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CONVENTION CONCERNING THE PROTECTION OF THE WORLD
CULTURAL AND NATURAL HERITAGE

WORLD HERITAGE COMMITTEE

Twenty-ninth Session

Durban, South Africa
10-17 July 2005

Item 15 of the Provisional Agenda: Report on the execution of the Budget 2004-2005 and follow-up to the recommendations concerning the administrative and financial issues of the Audit of the World Heritage Centre undertaken in 1997

Audit Report on the World Heritage Centre

SUMMARY

As per the recommendation of the External Auditor's Report of June 1997, the Internal Oversight Service of UNESCO (IOS) carried out an Audit to review the effectiveness of controls in the major administrative/operational procedures in the WHC secretariat in Paris. This document contains a Summary of the IOS final report on this audit. IOS concluded that while there was compliance with established policies and procedures in a number of areas, there was a need to strengthen internal controls in many others. IOS made 11 recommendations categorised a "fundamental", 42 as "significant" and 11 as "merits attentions". WHC is firmly committed to implementing these recommendations.

This report contains the Executive Summary and summary observations of each of the functional areas covered in the audit scope (Financial Statements and Financial Control, International Assistance, Contracts, Travel, Extra Budgetary Projects).

SUMMARY

1. IOS conducted the audit of the World Heritage Centre, in line with recommendation 10.1 in the External Auditor's report of 1997, which states that "we recommend that internal audit periodically review the activities of the Fund and the Centre and report their findings and recommendations to UNESCO's management."
2. IOS concluded that while there was compliance with established policies and procedures in a number of areas, there was a need to strengthen internal controls in many others. IOS made 11 categorised a "fundamental", 42 as "significant" and 11 as "merits attentions". IOS commented that they had received excellent cooperation from the WHC secretariat who are firmly committed to implementing these recommendations.
3. Of the 64 audit recommendations issued in the audit report, 61 are addressed to WHC and the remaining 3 are addressed to the Division of the Comptroller and the Bureau of the Budget.

AUDIT OBJECTIVE

4. The audit objectives were:
 - To assess the existence and functioning of internal controls, the effective and efficient use of the resources, the accuracy of reporting and compliance to rules and regulations. The assessments lead to the identification of risks which, if not managed, could threaten the achievement of the Organization's objectives. The audit presents recommendations to address and to strengthen controls over these risks.
 - To determine the implementation of the recommendations on administrative and financial matters resulting from the 1997 external audit of the WHC and to identify any outstanding recommendation that needs to be implemented

AUDIT SCOPE & METHODOLOGY

5. The audit of the WHC was conducted in Paris in February – March 2005 with some further follow-up work in May 2005. The audit reviewed mainly transactions and/or activities covering the period 2002 to 2004.
6. The audit adopted an objective-based model, which seeks to uncover risks, i.e. internal or external factors that can threaten the achievement of the Organization's objectives. The audit did not seek to cover all activities of the WHC and so there may or may not be inadequately controlled risks in those activities not covered. The audit exercised due care in the assessment of the risk of fraud and any suspected fraud or mismanagement reported before or during the audit, and any significant irregularity identified by the audit. However, consistent with generally-accepted auditing standards, the audit did not seek to uncover fraud, which is by definition intentionally concealed.
7. The audit collected information through the review of a sample of the WHC's records to test the existence and adequacy of expected controls. In this review the audit does not seek to secure a statistically representative sample of the entire population of records, but rather to test the functioning of the WHC controls. Any unexpected results in the WHC records are further assessed to consider if they were isolated errors or indicative of control shortcomings.

AUDIT REPORT FORMAT

8. The report is presented by functional area (financial statement and financial control, International Assistance, contract, travel etc.) and each of the functional areas is broken down into a logical work process sequence of major tasks. The audit scope did not include the supply procurement process undertaken by WHC. Considering that most procurement, as with

all other UNESCO HQ sectors/services, are undertaken by ADM/PRO (Procurement Division), the review of procurement functions will be covered in the audit of ADM/PRO.

9. Good internal control practices or significant accomplishments found during the audit are reported as “Compliance to Rules and Procedures”. However they are not elaborated upon since the purpose of the audit report is to assist management by identifying important risks or issues over which the WHC’s controls need strengthening. For each issue identified, the report describes the observations made; implications that had or could have happened and makes recommendations to address the issue.
10. A draft audit report was presented to the WHC after the follow-up work was completed to obtain WHC’s concurrence on the information and recommendations presented in the report. The response from WHC was taken into account in finalising the Audit Report

BACKGROUND - WHC

11. To ensure the proper identification, protection, conservation and presentation of the World’s heritage, the member states of UNESCO adopted the *World Heritage Convention* in 1972. The primary purpose of the *Convention* is to define and conserve the world’s heritage, by drawing up a list of sites whose outstanding values should be preserved for all humanity and be protected through a close co-operation among nations. The *Convention* foresees establishment of a ‘World Heritage Committee’ and a ‘World Heritage Fund’. The first session of the Committee took place in 1977 to adopt the financial regulations of WHF and the second session of the Committee in 1978 approved the first budget of WHC.
12. The World Heritage Committee, an International body composed of 21 representatives from the States Parties is responsible for all decisions with regard to the implementation of the *Convention*. The main functions of the Committee include 1) To decide on the inclusion of a property in the World Heritage List in accordance with the criteria which it defines, 2) To establish and keep up to date a ‘List of World Heritage in Danger’, 3) To examine the state of conservation of world heritage properties, 4) To study and approve requests for international assistance formulated by States Parties to the *Convention* and 5) To decide on the use of the resources of the World Heritage Fund. The Committee meets at least once a year. The Committee submits a report on its activities to each session of the General Conference. Seven members of the Committee make up the World Heritage Bureau that meets during the sessions of the Committee as frequently as deemed necessary to prepare the work of the Committee.
13. The *Convention* provides that the World Heritage Committee is assisted by a secretariat appointed by the Director-General of UNESCO, which prepares the documentation and the agenda of its meetings and is responsible for the implementation of its decisions.
14. The Director-General established the UNESCO World Heritage Centre in May 1992. The Centre’s task is to (i) serve as the Secretariat of the *World Heritage Convention* and carry out the decisions adopted by the Committee at its annual meeting, and (ii) coordinate all activities for the UNESCO Secretariat in the field of World Heritage, cultural and natural.

AUDIT BACKGROUND

15. In 1997, a review was undertaken by the External Auditor of UNESCO “of the way in which the World Heritage Centre assisted the Committee in implementing the *World Heritage Convention*”. The review was conducted in two parts - a financial Audit of the World Heritage Fund for the year ended 31 December 1996 and a Management review of the Centre. The report by the External Auditor on the audited Financial Statements of the World Heritage Fund was presented to the twenty-first session of the Bureau in June 1997. A follow up report

to the External Auditor's recommendations following the financial audit of the World Heritage Centre, along with Director General's comments were presented in the twenty-second session of the Bureau in June 1998 (*WHC-98/CONF.201/INF.5*). In this follow up report, the Director General agreed with the External Auditor's recommendation (10.1) which said "we recommend that internal audit periodically review the activities of the Fund and the Centre and report their findings and recommendations to UNESCO's management.

16. In the 28th session of the Committee, it was decided (*WHC-04/28.COM/11-item 11.7*) " To further request WHC to present a report at the 29th session on the status of the follow up to the recommendations on administrative and financial matters resulting from the 1997 external audit of the WHC (*WHC-98/CONF.201/INF.5*) and to review, together with the External Auditor, any outstanding recommendations and to implement those that are still relevant".

AUDIT FINDINGS

17. As stated previously, IOS reviewed the effectiveness of internal control in the following functional areas: Financial Statements and Financial Control, International Assistance, Contracting, Travel, and Extra Budgetary Projects. A summary of the major findings for each functional area is now presented below. Considering that the section for Financial Statements and Financial Control play such a pivotal role for the audit, more details are provided for this section in the current summary than for the other sections.

FINANCIAL STATEMENTS AND FINANCIAL CONTROL

Summary of Observations

18. IOS reviewed the DCO certified Financial Statements of the WHC Special Account for the 2002/2003 biennium and the uncertified year-end financial statements (2004) and was able to trace samples of transactions with material amounts to the supporting documentation. IOS also reviewed internal controls in the financial management within the WHC Secretariat and did not identify any major risk to its operations. Nevertheless, a number of "fundamental" and "significant" recommendations are made.

19. Compliance to established policies/procedures based on a review of selected audit samples

- The presentation of Financial Statements was made in accordance with the Financial Regulation for the "World Heritage Fund" and in the several areas tested during the audit, the presentation of the statement complied with the UN accounting standards.
- Income for WHC funds (special account) were received according to the commitments and supported by valid receipts.
- Incoming receipts were properly recorded in the financial statements.
- Expenditures were properly valued, classified, authorized, recorded in the system for the correct period and were traced to the financial statements.
- Interest recorded was in accordance with the approved policies.
- Supporting documents to support the expenditures incurred are available for centralized expenditures incurred by WHC.
- Legal commitments were properly signed by authorized staff.

20. Risks observed during the audit included:

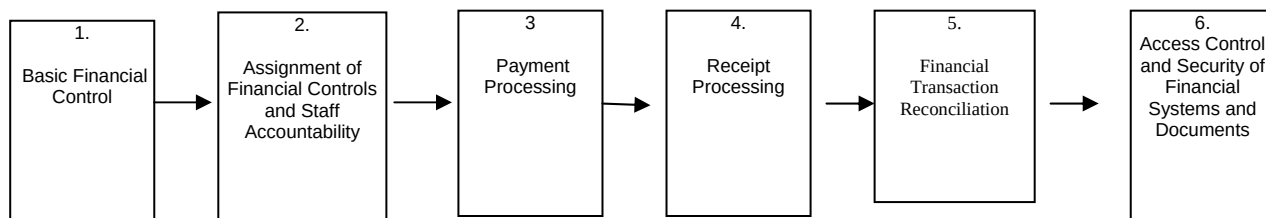
- For period 2002-2003, fund allotments were not based on the funds received but on the approved budget.
- The financial statement established by DCO did not present a picture of WHC's financial situation (as it did not include UNESCO Regular Programme contributions and other Extra-Budgetary funding). Nevertheless, when requested, the secretariat provided a table showing this information to the Committee.

- Inadequate control mechanism to ensure completeness of income relating to other contributions (non-assessed) from Donors.
- Segregation of duty needs to be improved.
- For the period observed, there were cases where funds reservations were raised by certifying officers for amounts that exceed the limit authorized by the Comptroller.
- Raising a high number of obligations and making commitments at the end of the biennium. During the audit work in March 2005, IOS identified that in one case sampled, the unused balance of 'Fund Reservation' for completed activities was not liquidated immediately after the activity was completed. The un-liquidated portion was liquidated in April 2005.
- In one case sampled relating to year 2002, the expenditure was incurred without establishing a contract. While the other audit samples of recent years did not show existence of this risk, there is a need to safeguard against recurrence of such cases.
- In one case sampled for year 2002 there was no competitive selection of suppliers of services. While the other audit samples of recent years did not show existence of this risk, there is a need to safeguard against recurrence of such cases.

OBSERVATIONS, ANALYSIS AND RECOMMENDATIONS

Key steps examined

21. The audit assessed the following key work process steps of Financial Control by examining the key risk areas that need to be addressed.



Review of the WHF Special Account - Financial Statement

22. According to the balance sheet as at 31 December 2004, the total assets for the WHF Special Account were US\$4,324,849; the total liabilities were US\$1,314,196 and the total reserves and fund balances were US\$3,010,653.
23. The assets consisted of cash and term deposits of US\$4,093,834 and compulsory assessed contributions receivable from states parties of US\$231,015. The liabilities consisted of account payables from previous years of US\$433,375, accrued payables for undelivered orders of US\$866,986 and contributions received in advance of US\$13,835.

Review of the WHF Special Account - Statement of Income and Expenditure as at 31 December 2003

24. IOS conducted a review of the Statement of Income and Expenditure for the period 1 January 2002 to 31 December 2003 and 1 January 2004 to 31 December 2004 by applying the following steps: for all transactions in the Statement of Income and Expenditure for the period from 1 January 2002 to 31 December 2003 and the period from 1 January 2004 to 31 December 2004, items were traced from the Statement of Income and Expenditure using

FABS (SAP) to the actual source documentation (e.g. invoice, payment instruments/cheque etc).

25. Based on the transactions sampled, IOS did not find any discrepancy involving material amounts in the audit tests.

Evaluation of the WHF reserves

26. Total reserves and fund balances as of 31 December 2004 was US\$ 3,010,653, which comprised of: *emergency* reserve fund, *earmarked activities balance* and *operating* reserves (the *contingency* reserve was zero).
27. There was a decrease in the total reserves between 1999 and 2003. An increase was noted however, in the reserve balances for 2004 (except for the Emergency Reserve Fund). See the table below which shows the erosion by each type of reserve based on information from the certified financial statement issued by the UNESCO Comptroller for the periods ended 2003, 2001 and 1999:

	Total Reserves and fund balances \$	Operating reserves fund \$	Contingency reserve fund \$	Earmarked Activities balance \$	Emergency reserve fund \$
End of 2004 (Uncertified F/S)	3,010,653	1,855,302		933,750	221,601
End of 2003	2,560,549	(115,337)	1,500,000	920,584	255,302
End of 2001	3,791,204	712,936	2,000,000	761,513	316,755
End of 1999	5,188,541	2,600,203	2,000,000	572,299	16,039

28. A large part of the decrease was due to a fall in the *operating* reserve and the contingency reserve. The zero contingency reserve at the beginning of 2004 was based on the WH Committee decision at its 27th session in 2003, to transfer this reserve to cover the operating reserve. The decrease in the *operating* reserves was due to the excess of expenditures over income. It was a decision of the World Heritage Committee to approve budgeted expenditure amount which was higher than the budgeted income.
29. The WHC Secretariat (document *WHC-04/28.Com /11*) proposed, and subsequently approved by the Committee, that the new budget figures should be based on the actual income received in the previous biennium. Therefore, the risk of shortfall of income over expenditures has been minimized. However, in IOS's view, a certain minimum level of reserves should be established (by WHC and DCO) for example for purposes such as to cover needs for funds in case of delays in receipts of contributions.
30. Based on the latest uncertified Financial Statement issued by DCO/Chief Accountant that IOS reviewed, the *operating* reserves as of 31 December 2004 was US\$1,855,302. Therefore, there was no immediate risk of deficit. However, the current practice of approving budgetary expenditure beyond the income for the current period presents a risk that the reserves will at some point be inadequate to meet unforeseen developments.

Budget allotment process

31. IOS observed that for the WHF Special Account, the UNESCO Bureau of Budget allotted the funds at the time the budget was approved by the World Heritage Committee rather than when the funds are actually received. This is also not in accordance with UNESCO financial rules and regulation, which require that the funds can only be allotted once funds have been received. Nor was this practice consistent with the normal procedure for other extra budgetary or funds-in-trust contributions for which the budget allotments are made only after funds are received from the donor.

32. This audit observation is also in line with the Annex II of the 28th session WHC document (WHC-04/28.COM/11 dated 15 June 2004). In this Note to the Director of WHC, the Comptroller provides a reminder that commitments can only be made if funds are available as per UNESCO's financial rules and regulations.
33. The current practice poses a risk that commitments will be entered into before funds have been received. Instead of allotting the budget for the entire year based on the approved budget, BB should make allotment periodically based on contribution received.

Internal Control Review

34. The scope of the audit also included a review of the adequacy and effectiveness of the existing financial controls, including compliance to the established financial rules/regulations, administrative manuals and established procedures, in the World Heritage Centre (WHC) Secretariat in UNESCO Paris HQ. The areas reviewed under this section of the audit comprised of: Basic financial control, Assignment of Financial Controls and Staff Accountability, Payment Process, Receipt Processing, Financial Transactions Reconciliation and Access Control/Security of Financial Systems and Documents.
35. One of the main issues raised for this section of the report was the fact that the current Statements of Income and Expenditures only reflected funds for the WHF Special Account (The World Heritage Fund) and did not include income and expenditures from UNESCO Regular Programme or other extra budgetary resources. Thus, the statements do not present the complete picture of the WHC resources. However, when required, the WHC secretariat provided the Committee with the financial information based on the income and expenditure from all sources/all types of expenditure. Following the Audit, IOS was informed that this issue was being discussed by the WHC and DCO to examine possible solution.
36. Another issue pertained to the monitoring controls established by WHC to ensure the completeness of Income. WHC maintained a monitoring spreadsheet for the receipt of Income from assessed and voluntary contributions. For monitoring and transparency purposes, this Excel spreadsheet was made available to the State Parties through the WHC Intranet. Based on a review of details pertaining to this spreadsheet, IOS was satisfied that the monitoring controls built by the WHC for this type of income were adequate to ensure that the income from assessments and voluntary contributions are properly recorded.
37. However, WHC did not maintain the same controls for non-assessed income i.e. other contributions from donor received as income. The current monitoring mechanisms are:
 - programme specialists who received the funds sent an email to the donor confirming receipt and
 - preparation of a table by the administrative unit based on income recorded by DCO in FABS
38. These mechanisms did not provide assurance on the completeness of the receipts recorded and poses a risk that there could be income which had not been transmitted to DCO.
39. Given the fact that this type of contribution was material (US\$893,115 for 2004 and US\$1,357,011 for 2002/2003), WHC should build similar controls for non-assessed income as those established for the assessed income such as a formal confirmation to the donor of having received the funds; a unique numbering system of receipt and publishing the excel sheet through the WHC Website.
40. IOS's review of unliquidated obligations at the end of the last biennium (2002-2003) showed that WHC should monitor its budget and obligations on a regular basis and that all obligations should be supported with valid legal commitments. The WHC has taken some actions i.e. to conduct a regular meeting with all staff to review the outstanding commitments and to do a regular follow up since 2004.

INTERNATIONAL ASSISTANCE:

41. Considering that the International Assistance forms a significant part (IA budget represented 52% of WHF budget for the biennium 2002-2003 and 35% for the biennium 2004-2005) of the Fund's expenditure, IOS analysed the approval, disbursement and monitoring processes relating to the International Assistance provided to the State Parties.

42. IOS Audit Scope of the International Assistance

IOS reviewed a representative sample of International Contracts from the five areas of International Assistance i.e. Emergency assistance, Preparatory assistance, Training & Research assistance, Technical co-operation assistance and assistance of Education, information and awareness raising. This review covered audit sample transactions for period 1 January 2003 to 31 December 2004.

43. Compliance to established policies/procedures:

- The approvals were in compliance with the *Operational Guidelines*.
- Appropriate contractual arrangements were established before assistance was disbursed.

44. Risks observed during the audit:

- Several proposals were not available in the Secretariat.
- Some emergency assistance cases were approved by the Committee without proposals and without written justification documenting the basis for the approval
- Delay in processing of requests.
- International Assistance approved by the Committee for a purpose that is not covered in the operational guidelines.
- Proposals (made prior to 2004) without sufficient details of the activity and detailed budget breakdown.
- Approval given by the Committee contrary to the recommendation given by the advisory body was not justified in writing
- Comments from the advisory bodies were not always obtained
- Possible conflict of interest in a case where an advisory body submitted a proposal and also provided a recommendation on the proposal
- Overpayment of \$2,600 to a contractor
- A payment was made without a contract (legal obligation)
- Detailed justifications was not obtained in one case in 2003 from the contractors as evidence of utilisation of funds.
- Support costs of \$2,800 was inappropriately charged by an Advisory body
- An increase in the fee of a contractor was retrospectively applied leading to an overpayment of \$500

CONTRACTS

Summary of Observations:

46. The WHC established over 690 contracts in 2003-2004. The total amount of funds obligated under the contracts amounted to \$9,163,585.82. During the audit, IOS conducted a review of a sample of the contracts established during 2003-2004 and made the following observations.

47. IOS noted the following compliance to the established rules based on the review of selected sample of contracts:

- The terms of reference of contracts were generally specified and measurable.
- Contracts over \$100,000 were approved by the Headquarters Contract Committee.
- 95% of the sample of contracts reviewed had used the correct type of contract.
- Contracts were prepared using the standard UNESCO form.

- 95% of the sample of contracts reviewed were compliant with the duration limits specified in the Administrative Manual.
- Generally payments were made in accordance with the terms of the contract.
- Advance payments were made based on the policy.

48. Risks observed during the audit:

- No evidence of competitive selection of some contractors. Nor was justification for single source selection noted in some of the files.
- The need for external consultancy was not identified in the Centre's work plan.
- Instances were noted where contracts were signed after the commencement of contract. Subsequently, internal memos to the unit chiefs were sent to prevent a recurrence
- An instance was noted where an unspent balance of \$9,222 was not refunded by an Activity Financing Contractor. The contractor was subsequently asked by the WHC to submit the justification for this expenditure along with the justification for expenditure under a subsequent contract.
- 26% of the Activity Financing Contract amounts were not supported by a quantified work plan
- Delays noted in the receipt of deliverables from some of the contractors
- No financial statement was available for \$17,000 paid to the contractor for activities scheduled for completion in 2002.
- An overpayment of \$1,012 to a consultant was noted
- A consultant was paid for travel undertaken. However, the need for the travel had not been identified in the contract as is required by Organisational procedures.
- No evidence of contract supervisor's producing evaluation reports after each engagement.

TRAVEL

Summary of Observations

49. Based on the information received from the World Heritage Centre, the total expenditure on travel for 2003 and 2004 amounted to approximately US\$ 600,000. Approximately 410 missions had been conducted during the 2003 -2004 period. IOS reviewed of a sample of the missions undertaken during 2003-2004 and made the following observations.

50. Compliance to established policies/procedures based on the review of selected audit samples:

- Travel was generally related to the objectives of the programme or the operational activity to which the travel costs are charged.
- Travel advances were made in accordance with the established policy.
- Generally, the travel records were submitted within 15 days of the completion of travel as required under Organisational policy.
- Mission reports are generally produced by the traveler and the quality of the mission reports was seen to be adequate.

51. Risks observed during the audit:

- Travel orders were not always authorized
- Changes to the original approved itinerary, which resulted in change in travel cost etc. were not always duly authorized and there was no official amendment prepared and signed.
- Insufficient supporting documents were sometimes submitted with the travel claim.
- Travel entitlements had not always been accurately calculated in accordance with the policy.

DONOR REPORTING

Summary of Observations

52. According to information provided by WHC, the Centre implemented 69 extra-budgetary projects during period 2004 with a total budget allocation of US\$36,609,732. Most of these projects were also ongoing in 2003. During the audit IOS reviewed the following 4 projects with a total allocation of US\$10,100,932:

- 243INT4070 Conservation Of Biodiversity & Tourism
- 243RLA4070 Galapagos World Heritage Site
- 243ZAI4070 Biodiversity Conservation - Congo
- 534GLO4071 Reinforcement Of The W. H. Centre

53. Compliance to established policies/procedures:

- Donor agreement existed for the projects reviewed
- Support costs were levied either at the standard UNESCO rate or at the rates agreed to in the General Implementation Agreement between UNESCO and UNF.
- Expenditure were generally charged to the correct budget lines

54. Risks observed during the audit:

- IOS noted that in several of the projects reviewed, supporting documents for the majority of the expenditures for 2003-2004 (e.g. expenditure incurred by implementing partners) were not available for review. WHC explained that the reason for this is that many activities under these large projects have been decentralized to Field Offices. Consequently, all supporting documents are not at WHC but are available at the Field Office or at DCO, when it is related to imprests accounts or UNDP offices. This represented a considerable scope limitation for the audit of these projects.
- In reviewing the support costs levied to some other extra budgetary projects, IOS observed that in some cases, support costs were negotiated at lower than the standard applicable rates for UNESCO, and there was no derogation was noted on WHC's files. For the 4 projects mentioned earlier, IOS noted that the support costs were either properly charged at the standard rate (13%) or at the support cost rate stipulated in the Basic Implementation Agreement between UNESCO and UNFIP of 1999 (5%).
- The Donors were informed of changes to budget allocations in the workplans through financial reporting and upon submission of the cash replenishment requests, but only after the changes had already been made.
- Requests were made to the donors for extensions of project deadlines, but generally after the initial date for the completion of the project.
- The supporting documents for expenditure related to project funds decentralized to a Field Office are submitted by the field office to DCO through their imprest accounts. There is a need for WHC to establish a mechanism to monitor the expenditures by means of a quarterly or six monthly financial report (prepared by field offices) stating the income and expenditures by budget line (this should be accompanied with copy of statement of income and expenditure which is part of the imprest submission indicating which transactions are WHC related funding).
- Delays were noted in the transfer of funds to implementing partners which caused delays in the implementation of the project and gave an unfavourable impression of the Organisation to the Donor. A recommendation was addressed to both WHC and to DCO in this regard.

- Non-reporting/delay in submitting donor reports as specified in the donor and implementation Agreements. WHC noted that the “donor's reporting requirements are not always mentioned in the agreement because these Donors are known to UNESCO and have other projects implemented at UNESCO for which the reporting requirements exist and are in line with UNESCO existing standard procedures for Funds-in Trust Donors.” However for transparency IOS maintains that the donor reporting requirements should either be mentioned in the agreement or that it should make reference to a (non-project specific) agreement between UNESCO and the donor where such details are available.

RECOMMENDATIONS MADE

55. IOS made 11 recommendations categorised as “fundamental”¹ which are reproduced below:

No.	Recommendation	Action plans and time frame
2	WHC, working with BB, should identify a solution for budget allotment issue, i.e. that the WHC budgets are allotted periodically (quarterly or six monthly) based upon assessment of availability of funds instead of the current practice of making entire allotment after the approval of the WHC budget.	This recommendation concerns the Bureau of the Budget. The WHC will ensure its application. Schedule: within the preparation of the budget for 2006-2007.
7	WHC should ensure that expenditures for financing third party activities are only incurred based on signed contracts.	The WHC has already taken steps to comply with this recommendation. Schedule: implemented.
14	WHC should raise with the Committee the issue regarding the approval of activities in cases where proposals are not submitted. In IOS' view, all approvals of activities should be justified in writing to document the basis for the decision taken, particularly when there is no formal request submitted by the beneficiary.	This recommendation concerns International Assistance approved by the Committee for the Palestinians territories and for Afghanistan for which no request had been made at the beginning of the process. This falls within the competence of the Committee. The WHC will seek to apply this recommendation within the framework of the new Operational Guidelines, which came in force in February 2005.
16	WHC should ensure that all conflicts of interest regarding advisory bodies be adequately resolved prior to the approval of all International Assistance projects.	The WHC will seek to apply this recommendation within the framework of the new Operational Guidelines, which came in force in February 2005.
18	WHC should ensure that all requests are logged by date received and followed up on a timely basis. Management should be made aware of requests not approved within a period of 4 months.	The WHC has already put in place the necessary measures to ensure follow up of each request. Schedule: implemented.
19	WHC should ensure that Projects are only processed if they strictly meet the definition of International Assistance.	The WHC undertakes to adhere to this recommendation when submitting its comments prior to Committee approval. Schedule: implemented.

¹ The categorization is not related to the materiality of the risk identified in audit but is related to the significance of the recommendations

20	WHC should ensure that decisions taken contrary to the recommendation or advice given by the advisory body should be justified in writing.	The WHC has already put in place measures for obtaining all such justifications on writing. Schedule: implemented.
21	WHC should ensure that all components approved for a certain activity meet the definition of the assistance e.g. training assistance should be given for activities related to training but not for the procurement of equipment.	This recommendation concerns an International Assistance request for training which included the purchase of equipment, approved by the competent authority. If similar cases arise in future, WHC will apply the recommendation when reviewing the requests, before approval. Schedule: implemented.
22	WHC should ensure that before submission to the Committee, the proposals should be reviewed to ensure that they are supported by detailed information about the activity including detailed budget breakdown, and other information or documents that may be required by the Committee in making their decision.	As IOS noted, the WHC has put in place at the beginning of 2004 a monthly review to ensure that requests conform with the requirements before submission. The WHC will ensure that the recommendation is applied within the framework of the new Operational Guidelines, which came in force in February 2005.
27	WHC should ensure that consultants are paid in accordance with the agreed terms in force when the services were provided by the contractor and any amendment to the fee, responsibilities, duration or deliverables of the contractor should be made prospectively in writing and signed by both parties.	The WHC has already put in place the necessary measures and will seek to apply this recommendation. Schedule: implemented.
59	WHC should ensure that the donor reports are prepared and sent to the donor as in the reporting requirements and schedule prescribed in the donor agreement.	The WHC has already taken the necessary steps to ensure that this recommendation is applied. Schedule: implemented.

56. In addition, IOS also offered 42 recommendations categorised as “significant” and 11 as “merits attention”. WHC is firmly committed to implementing the recommendations.

IMPLEMENTATION OF THE RECOMMENDATIONS RESULTING FROM THE 1997 EXTERNAL AUDIT OF WHC

57. The analysis attached provides a commentary by IOS on the progress made in implementing the recommendations. It was concluded that 11 of the 18 recommendations could be closed, for 4 there had been satisfactory progress made and in 3 cases there had been slow progress. The External Auditor supports these conclusions. In the right hand column WHC have indicated what further actions they now intend to take to respond to those recommendations, which have not yet been closed.

EXTERNAL AUDITOR RECOMMENDATIONS FOLLOWING THE FINANCIAL AUDIT OF THE WHC, IOS COMMENTS (2005)

Definitions:

58. **Slow Progress:** We look for evidence of action undertaken (such as plans and schedules), identification of the organisation responsibility for implementation and specific outputs and results that actually correct the problems. If [sufficient of] these indicators are not evident, we assessed the status as “slow progress”.

59. **Satisfactory Progress:** In such cases, significant actions have been taken to implement the recommendation and some problems have already been corrected. But more remains to be done to deal with the main substance of the recommendation.

60. **Closed or Completed:** In these cases actions have been taken and have either corrected the problems identified or gone as far as the external auditor considers practicable to implement the recommendation. Closed recommendations could be audited again in the future when they deal with matters that are of continuing relevance to the ongoing audit work (such as financial controls etc).

External Auditor recommendations	IOS Comments	Status of Implementation	Further Action Proposed by WHC
1. There needs to be better co-ordination between the Bureau of the Comptroller and World Heritage Centre secretariat in the preparation of financial information for the World Heritage Fund.			
1.1 We recommend that the World Heritage Centre and the Bureau of the Comptroller develop a more detailed chart of accounts for the Fund.	A detailed chart of accounts for the Fund was established with the introduction of SAP to the Organisation in 2001.	CLOSED	
1.2 We recommend that the Bureau of the Comptroller and the World Heritage Centre secretariat improve their accounting and administrative preparedness through better co-ordination in the analysis of the Fund's accounts and in the preparation of financial statements for the Fund.	IOS noted that in addition to the certified financial statements on the Fund accounts issued by the Comptroller at the end of the biennium, a year-end financial statement as well as other periodic financial statements on the Fund accounts is prepared by the Chief Accountant/DCO and issued to the Secretariat. This helps to enhance the administrative and financial preparedness of the Centre.	CLOSED	
2. The World Heritage Centre needs to improve its records that contain the documentation supporting financial activities related to the World Heritage Fund.			
2.1 We recommend that the Centre take immediate steps to improve its records that contain the documentation supporting financial transactions related to the World Heritage Fund. At a minimum, each file should contain copies of documentation	IOS concluded that while the documentations supporting financial transactions conducted by the Centre were available, supporting documents for the expenditure incurred by the UNESCO field offices for the activities	SLOW PROGRESS	Following this recommendation, WHC has put in place a special classification system, which involves all the

External Auditor recommendations	IOS Comments	Status of Implementation	Further Action Proposed by WHC
and approvals to support all financial transactions including: a signed copy of contracts, amendments if necessary, evidence of approvals, invoices, copies of journal vouchers when required, evidence to support the performance of the contract before any final payments are made or before any remaining balance in the obligation is obligated.	‘decentralised’ by the Centre, were not available in the Centre. At the request of the auditors, the Centre was able to obtain supporting documents for some of the activities. However, for other activities, the documentation provided was insufficient. IOS is of the view that in the absence of documents regarding the implementation of the activities and the related expenditure, the monitoring of implementation of activities by the Centre would be difficult and the Centre needed to improve the documentation for activities implemented through the UNESCO field offices.		supporting documents for the centralized activities. WHC considers this recommendation as closed . The responsibility for the supporting documents for decentralized activities is, at present, with the field offices who are transmitting them to DCO for control. Besides, BFC and IOS are examining the issue of responsibility in a more general way. However, WHC will put in place a system to conform with this recommendation.
3. The accounting for and reporting of expenditures and revenues needs to be strengthened considerably:			
3.1 There be a separate clause in each World Heritage Centre contract that identifies, when necessary, how revenues and expenditures should be shared between the World Heritage Fund, the Regular Programme and other trust funds;	IOS noted that such clauses have not been introduced in contracts that were established from multiple funding sources, i.e. the World Heritage Fund, the Regular Programme and other trust funds.	SLOW PROGRESS	Clear instructions have been given after the auditing 1997. New instructions and mechanisms will be in force in June 2005.
3.2 Written guidelines be developed by the Centre to assist administrative staff how to determine how costs should be shared between the World Heritage Fund, the Regular Programme and other trust funds;	No such guidelines had been drawn up by the Centre.	SLOW PROGRESS	New instructions and mechanisms will be in force in June 2005.
3.3 The Centre maintains records for each project and track revenues and expenditures over the life of each project;	IOS observed that such records existed in the Centre.	CLOSED	

External Auditor recommendations	IOS Comments	Status of Implementation	Further Action Proposed by WHC
3.4 A dedicated numerical series be used for the raising of World Heritage Fund obligations;	No longer relevant with the introduction of FABS as fund reservations are recorded directly in the system.	CLOSED	
3.5 The accounting for obligations pertaining to the World Heritage Fund be recorded in the Fund's account and not in those of UNESCO's Regular Programme or another trust fund;	IOS did not note any exceptions. IOS also noted that the Secretariat has issued guidance (memo) to relevant administrative staff to ensure that obligations pertaining to the World Heritage Fund should be recorded in the Fund's account and not in those of UNESCO's Regular Programme or another trust fund.	CLOSED	
3.6 If, for some exceptional reason, the obligations have to be recorded in UNESCO's Regular Programme for transfer back later to the Fund's accounts, there be a clear, recorded audit trail that identifies these obligations;	WHC stated that no case of this type occurred and IOS did not come across such cases in its sample review. To ensure correct posting of obligations if this type of case ever occur, the Secretariat has issued guidance (memo) to relevant staff and that trail of transactions will be prepared for transparency purposes.	CLOSED	
3.7 Contracts for additional income should contain a clause specifying precisely if the income pertains to the World Heritage Fund, UNESCO's Regular Programme or for another UNESCO trust fund; and	WHC informed that no contract of this type was concluded and IOS did not identify any case of contracts for additional income covering multiple funding sources.. Appropriate instructions were issued to the relevant administrative staff providing guidance to the issue, should such an instance occur.	CLOSED	
3.8 Each earmarked project for the Fund should have a separate financial code. The overall structure of the coding should be in accordance with the Fund's workplans.	For the sample reviewed, IOS noted that each earmarked project was assigned a separate budget code.	CLOSED	
4. Internal controls over the recording of revenues need to be strengthened.			
4.1 We recommend that the World Heritage Centre needs to improve its tracking of anticipated revenues to ensure that receipts are deposited promptly and to ensure that it provides the Treasury Division in the Bureau of the Comptroller with the accurate information it needs on expected revenues, the anticipated date of receipt and the financial codes to which it should be credited.	IOS noted that an effective monitoring mechanism had been established for the assessed contributions (compulsory and voluntary contributions). However, IOS recommends that similar mechanism needs to be established for other income in to the Fund.	SATISFACTORY PROGRESS	WHC has the necessary capacities; an evidence is the system put in place to monitor the contributions. However, the other revenues are of very random nature and the system of

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			contributions was not adapted. However, WHC commits to review the issue with IOS to improve the current system.
5. The Fund should develop procedures to monitor its “Cash and term deposit account”.			
5.1 We recommend that the Centre develop adequate records to monitor the fund’s receipts and disbursements on a regular basis.	With the introduction of FABS such information is readily available and is being used for monitoring.	CLOSED	
6. Unliquidated obligations are not reviewed and adjusted on a regular basis.			
6.1 We recommend that Unliquidated obligations be analysed on a regular basis throughout the year. Adjustments should be made on a timely basis for those obligations that no longer represent a valid legal liability.	During the audit of Unliquidated Obligation by IOS at the end of last biennium (2002-2003), it was noted that there were a number of unliquidated obligations pertaining to WHC that were no longer valid but had not been liquidated. IOS was informed that one person has been assigned to follow-up on the ULOs in WHC since 2004. While the audit observations is satisfactory (with one exception where an obligation was not liquidated as soon as the final payment was made in February 2005 but it was only liquidated in April 2005), the full implementation of this recommendation will be validated only after the end of the biennium.	SATISFACTORY PROGRESS	WHC confirm that the exception specified in the audit report had been liquidated in April and that the monitoring of obligation is going to be continued on regular basis. All obligations will be liquidated as soon as final payment is made.
7. The World Heritage Committee needs to address concerns regarding costs for fund raising contracts.			
7.1 The World Heritage Committee should address the question of whether costs associated with fund raising contracts should be charged as a servicing fee against the additional income earned for the Fund.	WHC confirmed that no contracts had been established for fund raising activities since the external audit of 1997. IOS also noted that an internal memo was issued to staff concerned to deal with the situation in case it happens.	CLOSED	

External Auditor recommendations	IOS Comments	Status of Implementation	Further Action Proposed by WHC
8. Better financial information can be provided to the World Heritage Committee.			
8.1 We recommend that the Centre improve the financial information provided to the World Heritage Committee by providing the Committee with financial information against which actual performance can be measured, a summary report of all world heritage activities, annual financial statements with comparative figures for the preceding year and budget information for earmarked income and expenditures related to this income.	IOS noted that comparative information for each item was presented in the Financial Statement. Further, that in addition to the certified financial statements on the Fund accounts issued by the Comptroller at the end of the biennium, year-end financial statements as well as other periodic financial statements on the Fund accounts were prepared by the Chief Accountant/DCO and issued to the Secretariat. However in the audit of WHC, IOS noted that the Statements of Income and Expenditures only reflected funds for the WHC Special Account (The World Heritage Fund) and did not include income and expenditures from UNESCO Regular Programme or other extra budgetary resources. Consequently IOS recommended that DCO in consultation with WHC should consider issuing a consolidated WHC Statement of Income and Expenditure, which covers all sources of funding and related expenditure.	SATISFACTORY PROGRESS	WHC will examine with DCO the introduction of this recommendation.
9. Training of administrative staff should be provided.			
9.1 We recommend that training, co-ordinated by the training unit in UNESCO's Personnel unit and with the possible assistance of the Bureau of the Comptroller, be provided for those responsible for accounting and administrative duties relating to the World Heritage Fund.	IOS noted that a focal point for the training needs were identified and considers that the implementation of this recommendation is ongoing.	SATISFACTORY PROGRESS	WHC will continue with the introduction of this recommendation.
10. Internal Audits should review the activities of the Centre and Fund.			
210.1 We recommend that internal audit periodically review the activities of the Centre and the Fund and report their findings and recommendation to UNESCO's management.	An IOS audit of the World Heritage Centre was completed in May 2005.	CLOSED	