recommendation.
23. Management informed us that, except for one account for a project on site and one local account, the single signature for Field Offices’ bank accounts has been a long-established practice, where accounts were set up to facilitate small local expenditures and to replenish petty cash under the supervision of the Regional Office Director or Sub-Regional Officer, or any senior staff on site. In 2020, therefore, there were some Field Offices’ bank accounts where dual signature was not required. In this regard, as a reference, we mention an IOM dated 7 April 1999, requiring that “*all bank operations should have been signed by the Regional Directors, the Subregional Representatives and the Regional Officers(s) included in the list of authorized signatories and in absence of them, one or two Regional Officers should have operated the accounts on a written instruction by the mentioned Director or Representative.*”
24. Then, as a matter of fact, rules and/or instructions on dual signatories are not applied with reference to Regional Offices and Subregional Offices nor stated in an internal document duly communicated to these Offices and to all involved banks. These accounts were opened long time ago, however the former External Auditor (SFAO) in its last report on the audit of financial statements 2019 (document no. CDF-20345), “*wished to mention*” that “*only individual signing*



*rights are required for some bank accounts*"; they did not issue any recommendation, but they stated as follows: *"The Finance Division informed SFAO that individual signing rights are sometimes necessary in the regional offices, where the separation of duties is not feasible given the small number of staff on site."*

25. Nevertheless, Management reported to us that actions were taken in the past to reduce the number of RO bank accounts that had been with single signatory.

***Recommendation n. 3***

26. In the consideration that, at international level, dual signatures strengthen internal controls more than the single one, we therefore recommend to clearly state in the internal instructions the requirement of a dual signature, in particular with reference to Field Offices; such instructions should be duly communicated to them, detailing in a manual.
27. Moreover, when the presence of WMO staff (D or P) is limited in a Field Office, in order to increase the effectiveness of Internal Controls in this area of treasury, the effect of the dual signature at the bank, as an important control step, might be realized, for instance, if one of the signers were a component of the HQs' staff (directly or indirectly involved in all operations).
28. In circumstances where dual signature on the bank account cannot be feasibly implemented due to limited WMO staff presence and restrictions on non-local personnel with signatory authority, mitigating controls should be introduced, related to monitoring, level of balance held in bank accounts and other measures. Such mitigating controls should be formalized, including the reasons why dual signature is not feasible, through approved instructions signed by the Regional Office staff and HQs staff.

**Comments by the Secretary-General**

WMO accepts the recommendation and has, in the past, investigated implementation of dual signatures on regional office bank accounts and has identified two major constraints – lack of sufficient staff in field offices and constraints placed by the bank limiting signatories to staff located in country. WMO will refresh the investigation of whether dual signatory on regional office bank accounts is feasible and, if not, will document both the reasons therefore and the mitigating control measures put in place to reduce the related risks to an acceptable level.

### ***Enhancing internal control: signatures' lists held at banks***

29. In proceeding in our audit of banks' confirmations related to HQs' accounts, we found that in some banks' confirmations there are discrepancies with the official signatories' list kept by Management. Even if the list of authorised signatories applicable for the year end 2020 was clearly communicated to them, actually such list is not always respected by banks.

#### ***Recommendation n. 4***

30. We therefore recommend implementing a clear regulatory framework with reference to the lists of signatories authorized to operate all bank accounts, both for internal procedure and for external relationships with financial institutions. Moreover, we recommend that this framework be clearly communicated to involved Offices, and to banks.

#### ***Comments by the Secretary-General***

WMO accepts the recommendation and has already initiated the strict process to revise bank signatory lists and confirm that the banks have updated the signature lists in accordance with the instructions provided by WMO.

### ***Filing of documentation of banks related to Field Offices***

31. Most of the relationships with local financial institutions were established prior to the approval of the current Standing Instructions; as we requested information with reference to bank accounts related to Field Offices (FOs), such as, for instance, documents related to opening or closing bank accounts, signatures' repositories, we found that this related documentation was not easily available, and/or filed at level of HQs.

#### ***Recommendation n. 5***

32. In this regard, we recommend that the filing of documentation concerning Field Offices' banks be regularly backed up at HQs' level in order to allow HQs to maintain a strict control over treasury at FOs' level.

#### ***Comments by the Secretary-General***

WMO accepts the recommendation and will review the documentation regarding field office bank accounts at HQ.

### ***The Investment register as an internal control tool***

33. We acknowledged that investments are all short-term deposits, in compliance with what is prescribed in the Standing instructions at point 5.8.1 and under the provision of Article 12.1 of the Financial Regulations and Financial Rule 112.1. Moreover, the Instructions require that short-term investments be for periods ranging from 1 day to 6 months, the time period being determined by an analysis of the expected cash requirements. Nevertheless, it is stated also that investments may be made for periods exceeding 6 months with the prior approval of the Secretary-General.
34. In order to enhance the level of internal controls over Investments, for instance how they are authorized and who is authorizing them, an investment register should be established with reference to relevant details, e.g., the currency and amount of the investment, relevant interest rate, counterparty institution, funding account, term, etc.

#### ***Recommendation n. 6***

35. We recommend that an investment register be established and maintained, which could be easily checked by relevant oversight functions.

#### ***Comments by the Secretary-General***

WMO accepts the recommendation and will implement an investment register during 2021 in the Finance Section. The internal control of this register will be carried out by D/LCA.

### **Assessed and voluntary contributions receivable from Member States**

36. Assessed contributions receivable from Member States for the regular budget are composed of:
- a) *Current*, which are due within 12 months (16,346 kCHF, amounting 20,073 kCHF in 2019, -18.6%);
  - b) *Non-current*, which are due after 12 months from the date of the financial statements (227 kCHF in 2020, amounting 302 kCHF in 2019, a decrease of 24.8%). This includes discounted long-term contributions.
37. Voluntary contributions receivable from Member States for the regular budget are composed of:

- a) *Current*, which are due within 12 months (10,601 kCHF, amounting 21,274 kCHF in 2019, decreasing by 50.2%);
- b) *Non-current*, which are due after 12 months from the date of the financial statements (10,468 kCHF in 2020, amounting 14,652 kCHF in 2019, a decrease of 28.6%).

***Accounting process of assessed contributions should be improved***

38. During our testing of the recording of revenues in the accounts related to Assessed contributions, we detected that some of the steps performed for arriving to their accounting were not formally signed-off by different staff. As an example, the form used by WMO foresees three different field to be filled in by signatures: for instance, “Prepared”. “checked for posting” and “approved”. A second level review is performed of the accounting and receipts of assessed contribution revenue; however, that review is not formally documented.

***Recommendation n. 7***

39. Not having found in our sampling any errors in the related registration of the revenues, and also understanding that only a limited number of staff in WMO are dedicated to posting Assessed Contributions in the accounts, therefore we recommend that new staff might be inserted in the process and, in this way, they should be disclosed in the form, for assuring that the process has been performed and then checked independently by different supervisors.

***Comments by the Secretary-General***

WMO accepts the recommendation. For 2021 receipts of assessed contributions, the formal sign-off by a second staff member has been implemented to ensure independent check and verification.

***Advances for projects and meetings and other current assets***

40. *Advances for projects and meetings* amounted to 8.095 kCHF in 2020, a slight decrease of 3,7% with reference to 2019; they represented the 3.6% of total assets.
41. An amount of 2,647 kCHF is shown in the 2020 closing balance sheet under “*Other receivables*”: they represented 1.2% of the Total Assets, with a decrease

compared to 2019 (2,749 kCHF, -3.7%). A detailed breakdown of these values is reported by Management in Note 3.5.

### **Inventories**

42. At the end of 2020, items related to Inventories were recorded at a net value of 77 kCHF, a slight decrease of 2 kCHF (-2.5%), compared to the 2019 net value of 79 kCHF. Inventories are detailed in Note 3.3 and the values recorded in the Financial Statements are related to Publications (8 kCHF in 2020) and souvenirs (69 kCHF).

### **Non-current assets**

43. As of 31 December 2020, Non-current assets totalled 77,505 kCHF, with a decrease of 7,637 kCHF as compared with 2019. The basis for the evaluation of Non-current assets is given in the Accounting Policies (Note 2).
44. This heading is composed of: a) "Assessed contributions receivable", amounting, as seen above, to 227 kCHF (0.3% of total Non-current assets); b) "Voluntary contributions receivable", amounting, as seen above, to 10,468 kCHF (13.5% of total Non-current assets); c) "Property, plant and equipment", amounting to 65,417 kCHF and representing 84.4% of total Non-current assets; d) "Intangible assets", amounting to 337 kCHF, around 0.4% of total non-current assets; e) "Interest in joint ventures and associates", amounting to 1,056 kCHF, i.e. 1.4% of total non-current assets. The above-mentioned headings are illustrated in Notes 3.2, 3.6, 3.7 and 3.16 respectively.

### **Property, plant and equipment**

45. The heading "Property, plant and equipment", as seen above, showed a value of 65,417 kCHF, which is the net value at 31 December 2020 (in 2019 it was 68,809 kCHF) of the capitalised cost for "Headquarters building", "Computer equipment", "Furniture & fixtures", "Machinery & Equipment" and "Vehicles". Additions during the year amounted to 533 kCHF and depreciations totalled 3,925 kCHF. A detailed breakdown and descriptions are provided by Management in Note 3.6.

### **Intangible Assets**

46. In 2020, Intangible Assets amounted to 337 kCHF, a decrease of 14 kCHF compared to the amount of 2019; in 2020, additions amounted to 52 kCHF, due to the category "Software internally developed"; depreciation totalled 66 kCHF, in the same category. A detailed analysis is illustrated in Note 3.7.

## LIABILITIES

47. In 2020, Total Liabilities amounted to 230,905 kCHF, an increase of 7,306 kCHF (-3.3%) in comparison with the value recorded in 2019 (223,599 kCHF). They consisted of:

- a) *Current Liabilities*, amounting to 78,796 kCHF, representing 34.1% of Total Liabilities (in 2019, they represented 33.9%, totalling 75,790 kCHF), and
- b) *Non-Current Liabilities*, totalling 152,109 kCHF, composed mainly of actuarial liabilities related to Employee benefits, representing 39.4% of Total Liabilities (in 2019, non-current liabilities totalled 147,809 kCHF).

### Current Liabilities

48. As written above, in 2020 total Current Liabilities amounted to 78,796 kCHF, a decrease of around 7,551 kCHF (-14.2%) compared to 2019 (86,347 kCHF). These were composed of:

- a) "*Payables and accruals*", amounting to 2,556 kCHF in 2020, a decrease of 1,830 kCHF as compared to 2019 (-41.7%);
- b) "*Employee benefits*", recorded for 5,083 kCHF, a decrease of 111 kCHF (-2.1%) as compared to 2019 (5,194 kCHF); see dedicated paragraph below for further considerations;
- c) "*Contributions received in advance*", 9,486 kCHF in 2020, increasing by 286 kCHF as compared to 2019 (+3.1%);
- d) "*Unearned revenue from Exchange transactions*", with an amount of 1,607 kCHF, a decrease of 43.8% (-1,254 kCHF in 2019);
- e) "*Deferred revenue*" amounting to 29,922 kCHF (they amounted to 35,094 kCHF in 2019);
- f) "*Borrowings*" amounting to 1,442 kCHF (the same amount as in 2019);
- g) "*Provisions*", recorder for 5,585 kCHF, an increase of 103% compared to 2019 (they were 2,751 kCHF);
- h) "*Funds held in trust*", amounting to 23,115 kCHF, an increase of 8,253 kCHF (+55.5%), as compared to 2019.

### Non-current Liabilities

49. Total non-current Liabilities are related to:

- a) “*Employee benefits*”, recorded for 90,913 kCHF, an increase of 4,566 kCHF (5.3%) as compared to 2019 (86,347 kCHF); see dedicated paragraph below for further considerations.
- b) “*Other non-current liabilities*” amounting to 32,882 kCHF and representing 14.2% of Total Liabilities (they amounted to 32,412 kCHF in 2019).
- c) “*Deferred revenue*” amounting to 28,314 kCHF and representing 12,3% of Total Liabilities (they amounted to 29,050 kCHF in 2019).

## Employee Benefits

50. Employee Benefits are disclosed in the Financial Statements under “Current Liabilities” with an amount of 5,083 kCHF and under “Non-current liabilities”, with a value of 90,913 kCHF, as summarised in the table below. The total increase in the Liabilities (Current and Non-current) is 4,455 kCHF.

| <i>Liabilities</i>             | <b>Year (KCHF)</b> |               | <b>Variance 2020-19</b> |             |
|--------------------------------|--------------------|---------------|-------------------------|-------------|
|                                | <b>2020</b>        | <b>2019</b>   | <b>kCHF</b>             | <b>%</b>    |
| <u>Current</u>                 | 5,083              | 5,194         | -111.00                 | -2.1%       |
| <u>Non-current</u>             | 90,913             | 86,347        | 4566.00                 | 5.3%        |
| <b>Total</b>                   | <b>95,996</b>      | <b>91,541</b> | <b>4455.00</b>          | <b>4.9%</b> |
| <b>Composition</b>             |                    |               |                         |             |
| After-service health insurance | 86,227             | 81,812        | 4415.00                 | 5.4%        |
| Repatriation liabilities       | 5,468              | 5,589         | -121.00                 | -2.2%       |
| Accumulated annual leave       | 4,301              | 4,140         | 161.00                  | 3.9%        |
| <b>Total</b>                   | <b>95,996</b>      | <b>91,541</b> |                         |             |

51. The overall increase in these Liabilities, jointly with their disclosure, is explained by Management in Note 3.9, and the basis for the evaluation of Non-current liabilities is given in the Accounting Policies (Note 2, paragraphs 28-31).

### ***Liabilities generated by benefits related to the ASHI, Leaves and Grants are influenced by actuarial assumptions***

52. As shown in the table above, the increase in these liabilities, in comparison with 2019, is totally related to the non-current liabilities, comprised of the sub-headings “After Service Health Insurance (ASHI) (4,415 kCHF)” and “Accumulated annual leave” (161 kCHF). On the contrary, the current liabilities decreased (-111 kCHF), as well as the repatriation liabilities (grants and travel).
53. The changes in these liabilities are due to different factors: as an example, liabilities related to accumulated annual leave increased because of the

pandemic and the related restrictions on travel. However, this increase was offset by the restructuring of the WMO Secretariat, which caused the separation of a number of staff members (see chapter related to Personnel, below in this report). This, on one side, had an impact in reducing some liabilities related to them, like ASHI and repatriation related liabilities; as well as the reduction in the liability for annual leave as payments for the commutation of annual leave to separating staff members increased.

54. The increase in the ASHI and repatriation liabilities are due in large part to actuarial losses and were calculated by an actuary chosen by Management (AON), according to actuarial assumptions reported by Management in Note 3.9, paragraph 96.
55. These assumptions consider elements like the discount rate, calculated using an AON AA Corporate Bond Yield Curves as at 31 December 2020. In compliance with IPSAS 39, a sensitivity analysis related to the discount rate is disclosed by Management in paragraphs 104-107 of the Notes.
56. Although we can understand the reasons why the Organization is using the discount rate deriving from such corporate bond yield curve, which we understand is consistent with a common approach taken by the United Nations system, in our opinion a different discount rate should be used to calculate actuarial liabilities. In fact, paragraph 88 of IPSAS 39 requires that *“An entity makes a judgment whether the discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds, high quality corporate bonds, or by another financial instrument. In some jurisdictions, market yields at the reporting date on government bonds will provide the best approximation of the time value of money. However, there may be jurisdictions in which this is not the case, for example, jurisdictions where there is no deep market in government bonds, or in which market yields at the reporting date on government bonds do not reflect the time value of money”*.
57. Since in Switzerland a “deep market” in government bonds exists (and market yields reflect the time value of money), the discount rate should be equal to the yield, at the end of the year, on long-term Swiss government bonds, adjusted to reflect the estimated timing of benefit payments. As auditors, we have to highlight that the discount rate of long-term government bonds is the only sure value. Other “built” curves can be adjusted yearly, according to the needs of the entity, thus the discount rate is not a definite value.



58. Paragraph 85 of IPSAS 39 states that “*The rate used to discount post-employment benefit obligations (both funded and unfunded) shall reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money shall be consistent with the currency and estimated term of the post-employment benefit obligations*”.
59. Even when WMO decides to adopt a different discount rate, the amount of actuarial liabilities calculated following the Swiss long-term government bonds should be disclosed, at least in the notes, as a comparison value.

***Recommendation n. 8***

60. Considering the directions provided by IPSAS 39, we recommend that Management, independently from the Yield curve adopted to calculate the discount rate, should also disclose in the notes to the Financial Statements, the amount of the ASHI actuarial liabilities calculated using the discount rate of the long-term Swiss government bonds, starting from the Financial Statements for 2021.

***Comments by Secretary-General***

WMO accepts the recommendation and will investigate, in coordination with the actuaries, the validity and feasibility of utilizing a discount rate of long-term Swiss government bonds for increasing the disclosure in the Financial Statements for 2021, while ensuring congruence with the rest of the UN system in the utilization of an agreed yield curve for calculating the recognized employee benefit liabilities.

***Based on the WMO’s assumptions, the value of liabilities is substantially correct***

61. The choice of actuarial assumptions is the sole responsibility of Management. In relation to the audit of the Financial Statements, the External Auditor checks their plausibility and their consistency with IPSAS 39 and with previous years and validates them.
62. In order to have assurance on the amount recorded on the accounts, we added to our audit team a group of public actuaries, expert in social benefits.
63. Our team of actuaries carried out a review of the key assumptions related to 2020, which were discussed with Management. We found that these assumptions were in line with economic trends and rates and also consistent with data available at the WMO at the moment of our audit, and we validated them.

64. To carry out their work, our actuaries recalculated the valuations prepared by AON Hewitt related to the ASHI and the Repatriation liabilities; they also performed an in-depth analysis of all actuarial valuations and assumptions in order to review their plausibility and the algorithms used by AON. Management and its experts provided full cooperation and assistance to our actuaries, who had also a meeting with the actuary of the Organization.
65. The work of our actuaries revealed that the amounts recorded in the accounts were substantially correct. Nevertheless, the meeting with the actuary of the Organization was needed in order to better understand the average costs for the insured population based upon the assumptions used by AON. It should be noted that these costs were impossible to be obtained from the report, nor was the statistical source provided by WMO or AON for their determination. This is a limitation that can hinder easy access to information.
66. It is to be considered that the value of the actuarial liabilities has a high influence on the net assets of the Organization (see below), therefore it is important also for the Organization to have full knowledge of the methodology used by the actuary for its calculation.

***Recommendation n. 9***

67. In order to improve the transparency and to make easier the access to the information contained in the actuarial report that shows actuarial liabilities, we recommend that average costs and statistical source be disclosed by the actuary in its report.

***Comments by Secretary-General***

WMO accepts the recommendation and will work with the actuary to ensure sufficient disclosure within the actuarial report to understand the actuarial methods and assumptions, as well as their application.

***Negative value of the WMO's Net-assets is highly influenced by actuarial liabilities.***

68. As already seen, in 2020, the amount for non-current liabilities (90,913 kCHF) represented 39.4% of total liabilities (230,905 kCHF) and had a strong impact on the WMO's net asset, especially considering actuarial liabilities only in the context of the "general fund".

69. Indeed, as results from note 8.1 (Statement of financial position by segment), the total assets of WMO amount to 226,027 kCHF, where 67,735 kCHF are from “Development, technical assistance and technical cooperation funds” and the “general fund” total assets are 142,516 kCHF. The total liabilities are 230,905 kCHF, where 61,534 kCHF are composed of “Development, technical assistance and technical cooperation funds” and the “general fund” total liabilities are 163,329 kCHF.
70. Considering that the actuarial liabilities are entirely comprised in the “general fund”, this means that, on the WMO FS, the negative value of WMO net assets is entirely comprised in the “general fund”.
71. With Resolution 15 (EC-72), the Executive Council requested the Secretary-General:
- “(1) To continue to liaise with the other UN organizations, particularly those in Geneva within the UNSMIS plan to identify further efficiency and cost-containment measures;*
- (2) To monitor developments within the UN system with respect to funding for ASHI liabilities; and*
- (3) To prepare a report summarizing the approaches of other UN-system organizations to address the ASHI liability, including relevant best practices, for consideration by the Executive Council session following the fortieth meeting of FINAC.”*
72. We are aware that Management is committed to implement EC’s requests; we will monitor the next steps that will be taken by the Organization and we will also follow the evolution of the curve of ASHI liabilities, to verify to what extent there could be the risk of impacting the going concern ability of the Organization.

## **NET ASSETS**

73. Net assets comprise the accumulated deficit and reserves of the Organization at year-end. In 2020, Net assets resulted in a negative value of -4,878 kCHF, with an increase of around 2,420 kCHF (50.3%) compared to -2.458 kCHF in 2019.
74. All the movements in Net assets are explained in various Statements and Notes in the Financial Operating Report, in particular:
- a) Statement II “Statement of financial performance”, which shows the surplus for the period (3.679 kCHF);

- b) Statement III “Statement of changes in net assets” with the movements listed separately;
- c) Note 3.17, where Management discloses details on the composition of the Employee benefits reserves.

## **STATEMENT OF FINANCIAL PERFORMANCE 2020**

75. This Statement shows the Organization’s revenue and expenses classified, disclosed and presented on a consistent basis to explain the year’s net deficit or surplus. The result for the period is a surplus of around 3,769 kCHF.

### **REVENUE**

76. Total revenues amounted to 87,573 kCHF, with a decrease of 3,260 kCHF (-3.6%) as compared with 2019 (90,833 kCHF). This was composed of:

- a) “Assessed contributions (Non-exchange)” totalling 67,886 kCHF in 2020 and representing 77.5% of Total revenues; these contributions increased by 4.5% from 2019 (64,852 kCHF);
- b) “Voluntary contributions (Non-exchange)”, amounting to 18,213 kCHF in 2020, representing 20.8% of Total revenues, a decrease of 11.8% compared to 2019 (20,654 kCHF);
- c) “Revenue from Services”, totalling 1,919 kCHF in 2020, and representing 2.2% of Total revenues, an increase of 108.1% compared to 2019 (922 kCHF);
- d) “Other revenue”, totalling -2,315 kCHF in 2020, a 191.3% decrease compared to 2019 (2,535 kCHF);
- e) “In-kind contributions (services) (Non-exchange)” totalling 1,870 kCHF in 2020 (2.1% of Total revenues), a 0% variation compared to 2019 (1,870 kCHF).

77. Our audit did not reveal any issues; a detailed breakdown has been disclosed by Management in Note 5.

### **EXPENSES**

78. Expenses totalled 83,804 kCHF, with a decrease of 15,072 kCHF (-15,2%) as compared with 2019 (98,876 kCHF). These were composed of:

- a) “Salaries and employee benefits”, totalling 58,515 kCHF in 2020 representing 69.8% of Total expenses; a decrease of -3.7% compared to 2019 (they were 60,759 kCHF);

- b) "Meeting and projects", amounting to 9,048 kCHF in 2020 and representing 10.8% of Total expenses, decreasing -31,8% compared to 2019 (13,260 kCHF);
- c) "Travel", totalling 630 kCHF in 2020 and representing 0.8% of Total expenses, decreasing 92.2% compared to 2019 (7,868 kCHF);
- d) "Supplies, consumable and other running costs", totalling 6,473 kCHF in 2020 and representing 7,7% of Total expenses, increasing 2.2% compared to 2019 (6,334 kCHF);
- e) "Depreciation and amortization", totalling jointly 3,991 kCHF in 2020 (4.8% of Total expenses), a 0.1% decrease compared to 2019 (3,995 kCHF);
- f) "In-kind expenditure (services)", totalling 1,870 kCHF in 2020 (2.2% of Total expenditures), same amount as 2019;
- g) "Finance costs", totalling 1,322 kCHF in 2020 (1.6% of Total expenditures), a 26.8% decrease compared to 2019 (1,806 kCHF);
- h) "Fellowships", totalling 899 kCHF in 2020 (1.1% of Total expenditures), a 9.5% increase compared to 2019 (821 kCHF);
- i) "Other expenditures", totalling 1,084 kCHF in 2020 (1.3%) of Total expenditures, a 32% decrease compared to 2019 (1,612 kCHF);
- j) "Movement in share of Net Assets/Equity of joint ventures and associates", totalling 111 kCHF in 2020 (0.1%) of Total expenditures, an increase of 155.8% compared to 2019 (-199 kCHF);
- k) "Interest in joint ventures and associates", totalling -139 kCHF in 2020, a decrease of 889 kCHF compared to 2019 (750 kCHF).

## **STATEMENT II – Expenses - Salaries and employee benefits**

- 79. Salaries and employee benefits represent a significant item in the administrative costs of the WMO. In the Statement of Financial Performance as at 31 December 2020, this expenditure amounted to KCHF 58.515. It is an aggregate cost item, which mainly consists of Salaries and Staff Costs, Employee benefits and Consultancy costs.
- 80. As required, the audit included an examination of a sample of the amounts and related supporting documents reported in the Financial Statements.

| <b>Salaries and employee benefits (in KCHF)</b> | <b>2020</b>   | <b>2019</b>   |
|---|---------------|---------------|
| Staff costs                                     | 49.993        | 53.547        |
| Employee benefits                               | 4.145         | 4.865         |
| Consultancy costs                               | 4.377         | 2.347         |
| <b>TOTAL</b>                                    | <b>58.515</b> | <b>60.759</b> |

*Source: WMO FS2020*

81. We examined the expenses related to Salaries and Employee benefits, in order to have assurance on the reliability, accuracy and compliance with WMO policies and procedures.
82. We received from Management supporting documents, in order to verify financial data, however, as stated before in our Introduction, due to the pandemic, on-the-spot checks were not possible to be carried out; therefore, we relied on the documents forwarded by Management.

***An Enhancement of the controls over employee benefits is needed***

83. Our audit on Employee benefits was focused also, as stated above, in understanding the correctness and reliability of the benefits (for instance, allowances etc.) granted to Staff, and if the compliance with HR rules and procedures were respected.
84. We detected that there was no sufficient audit trail in order to assess if controls on benefits claimed were performed effectively. No evidence of direct controls was found, for instance, such as a detailed checklist where all the control steps were listed and cross-referenced with supporting documents.
85. In our sample, we found some declarations that might have deserved a more thorough analysis and/or more supporting documents, in order to justify the grant of some particular benefits. For example, staff declaring themselves as “single” with dependent children, but not resident with the staff him/herself, without finding in the staff file, for instance, a counter-declaration of the other parent not receiving the subsidy; or, rental contract without asking declaration that the tenant was directly paying regularly the rent and/or he/she was not sub-renting it to third parties.
86. Furthermore, we found that access to specific benefits in some cases was based exclusively on the employee's declaration, which takes the form of self-declaration and is linked to the employee's obligation to communicate loyally to the Organization any change in his or her right to such benefits. For example, there is an annual survey in which staff have to complete the so-called

“dependency questionnaire”. They need to confirm their family status, dependency information etc., but, in sampled cases, we found no evidence that someone had carried out *ex post* checks on the reliability and accuracy of declarations and/or required evidence to support the claim.

***Recommendation n. 10***

87. In order to mitigate the risks that employees’ benefits and allowances might be unduly paid and in order to enhance the control system’s ability to ensure that, for instance, payments are correct, and that the system implemented adequately protects WMO from legal disputes and any undue payments, we therefore recommend Management that an electronic system, able to maintain the audit trail of the effective checks performed, be implemented and enhanced. The audit trail, for instance, an electronic checklist, should be able to provide evidence of the checks carried out on the self-certifications provided by staff to obtain benefits.

***Comments by the Secretary-General***

WMO accepts the recommendation and will seek to identify an approach to strengthen controls over self-declared entitlements, in line with practices in the UN system. The UN Secretariat, for example, goes even further and has made even rental subsidy a self-certification function with no input from HR or Finance.

We also point out that false declaration made by staff may have disciplinary consequences, as provided under the Staff rules.

***Digitalisation of the personal files is urgently needed in order to minimize risk of loss of information and for an effective validation of the entitlements.***

88. In this period of pandemic, we must also consider as a risk that the current WMO filing system, based on a paper form drawn up manually, could increase its vulnerability, especially since the update depends on the manual process of the employee and the WMO. Furthermore, in our sample we did not always find evidence that, when an employee's file was affected by a change, the relevant documentation was provided and authorized by the Supervisors and that effective controls had been carried out on the changes.

89. Overall, a filing system of personnel data based on paper determines a potential risk of losing relevant information about staff and impossibility to perform an effective validation of the entitlements recorded in the accounts.
90. The paper-based management of files, in particular in the presence of a restructuring plan, for instance involves an increase in the risk on impossibility of a reliable validation of entitlements and employee benefit granted.
91. For the above-mentioned reasons, we will reserve to perform on-the-spot checks on personal dossier when the Health Authorities of the respective countries will allow us to travel in safe conditions

***Recommendation n. 11***

92. In order to mitigate risks of loss of relevant information due to paper management, to enhance efficiency and effectiveness of managing and monitoring staff related documentation, and also to increase accuracy in the financial controls over the benefits claimed and paid, we recommend that a process of digitalization of personnel files is implemented, providing, as a first step, for a backup of all data and documents, for example uploading them in an ERP.

***Comments by the Secretary-General***

WMO accepts the recommendation and has initiated work on a digitization project and files of consultants were partly scanned (this is ongoing). We also draw attention to the fact that most UN entities do not yet have fully digitized their personnel filing. As part of our project, we did a survey (through the Chief Executives Board (CEB)) and the feedback was that most entities have looked into this preliminarily but have not progressed.

***Enhancing of the legal framework for the access to certain benefits.***

93. During our audit, we also noted that for some benefits/allowances there were no specific regulations and/or internal memoranda on the basic elements/supporting documents that a staff should have provided for access to certain benefits and that should have been needed to carry out an effective check on the eligibility for that particular benefit.
94. For instance, as also mentioned in the above paragraphs, we found, for the Rental Subsidy, just the request of the rental agreement (contract), but we found



no verification of the actual payments and proof and/or an effective check that there were no subrental.

***Recommendation n. 12***

95. In order to enhance an effective control over Employee benefits, and to protect WMO from the risk of false declarations by staff, we recommend enhancing the legal framework – through the issuance, for instance, of internal Memoranda and/or service notes – which provide effective evidence of the right of the staff to obtain that specific benefit, not limiting to self-declarations but providing specific lists of documents that could be effectively cross-checked with internal and external database. On the other hand, we recommend enhancing also the regulatory framework, establishing effective sanctions on false self-declarations, able to protect the WMO from risks of fraudulent statements.

***Comments by the Secretary-General***

WMO accepts the recommendation by enhancing existing checks related to staff self-declarations, as appropriate.

***The restructuring carried out without a documented HR Strategic Plan***

96. The audit team verified that WMO does not have a documented strategic human resources plan and does not present a retirement risk assessment plan for which the staff is concerned in the short term.
97. During the last years WMO, like a number of UN agencies, has undertaken a review, realignment and reform process been looking for an alignment with 21st century realities, priorities and dynamics. According to WMO's design, the reform affects the structure of the organization, its strategy and priorities, its work programmes realignment, its processes and finally the Secretariat.
98. From a financial point of view, the absence of a Strategic HR Plan does not allow for the accurate planning of financial resources, not only in the short term but also in the medium-long term, considering, for example, elements such as the ratio between recruitments and retirements, or between scientific and administrative positions, which can influence the financial and programmatic perspective. Nevertheless, the WMO restructuring process was started in late 2019 without having a documented HR Strategic Plan as a reference and in the following

paragraphs we will observe different perspective of the restructuring which might have impacted the Financial Statements.

99. Therefore, without a sound reference of a Strategic Plan, the restructuring objectives could not have been clearly stated and could have not been measurable through reliable Key Performance Indicators, linked to a Strategic Plan.
100. It is worthwhile mentioning that Management prepared an IOM dated 25 February and approved by Secretary-General on 26 February 2020 for starting the restructuring; however, objectives are not specific and or clearly stated and followed by accurate and reliable KPIs.

***Recommendation n. 13***

101. We recommend that 1) HR prepare the Strategic plan for Personnel taking into account the objectives of the restructuring that should be better specified and measured by accurate and reliable KPIs, and 2) once a Strategic Plan is developed, HR should take into due consideration in its financial planning of resources the ratio recruitment/retirements in future financial exercises and/or enhance the preparation of a financial plan that takes into account the budgetary risk of those costs for the payment of benefits to personnel.

***Comments by the Secretary-General***

WMO accepts the recommendation that an HR strategy should be developed along the lines suggested above.

***An “ex-ante” Cost-benefit assessment of the restructuring was not carried out***

102. In relation to the above paragraph, we have requested HR for supporting evidence of an ex-ante cost-benefit assessment of the restructuring.
103. For instance, 87 formal letters, roughly representing more than one fourth of the active WMO staff, were sent on the 4th of December 2019 to staff potentially involved in the restructuring, but Management declared to us that a real cost-benefit assessment of the restructuring could have been prepared only “ex post”, after the first quarter of 2020, when it was possible to assess the exact number of staff not being renewed.

104. Notwithstanding, HR presented to us an excel file where, “ex-post”, it is considering the financial impact of the restructuring, presumably prepared just after the determination of not renewal of around 30 staff (in March/April 2020).
105. However, the effects on staff in terms of assessing the costs arising from the draft restructuring are not made evident also with regard to generational turnover and optimization of skills, in comparison with the change that WMO wants to achieve. A step of the operational objectives is started from 2020.

***Recommendation n. 14***

106. In order to assess the financial impact in 2020 and following years, considering the absence of a comprehensive ex-post cost-benefit document, we therefore recommend that an assessment be drawn up which, starting from the objectives of the restructuring, enhance the preparation of a financial plan that considers staff expenditures and the cost-benefits of the restructuring jointly with the budgetary risk, for instance those costs for the payment of benefits to personnel.

***Comments by the Secretary General***

WMO accepts the recommendation and agrees to review the existing ex-post analysis to incorporate the additional elements referred to in the recommendation.

***The restructuring started in 2019 but no provision, according to IPSAS 19, was accounted in the Financial Statements at 31 December 2019***

107. In the report of our predecessor, related to financial year 2019 and dated July 2020, we found no specific mentioning of the restructuring, which we consider as “formally” started in 2019, as mentioned in the above paragraphs, with the formal letters to staff (dated 4 December 2019): nor as a subsequent event from the reporting date, nor as a request to WMO to account for a provision according to IPSAS 19.
108. Furthermore, during our Audit, HR reported to us that, at December 2019 and in the firsts months of 2020, they were not able to prepare a reliable estimate for Finance; in this sense, not having a detailed internal memorandum with financial elements, they were not able to account for a provision in the Financial Statements.
109. Although the number of WMO staff possibly involved in the process of restructuring was more than one fourth (87 letters) of the total WMO staff, we

consider that basic financial data should have been forwarded promptly in a formal way to Finance and to the previous External Auditors, in order to correctly determine impact on Financial Statements as expressly stated by IPSAS 19.

110. The scope paragraph in IPSAS 19 makes it clear that while provisions, contingent liabilities and contingent assets arising from employee benefits are excluded from the scope of the Standard, however, it applies to provisions, contingent liabilities and contingent assets arising from termination benefits that result from a restructuring dealt with in the Standard.

***Recommendation n. 15***

111. Considering that, if HR had formally forwarded detailed financial elements, a provision related to termination benefits and accrued employee benefits (such as leave) that result from the ongoing restructuring may have been deemed to be required at 31.12.2019, according to IPSAS Standard 19, or additional disclosure as a subsequent event could have been considered, we therefore recommend that HR should forward systematically, at year end in a formal memo, all the financial elements that could help Finance to assess if a provision would be necessary in order to present fairly financial data in the Statements.

***Comments by the Secretary-General***

WMO accepts the recommendation. With regards to the specific elements of the restructuring, the Chief FIN was aware of the ongoing restructuring and the potential impact on staffing. However, this did not impact a provision in the financial statements. Based upon the level of specificity of the restructuring determined as at 31 December 2019, particularly with respect to the fact that the number of staff to be impacted could not have been determined, WMO management believes that a provision was not required in the 2019 financial statements. It is recognized that formalization of that determination should have been documented and approved in connection with the preparation of the 2019 Financial Statements.

***Lack of audit trail: No recording or minutes of all the Meeting related to restructuring***

112. The Audit Trail is an unchangeable record that keeps track of all the actions at administrative level that have taken place in a system, it allows an objective proof of the activities that have taken place in relation to operations and procedures

and also to identify responsibility in case of problems, especially when this has a financial and structural impact of the entity.

113. It emerged from the discussions and interviews that the restructuring plan with the abolition of personnel positions was initiated with “no formal memo” and that no minute of strategic meetings were drawn up; this means that it is difficult, or it is not possible, to reconstruct reliably i) the workflow that led the SG to approve on 26 February 2020 the restructuring, ii) the workflow and related internal controls carried out by relevant services iii) which Unit/services were involved and in what extent to the restructuring and iv) how the financial correctness of the path was determined.

***Recommendation n. 16***

114. In order to have an effective system of internal controls and considering that the minutes are an important step in the WMO’s financial life and for all events having financial impact, we therefore recommend enhancing the audit trail, as best practice, through i) a written workflow regulated by internal rules, ii) a systematic keeping of minutes of meetings carried out for the restructuring, and iii) the recording of summaries of the discussions held during the meeting. Agenda and minutes should transparently show what actions have been decided, who is responsible and accountable for any decision and what are the milestones and deadlines.

***Comments by the Secretary-General***

WMO accepts the recommendation to document reports of actions from decision-making meetings to enhance the audit trail.

115. Given the absence of a strategic staff plan but in the presence of a recovery plan that caused an evacuation system that involved costs, we reserve the right to deepen this profile both to clarify how the dismissed staff was summarized and due to the difficulty in obtaining timely information.

116. In addition, in order to understand the restructuring’s operational impact and the WMO’s total costs/benefits that have been achieved by the restructuring and considering that the characteristics and complexity of this reduction of personnel present a plurality of factors that requires a direct access of the audit team on site, we therefore reserve the right to do further research.

***Restructuring, Termination Reserve, and inadequacy of the Reserve.***

117. In paragraphs 165 and followings of the Notes to the Financial Statements, Management disclosed the financial impact of the restructuring (as indicated in previous paragraphs above) which in 2020 resulted in a reorganization of the administrative services.
118. As also stated in paragraph 166 of the Notes, the “*total contractual termination indemnities expensed and paid were approximately CHF 2.2 million*”.
119. In note 3.17 is stated that “*The Recruitment and Termination Benefits Reserve was established by Resolution 20 (EC-XXVII) to meet end-of-contract and recruitment costs, which are not specifically budgeted. The Reserve is funded from a 4 percent charge on payroll costs in accordance with Resolution 14 (EC-LXI). During 2020 and 2019, the amounts funded via the 4 percent charge on payroll costs were insufficient to meet the annual pay-as-you-go costs.*”
120. The amount of the reserve in 2019 and 2020 was zero, therefore the funding of the reserve in those years was inadequate to bear, in addition to the ongoing recruitment and termination benefit costs, the cost of all the termination indemnities (2,2 MCHF) that WMO paid in 2020 referred to above.

***Recommendation n. 17***

121. Considering that “the Recruitment and Termination Benefits reserve” is used to support recruitment and termination benefit costs, and, particularly in the perspective of the restructuring that was initiated in 2019, we consider that Management could have considered an advance process at least to discuss the opportunity to increase the funding to the reserve that could have been used to adequately fund the restructuring costs. We therefore recommend that Management start an internal process, to determine whether the current 4% charge is adequate for facing these costs looking forward.

***Comments by Secretary-General***

WMO accepts the recommendation and, similar to what was done with respect to the Post-Employment Benefits Reserve in 2019, will perform a review of the adequacy of the 4% charge for the Recruitment and Termination Benefits Reserve.

## Procurement

122. Procurement for WMO represents a portion of the budget related to the purchase of goods and services from commercial enterprises, which are analysed in the paragraphs above and accounted for in “Meetings and projects”, “Supplies, consumables and other running costs”, “Fellowships and training”, and “Other expenditure”.

123. The main legal bases for the procurement activity in WMO are:

- the Financial Regulations and Rules of the World Meteorological Organization, and Service Note No. 8/2018;
- the Standing Instructions – Chapter 10 Procurement and Contracts Committee, as amended by the Service Note No. 12/2020.

### ***Enhanced automated controls on monitoring waiver of competition would be needed***

We refer to the Rule 113.15 of the Financial Regulations and Rules (*Exceptions to the use of formal methods of solicitation*): during our audit, we noticed that the tracking and monitoring of procurement actions in which a waiver of competition was granted must be carried out manually by the procurement division.

We consider that the monitoring of such procurement actions would be more effective if supported by an automated tool in order to have the related expenditures monitored or available for review on a periodic basis. The automation of monitoring the expenditures related to procurement actions in which a waiver of competition was granted would improve the effectiveness of the internal controls related to procurement activities and can also help in the potential abuse of the waiver of competition.

### ***Recommendation n. 18***

124. We therefore recommend that Management update the WMO Oracle ERP in order to allow an automatic identification and monitoring of the Purchase Orders or Contracts executed under a waiver of competition.

**Comments by Secretary-General**

WMO accepts the recommendation that automated identification and monitoring of procurement actions executed under a waiver of competition would improve the overall effectiveness of internal controls related to procurement activities. Therefore, WMO will consider implementing an automated tool, whether within the ERP system or through a separate tool or identifying and monitoring these waivers.

***Technical assessment should be independent from the commercial proposal***

125. According to article 10.11.11. of Standing Instructions – Chapter 10 Procurement and Contracts Committee, we noted that a two-envelope system is established and mandatory only in cases of a Request for Proposal (RFP) and not in the cases of an Invitation to Bid (ITB). However, in our sample we have found that, in cases of procurements executed according to an ITB, the Tender Evaluation Board (TEB) masked the financial quotes during the evaluation of the bids received. The masking of the financial quotes was done in the spirit of fairness and to avoid being influenced by the price as well as to hide any reference to vendor names and commercial information before sending it to the project beneficiary for technical evaluation.

***Recommendation n. 19***

126. To avoid the risk that TEB members might be influenced in their technical evaluation by the price, we recommend that management amend the Standing Instructions – Chapter 10, by implementing a two-envelope system in all procurement procedures.

**Comments by Secretary-General**

WMO accepts the recommendation. The two-envelope system will be applied to all technical evaluations to ensure the same system is applied to all procurement evaluations.

***Agreements should be carefully monitored and should have a reasonable term of validity.***

During our audit, we found in our sample that a service for translation had been directly awarded in 1995 with an agreement and that original agreement currently remains in



force. We consider that the agreements that are currently automatically renewed on a yearly basis should rather be extended based upon an explicit decision by WMO.

***Recommendation n. 20***

127. We recommend, therefore, that management perform a review of all Agreements currently in force, in order to identify those being automatically renewed and, upon identification, to confirm the validity of the ongoing agreements and to provide indication to the relevant supplier regarding the incorporation of a reasonable term of validity within the agreement(s).

**Comments by Secretary General**

WMO accepts the recommendation. Purchase contracts will be reviewed and amended where possible to exclude automatic renewals.

**Segment reporting**

128. A report by segments is provided in Note 8 of the 2020 Financial Statements. The aim of this segmentation is to disclose the financial position (Note 8.1) and financial performance (Note 8.2) and assign expenses directly to the related segments. The methodology also provides for a distribution of expenses and revenues, primarily by segments, known as the General Fund, Regular Budget Support Fund, Development, Technical assistance and Technical Cooperation Funds, National Technical support Funds.

**STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31 DECEMBER 2020**

129. Statement III, "Statement of changes in net assets", shows movements during the year, ending in a negative balance of -2.420 kCHF as of 31 December 2020. The worsening in the negative net assets is due to the variation in actuarial loss.

130. Our audit conclusions on the negative net assets are noted in the paragraphs related to "Employee Benefits".

**STATEMENT OF CASH FLOW**

131. The Statement of cash flow identifies the sources of cash inflows, the items on which cash was spent during the reporting period, and the cash balance as at the reporting date.

132. In 2020, the WMO reported a net cash flows of 27,339 kCHF from all activities, which was positive, increasing the figure shown in 2019 (-4,237 kCHF).

133. Net cash flows from operating activities (29.401 kCHF) showed a positive variation compared to 2019 (-1.859 kCHF); net cash flows from investing activities (-585 kCHF) showed a positive variation as compared to 2019 (it was -902 kCHF); net cash flows from financing activities (-1,477 kCHF) showed an amount similar to 2019 (-1,476 kCHF).

## **STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

134. Statement V “Comparison of budget and actual amounts for the twelve months ending 31 December 2020” is provided in accordance with IPSAS 24, which requires that this comparison, arising from execution of the budget itself, should be included in the Financial Statements. This Standard also envisages the disclosure of the reasons for the material differences between the budget and actual amounts. Further details concerning Statement V, including a reconciliation of the expenditures of the approved Regular Budget on a budgetary basis to the expenses of WMO that comprise the General Fund Group, are provided in Note 7 to the Financial Statements.
135. In the WMO website is stated that “*The Strategic Plan and the Operating Plan provide the foundation for effective resourcing. The WMO budget is a results-based budget in which resource justification is the end product of a process in which the Secretariat, working with Regional Associations and Technical Commissions, identifies the activities and initiatives as well as the corresponding resources, which are required to achieve the Key Performance Targets identified in the Operating Plan. The process consists of a four-year budget proposal prepared by the Secretariat following the fiscal guidance of the WMO Executive Council. The proposal is submitted to Congress for review and approval*” and that “*The results-based budget determines the affordability of the WMO programme activities. It is an iterative process that refines the priorities of the Organization through adjustment of the programmes to operate within predetermined financial guidance, while sustaining the strategic direction established by the Strategic Plan*”.
136. In order to follow the Budget Structure, expenditures are reported in Statement V on a comparable basis. IPSAS 24 does not provide strict guidance on how to prepare Statement V, leaving the opportunity to Management of providing relevant information to stakeholders through different options. Nevertheless, we consider a full reconciliation from the approved budget to the net surplus of WMO as presented in the Statement of Financial Performance (Statement II) as a

preferable representation for third-party readers for understanding the reconciliation between budget and accrual accounting.

137. We therefore analysed the potential impact on Statement V and discussed the issue with Management.

***Recommendation n. 21***

138. In line with IPSAS 24, Statement V of the Financial Statements contains the details of the actual expenditures of the Regular Budget compared to the approved Regular Budget. Further, Note 7 to the Financial Statements contains a reconciliation of the total expenditures of the Regular Budget on a budgetary basis to the total expenses of WMO for the General Fund Group. In order to have a transparent view of the impact of the Financial Performance on Statement V, we recommend that, from next year onwards, Statement V should be further expanded on the face of the Financial Statements, to fully reconcile the actual expenditures of the Regular Budget for the year to both the approved Regular Budget and to the full financial results for the financial year that comprise the Surplus/Deficit for the year under the “Statement of Financial Performance”.

***Comments by Secretary General***

WMO accepts with the recommendation and will perform a review of the presentation of Statement V with a view to expand the information contained in Statement V while ensuring the results of the regular budget for the year continue to be prominently displayed.

**ASSESSMENT OF THE INTERNAL AUDIT FUNCTION**

139. In accordance with International Standards, such as ISSAI 1610 and related ISA 610, ISSAI 200 c.2.45, INTOSAI gov 9140 and 9150, the External Auditor has to carry out an assessment of the Internal Audit function. To perform this assessment, we take into account not only the afore-mentioned standards, but also the International Standards for the Professional Practice of Internal Auditing.

140. The internal audit function at WMO is located in the Internal Oversight Office (IOO), whose core activities cover the following areas (from the IOO Charter): internal audit, investigations, inspections, evaluations, monitoring, and other management support to strengthen the functioning of WMO.

141. However, we have, at the moment, only started the assessment of the Internal Audit function, according to the above-mentioned International Standards. Currently, there are no specific international standards for assessing Evaluation and Investigation activities. In the near future, the other activities of the IOO can also be the subject of specific audits.
142. For the assessment of the Internal Audit function in the UN system, reference is made to the above-mentioned general principles and to the Audit Guideline 202 "*Evaluation of Internal Audit Services In The United Nations Organizations*", adopted by the Panel of External Auditors of the United Nations, the specialized Agencies and the International Atomic Energy Agency at its 34th session in November 1992. A new section was added to these guidelines at its 35th session in November 1993, and the foreword was revised at its 41st session in October 2000.
143. We have used the audit guideline as the basis for our assessment and for this purpose we have reviewed, updated and adopted it for the audit. A SharePoint app, containing the reviewed checklist, was prepared by the Corte dei conti, to which the Director IOO was given remote access.
144. The Director IOO completed his task and provided a full information, also uploading relevant documentation. We have downloaded and analysed it.
145. We have had several videoconference meetings and exchanges of ideas with D/IOO, about the Organization and also about the activities with which his office is tasked. However, since the pandemic has not yet allowed us to enter the audited entity and to have a complete picture of its structure and organization, including the Internal control framework, we decided to suspend the assessment, postponing it to when we will be able to reach the WMO HQs.
146. It is to be considered, actually, that the assessment of the Internal Audit function is an important task, being the basis to decide also, for example, the possibility to use the work of the internal auditor and deserves a complete knowledge of the whole "environment".
147. We would like to thank Director of internal Oversight Office for his prompt and useful cooperation, of which we have already had the opportunity to take advantage.

## **FOLLOW-UP TO PREVIOUS RECOMMENDATIONS AND SUGGESTIONS**

148. Usually, our long form report ends with the follow-up tables that resume the status of implementation of the open recommendations issued in previous reports, not only in the financial reports, but also in the special reports.
149. Being at the beginning of our mandate, we do not have previous recommendations issued by us, but we should follow-up the status of implementation of the recommendations issued by the former External Auditor.
150. We have asked the Controller for an update on the current status of implementation, and we received the answers he collected from relevant Management. We have analysed them; however, for reasons similar to the ones already shown above in relation to the assessment of the Internal Auditor, we decided to suspend our follow-up, since we assess the actual implementation of the recommendations through an audit activity, which could not easily be carried out remotely, especially considering that we were not the auditors who issued the recommendations.
151. Therefore, the status of all open recommendations is momentarily to be considered still as “outstanding”.