



PAN AMERICAN HEALTH ORGANIZATION  
WORLD HEALTH ORGANIZATION



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## **REPORT OF THE AUDIT COMMITTEE**

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## **Introduction**

### ***Background***

1. The Audit Committee was established in September 2009 by Resolution CD49.R2 of the 49th Directing Council of the Pan American Health Organization (PAHO). It provides external, independent, senior level advice regarding the Organization's financial controls and reporting structures, risk management and other audit-related controls to the Director of the Pan American Sanitary Bureau (the Director) and the PAHO Member States, through the Executive Committee.
2. The present report is structured in line with the Committee's Terms of Reference as outlined in the Annex to the above-mentioned Resolution, which include the following:
  - (a) Review and monitor the adequacy, efficiency and effectiveness of the Organization's risk assessment and management processes, the system of internal and external controls and the timely and effective implementation by management of audit recommendations.
  - (b) Advise on issues related to the system of internal and external controls, their strategies, work plans, and performance.
  - (c) Report on any matter of PAHO policy and procedure requiring corrective action and on improvements recommended in the area of controls, including evaluation, audit, and risk management.
  - (d) Comment on the work plans and the proposed budget of the internal and external audit functions.
  - (e) Advise on the operational implications of the issues and trends apparent in the financial statements of the Organization and significant financial reporting policy issues.
  - (f) Advise on the appropriateness and effectiveness of accounting policies and disclosure practices and assess changes and risks in those policies.
  - (g) Advise the Director in the selection process of the Auditor General of PAHO, and advise the Executive Committee in the selection of the External Auditor.

### ***Audit Committee Members and Meetings***

3. The Audit Committee comprises three members, as endorsed by the PAHO Executive Committee at its 2010 Sessions. Their terms of office of 2, 3, and 4 years respectively, are staggered to allow for an orderly rotation. The Chair is elected by the Committee's members on a one-year rotation basis. Amalia Lo Faso was elected for the first year. The list of members is as follows:

- Amalia Lo Faso (June 2010-May 2013)
  - Peter Maertens (June 2010-May 2012)
  - Alain Gillette (June 2010-May 2014)
4. All members confirm their impartiality and independence in fulfilling their function.
5. The Audit Committee normally meets twice a year. Additional meetings may be scheduled when circumstances so require. The Committee convened its first meeting in November 2010 and its second meeting in March 2011. Each meeting lasted two days and was attended by the Director and members of PAHO's Senior Management Team, including the Auditor General. The External Auditor also attended parts of the meetings. Aspects of PAHO's role, operations, risk assessment and management processes, internal and external audit and evaluation, accounting policy, budgetary and planning systems were discussed, and advice and suggestions provided by the Committee, as appropriate. In addition, prior to the second meeting, each committee member visited one or two field offices to gain an understanding of these operations.
6. The Committee's advice and key recommendations are expressed within the various sections of the report.
7. The Audit Committee is administratively supported by PAHO.

### ***Reporting Calendar***

8. This annual report is being submitted as per the Audit Committee's Terms of Reference, which, among others, require the Committee to "Advise on the operational implications of the issues and trends apparent in the financial statements". To coincide with the issuance of the External Auditor's report, the Audit Committee's annual reports will cover a May-April cycle. Pursuant to the Committee's commencement of operations in November 2010, this first report covers *de facto* the November 2010-April 2011 period.

### **Key Areas Covered, Field Visits and Deliberations**

#### ***Risk Assessment and Management Processes***

9. The Audit Committee was briefed on the status of introduction of an integrated risk management system in PAHO. The Committee notes PAHO's analysis to arrive at an appropriate operational framework for implementing Risk Management (ERM) based on the ISO 31000, *Risk Management Principles and*

*Guidelines*, and encourages the Organization to continue its efforts in order to introduce a structured and disciplined approach to risk management.

10. In this regard, the Committee **recommends** that PAHO also draw from the experience of sister organizations in the UN System and other entities, as appropriate.

### ***Internal Controls***

11. The Director's Statement on Internal Controls, which is attached to the 2010 consolidated financial statements, enhances transparency and accountability by informing stakeholders of the structures, policies, procedures, processes and delegations in place to manage potential risks that might prevent the Organization from achieving its goals and objectives. The statement also identifies internal control weaknesses and action taken to address them. Inclusion of the Statement on Internal Controls in the financial statements follows best practice.

### ***Field Visits of the Audit Committee***

12. The Members of the Audit Committee individually undertook brief visits to PAHO's country offices and centers in Guatemala, Jamaica, Trinidad and Venezuela to gain an appreciation of the field operations.

13. The Committee has recommended streamlining certain procedures, applying them consistently throughout PAHO and improving the management of human resources.

### ***Internal Audit and Evaluation (IES): Work plan and Budget***

#### ***IES Work Planning***

14. Chapter II.8.3 of the PAHO/WHO E-Manual relates to the Administration and Management of Internal Audits and Evaluations, thus the work of IES. The provisions in the Manual are adequate.

15. Section 30.2 requires that individual audits and evaluations in PAHO shall be based on the IES annual work plan approved by the Director and that such plan is based on a risk assessment as well as consultation with the various stakeholders. There is a provision for ad-hoc requests by the Director who is the only one who may give instruction to IES to alter the Work Plan once it is approved. The Annual report by IES covers the achievements related to the plan.

16. *Audits:* The audit plan for internal audits is based on several areas, i.e., field operations, the centers and thematic issues. In the absence of an organization-wide risk management system and risk register, it relies on traditional parameters which include risk factors assigned within each category, results of past audit reports, responsiveness to them and feedback from management. In the view of the Audit Committee, the audit plan is based on solid reflections and the required consultative process.

17. However as referred to in section 9 above, there is a need for a PAHO-wide, comprehensive, systematic approach to risk assessment and management to properly inform the audit plan, among other benefits.

18. *Evaluations:* The planning of IES evaluations is directed towards creating ownership and partnership of PAHO activities with stakeholders. It emphasizes *strategic* objectives, priorities approved by the Governing bodies and initiatives where PAHO plays a critical role. A form of risk assessment is used with the Millennium Development Goals and consultation with managers as criteria. In addition to the strategic objectives, the plan also incorporates process reviews focusing on quality aspects, coordination and Results-Based Management. These aspects are closer to performance audits but should nevertheless provide a significant added value to PAHO. In the view of the Audit Committee, there is a solid approach to planning for the evaluation studies.

19. The Audit Committee, noting that IES was recently restructured and staffed, has identified some opportunities to strengthen the annual planning of IES.

20. While noting that PAHO's technical cooperation is program-based rather than project-based, the Audit Committee has recommended that auditors should also visit field projects funded through its programs, and not only PAHO offices and centers, and liaise with the country's external and internal auditors.

21. *Alignment with resources:* The annual plan anticipates a production rate of four audits per auditor (two for the Auditor General), and two evaluation reports per evaluator (see also the "Results-Based IES Management" section below). This leaves some time available for other activities required of IES. The Audit committee **recommends** that the annual plan identify these other tasks performed by IES and the resources allocated to them.

22. *Build-in a reserve:* The plan anticipates that the maximum number of audits is completed in anyone year. The maximum number is based on the production rate explained in the previous paragraph. Any staff vacancy or absenteeism immediately

results in an under-achievement of the plan. It would be useful if a cushion based on historical experience were built in.

23. Ad-hoc assignments: Only the Director can ask for ad-hoc assignments and authorize modifications to the annual plan. The Auditor General should have the same ability to react to changing circumstances provided it is done in a transparent manner. This can be achieved under the current rules by including, say, two audits and an evaluation for which the scope will be defined later by the Auditor General.

24. The Audit Committee also suggested aligning on the IES approach the methodology of any non-IES "management reviews" that, in essence, are close to IES audits or evaluations and require a similar follow-up.

#### *Non-staff Budget*

25. The Audit Committee has been informed of the IES Budget for the 2012-2013 biennium, which is in draft form as at May 2011. Overall, the non-staff budget is expected to be close to the expected expenditure for the current biennium (2010-2011), at US\$ 0.4 million.

26. This reflects a likely increase in total non-staff costs, from an expected \$144,000 in the current biennium, to \$220,000, excluding \$40,000 for two optional, "desirable only", items. The current biennium's budget is the first for the newly-developed, full-fledged internal audit function. It comes under the core regular budget and, for some evaluation activities, under voluntary contributions.

#### *IES Staff Costs*

27. The IES staffing includes six fixed-term positions as outlined below:

- D1 Auditor General
- P5 Senior Internal Auditor
- P4 Internal Auditor
- P4 Evaluation Advisor
- G6 Administrative Assistant
- G6 Internal Audit Technician fixed-term post created in May 2010

28. IES does not have a staff budget except for one short-term P1 assistant under the non-staff budget. Best practice requires that the budget for any entity such as IES, also include its staff costs.

29. IES fixed-term staff costs are estimated at \$2,020,400 for the current biennium. The same fixed-term staffing is expected to be budgeted, albeit not specifically, for the coming biennium, based on the UN standard scale.

30. The Audit Committee **recommends** developing a comprehensive budget for IES including staff and non-staff costs, to enhance monthly reporting, and also because funds for vacant posts may be redeployed for short-term human resources, according to PAHO's budgetary practices.

31. The Audit Committee is also of the view that the budget could provide for more flexibility in the funding of specialized consultants, should the need arise. PAHO has indicated that it is looking into this matter.

#### *Results-Based IES Management*

32. The Audit Committee commends the significant improvements made to PAHO's oversight activities in the last two years. A professional auditor has been hired to manage IES and he has engaged professional auditors and evaluators. Audit and evaluation reports are now routinely issued and acted upon by management. The Committee expects further strengthening as the activity gains maturity and experience.

33. Auditor time spent on individual assignments is neither budgeted nor reported. However, it is expected that every staff member graded P4-P5 will complete one individual internal audit assignment per quarter (the Auditor General completes two audits per year). The Evaluation officer is expected to complete one evaluation assignment every six months. The above expectations are in addition to the other ongoing duties of IES and, depending of the assignments' scope, represent reasonable targets.

34. Accordingly, the annual IES work plan is based on 10 internal audits and 2 large-scale evaluations (plus a small number of rapid-reaction, evaluative reviews).

35. IES concurred with the Audit Committee's **recommendation** that every audit or evaluation assignment should be accounted for in terms of the overall IES time spent on the assignment, and that the IES work plan should include the planned time allocation, to be tracked for reporting purposes.

36. There is no documented benchmarking with similar internal audit services, but there are regular contacts between IES and other services through an informal United Nations network.

37. IES plans to adopt the Audit Committee's **recommendation** that formal benchmarking be established with other UN and international organizations (where possible, with a similar range of activities and total expenditure, and taking into account their respective geographical coverage).

38. Based on the above, and subject to further improvements, the Audit Committee is of the view that, overall, the IES planned workload and budget are in line with best practices.

### ***External Audit: Work plan and Budget***

#### *Work plan*

39. The Audit Committee took note of the External Auditor's current work plan and will consider the next External Auditor's proposals.

40. In 2009, PAHO hired a Financial Specialist dedicated to the interface with External Audit. The position is under the general supervision of the Treasurer and Senior Advisor, Financial Services and Systems (FRM/FS) and the direct supervision of the Finance Specialist, Financial Analysis (FRM/FS/A). This provides the capacity for monitoring this activity, coordinating it with the IES work plan and following up on all audit recommendations.

#### *External Audit Budget*

41. NAO was reappointed in 2007 on the basis of a detailed document establishing a flat fee of \$346,340 for the 2008-2009 biennium and \$355,600 for the 2010-2011 biennium (excluding INCAP, since then separated). The average cost per hour was stated as \$134, which is within the range to be expected from a Supreme Audit Institution. No other details were provided.

42. The document stated that the corresponding manpower would be 17 auditor months, including INCAP. Therefore, the resources devoted to PAHO would be around 14 auditor months for the biennium. This level would have been somewhat below an appropriate allocation of resources, in view of PAHO's accounts and extensive country network, were it not for the extensive PAHO experience of the NAO.

43. The 2010 Financial Report of the Director does not indicate the actual cost of the External Auditor for the year. As of 1 May 2011, an amount of \$95,000 had

been invoiced and paid. The previous invoice, dating back to 13 May 2010, was for the final financial audit of the previous biennium.

44. The Audit Committee **recommends** that the requirements for the mandate of the next External Auditor and their discussion during the selection process include the following:

- (a) A minimum of 10 auditor months per year, considering that the teams will have no prior PAHO knowledge and experience.
- (b) An indicative breakdown of time to be allocated between the financial audit of the accounts and performance audits at HQ and in the field.
- (c) An indicative breakdown of time to be allocated and per-hour cost of the director, team leaders, senior auditors, junior auditors, and Information Technology auditors, respectively.
- (d) A breakdown of costs between staff costs, travel costs and other items.

### ***Implementation of Audit Recommendations***

#### *Follow-up of Recommendations*

45. One of the roles of the Audit Committee is to review and monitor the timely and effective implementation by management of audit recommendations, whether provided by the External Auditor or IES. This is an area that requires continuous vigilance, particularly from management.

46. Regarding IES, Paragraph 30.5 (Chapter II.8.3) of the PAHO/WHO E-Manual stipulates provisions related to recommendations. For example, Paragraph 30.5.5 requires that the Auditor General requests responses to all recommendations within one month and these should be clearly-defined with implementation target dates. Paragraph 30.5.7 requires IES to track the implementation of recommendations and to assess the impact of non-implementation and in serious cases the Auditor General shall refer the matter to the Director of PAHO for resolution. Thus the Manual is clear on the importance of recommendations and the corresponding follow-up.

47. IES has established a database of its recommendations starting as of 1 January 2006. It conducts a quarterly follow-up and reports the results to the Director.

48. The Audit Committee briefly reviewed the follow-up reports for 30 June 2010 and 31 December 2010 and the statistics in the 2009 and 2010 annual reports of IES. Based on its review and discussions with the Auditor General it

concludes that the follow-up methodology applied by IES and by management contributes to a culture within PAHO that is supportive to incorporating IES suggestions for strengthening PAHO operations, controls and processes. This assures the added value from IES. The number of outstanding recommendations as at 31 December 2010 is reasonable and the Director of PAHO is made aware of long outstanding recommendations and those that require her attention.

49. The Audit Committee has not, however, reviewed the actual implementation of the recommendations in the field. With regard to one of the field offices visited, the Committee suggested to the Director improvements to the procedures and management of the follow-up on internal and external audits recommendations, as well as to the management of audit visits to such offices and centers.

50. During the review, the Audit Committee suggested certain performance measures that IES can use in its follow-up activities and recommends that the Auditor General develops and adopts them accordingly. Some of the benefits thereof include noticing and reporting immediately on any deterioration of the responsiveness to implementing recommendations so that management can give this the necessary attention.

51. The Audit Committee also reviewed the status of recommendations from the external auditor and notes that also in this area there is a constructive and positive management response.

### *Ethics Office*

52. The Committee received a presentation from the Ethics Office about its role, the nature of the advice provided, and the investigation process, among others.

53. The Office handles the investigative function of PAHO and coordinates PAHO's Integrity and Conflict Management System that includes the resources that deal with integrity and conflict resolution issues and policies for (a) Prevention and Resolution of Harassment in the Workplace, (b) Declaration of Interest, (c) Code of Ethical Principles and Conduct, (d) Confidentiality Declaration, (e) Protocol for conducting Investigations, and (f) Protecting People who Report Wrongdoing or Cooperate in an Investigation or Audit. The Office also manages an Ethics Help Line for staff to report wrongdoing in the workplace or ask questions about situations that may raise ethical concerns.

54. The Committee was generally satisfied with the comprehensiveness of PAHO's policies relating to staff conduct and with the workings of the Ethics Office. However, it noted that the approach of the Ethics Office to fraud and other

allegations appeared to be only reactionary and recommended that the Ethics Office move toward a more proactive approach.

### ***PAHO Computer Systems***

55. PAHO's management briefed the Audit Committee on the current management information system, which goes back to the 1980/90s. The system has been modified over the years and satellite systems have been developed outside the main system to try to meet PAHO's changing needs. This patchwork over so many years has resulted in a system that can no longer respond with state-of-the-art cost-effectiveness to the current and future needs of PAHO, as in many other organizations. The Organization has recognized this, and identified the urgent need for an Enterprise Resource Planning (ERP) system. The introduction of IPSAS has made this even more pressing and also helped identify some of the features necessary for such a system. PAHO is taking pertinent steps.

56. In this regard, the Committee made several recommendations on how to mobilize in order to introduce a new ERP system that duly responds to PAHO's needs. In particular, it **recommended** engaging an independent firm with significant pertinent experience to analyze PAHO's needs and identify and guide the Organization toward the most appropriate way of proceeding for ERP selection. The Committee also **recommended** exploring alternative ERPs, if appropriate, rather than relying on a single-source selection.

### ***Financial Reporting: Accounting Policy and IPSAS***

57. The shift from UNSAS (United Nations System Accounting Standards) to IPSAS (International Public Sector Accounting Standards) was decided by the heads of the organizations in the UN System in 2006, in order to enhance the transparency of transaction recording and financial reporting, improve internal control and permit comparability of financial statements within organizations and across organizations, among others. PAHO is one of the early implementers of IPSAS, having introduced it on January 1, 2010 and produced its first IPSAS-compliant financial statements for 2010.

58. The implementation of IPSAS entailed fundamental changes in accounting policy, affecting the accrual system, recognition of income and expenditure, capitalization of fixed assets, full recognition of liabilities for employee benefits, and annual financial audits, among others.

59. The success of this undertaking required considerable effort for proper planning, coordination and monitoring throughout the Organization. The Audit

Committee commends PAHO for implementing IPSAS and producing financial statements for 2010 that received an unqualified opinion from the National Audit Office following its audit.

### ***Financial Statements of the Organization***

60. The very brief time span, between the Committee's receipt of the final financial statements and the deadline for submitting its annual report, did not allow for the work necessary to enable the Committee to provide proper advice on the operational implications of the issues and trends apparent in the financial statements and on significant financial reporting policy issues. The Committee will discuss the timing of receipt of future final financial statements with PAHO in order to be given sufficient time for reporting on this item in its next annual report.

### ***Reporting Policy and Disclosure Issues***

61. The Audit Committee also took note of the reception of the 2010 External Auditor's report and the notes to the 2010 Financial Statements.

### ***Selection of the External Auditor***

62. The process to identify and select the next External Auditor to replace the National Audit Office of the United Kingdom, whose mandate ends with the certification of the financial statements for 2011, is under way. At its March 2011 meeting, the Committee was informed that none of the Member States had presented potential candidacies, despite PAHO's renewed call for interest.

63. Reportedly, the National Audit Office would be prepared to continue for an additional year, but not beyond the audit of the 2012 financial statements, should it not be possible to find a new external auditor.

64. Various possibilities for identifying a new external auditor were discussed. The Audit Committee suggested that PAHO contact the government audit bodies of member states referred to as Supreme Audit Institutions through their professional organization called INTOSAI, or one of its regional organizations. This can be done through a letter from PAHO's Director that should be delivered by the PAHO/WHO Representative to each such Supreme Audit Institution.

### ***Other***

65. The Committee received a briefing on PAHO's procurement system focusing on the purchase of vaccines under the Revolving Fund, whereby the

Organization purchases vaccines on behalf of Member States, but is not responsible for what happens after delivery.

66. The Committee suggested that PAHO disseminate information clarifying the nature of its procurement business model. This is important in order to preclude any risks to the Organization's image with regard to subsequent processes outside its responsibility, given the danger of fraud at the country level in many areas of the world. The Committee **recommended** benchmarking with other international providers of vaccines.

### **Conclusion**

67. The first two meetings provided the Audit Committee with an overview of PAHO's role and operations and of some of the main issues, concerns and undertakings facing the Organization. Principal among these were the introduction of IPSAS, the need to replace PAHO's Management Information System and to implement an Enterprise Risk Management framework, the appointment of a new external auditor, and the consolidation of the role, structure and processes of the Internal Oversight and Evaluation Service (IES) established in 2009. In addition, the Committee's brief visits to several countries in Latin America and the Caribbean deepened its understanding of PAHO's role and impact in the field.

68. The Committee received the data it needed to enable it to provide advice and recommendations on the above and other topics, as appropriate.

69. The successful introduction of IPSAS and the consolidation of IES are some of PAHO's significant accomplishments for 2010. PAHO has also started the processes for the replacement of its Management Information System, the introduction of Enterprise Risk Management and the identification and selection of the new External Auditor, among others. The Audit Committee strongly supports these initiatives and, in 2011, will continue to enhance its understanding of PAHO's operations and its interaction with the Organization in order to ensure that its independent advice to the Director and the Member States through the Executive Committee adds value.

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