

# Annex B - Implementation of Prior Year Recommendations

1 We reviewed management's implementation of recommendations made in our prior year long form report. We have summarised the response and provided our evaluation, based on the audit work we have undertaken in respect of internal controls.

## Follow up on Prior Year Recommendations

Recommendation	Management Response	External Auditor's Comment
<b>Recommendation 1:</b> We recommend that PAHO produces a full set of IPSAS compliant financial statements as at 30 September 2010, populated with appropriate disclosures and present these to External Audit for an initial assessment during our November interim audit. These proforma statements should include the adjustments that are to be made to opening balances as at 1 January 2010.	The Area of Financial Resources Management (FRM) issued a set of IPSAS compliant financial statements as of 30 June 2010 and as of 30 September 2010. These statements were reviewed by the NAO Auditors who provided comments on the structure and disclosures.	Financial Statements were provided at the agreed dates during the year. Although they did not include a full set of disclosures, this proved a useful exercise to provide early feedback.  <b>Implemented</b>
<b>Recommendation 2:</b> We recommend that PAHO continues to engage Member States in highlighting the potential changes to the financial statements and the significant changes to presentation resulting from the adoption of IPSAS.	Member States have been informed of the changes to the financial statements during the 146th Session of the Executive Committee (Agenda Item 7.8). However, FRM will provide a detailed presentation of the new statements during the 2011 Governing Body meetings.	PAHO have been proactive in educating Member States in how IPSAS will affect the financial statements  <b>Implemented</b>
<b>Recommendation 3:</b> We recommend that PAHO critically appraise the content and format of the new IPSAS compliant financial statements and exclude any information which is not specifically required by IPSAS. This should include consideration of the detailed fund analysis, which in our opinion should be provided in a supplementary reporting document.	FRM worked closely with the NAO to ensure that the financial information contained in the Report of the Director for 2010 complies with IPSAS requirements, yet continues to provide the requisite information for the primary readers of the Report, including Member States, partners, donors and other stakeholders.	PAHO have been positive in identifying information which is not required by IPSAS. This has now been included alongside the financial statements in a clearly marked unaudited informational annex.  <b>Implemented</b>

<p><b>Recommendation 4:</b> We recommend that when preparing for the next budget cycle PAHO considers using an annual accruals and IPSAS basis of preparation of the budget to ensure alignment with financial reporting.</p>	<p>In accordance with the Financial Regulations and Rules the Program Budget cycle is based on a two year period. However, due to IPSAS implementation this audit recommendation is under consideration, although no change in the budgetary period or the accounting basis is anticipated at this time.</p>	<p>There have been no changes to the budgeting process. We continue to be of the opinion that the budgeting processes should be aligned with the financial reporting framework.</p> <p><b>Not Implemented</b></p>
<p><b>Recommendation 5:</b> We recommend that PAHO review all its Centers, Sub-Regional Centers and similar arrangements to determine whether they are under the control of PAHO and whether they should be included within its financial statements prepared under IPSAS.</p>	<p>A comprehensive report on the status of all Centers was being presented to the 146th Executive Committee held 21-25 June 2010. The Office of Legal Counsel (LEG) analyzed the IPSAS requirements regarding the determination of "control" of the Centers exerted by PAHO.</p>	<p>This exercise was completed satisfactorily as part of the IPSAS implementation project.</p> <p><b>Implemented</b></p>
<p><b>Recommendation 6:</b> We recommend that where the activities of Centers currently included in the annual financial statements of PAHO are not consolidated within the IPSAS account that PAHO considers the requirement for any financial information to be subject to external audit.</p>	<p>All Centers, Sub-Regional Centers, and similar arrangements have been determined to be under the control of PAHO and will be consolidated in the financial statements for 2010. Therefore, they will be subject to audit as part of the overall PAHO audit.</p>	<p>All information has been audited as part of the overall PAHO audit and our audit opinion is provided on the overall consolidated financial statements. Separate financial statements for the Centers have not been prepared or audited.</p> <p><b>Implemented</b></p>
<p><b>Recommendation 7:</b> We recommend that PAHO addresses IT risks within its financial systems and establishes a timetable and allocates resources to implement a new IT solution to ensure that essential business and reporting needs are met.</p>	<p>In September 2010, PAHO's Directing Council authorized PAHO to proceed with modernizing its management information systems using commercially available software without adopting WHO's Global Management System (GSM). The new PMIS Modernization Project will extend from early 2011 through mid 2014.</p>	<p>Although a decision has been taken to proceed with systems change, no change to the financial accounting system has been effected in the current year. This continues to be a significant risk to PAHO which we have referred to again in this current report.</p> <p><b>Not Implemented</b></p>
<p><b>Recommendation 8:</b> We recommend that the audit committee begins its work promptly after appointment of the independent members in June 2010 to become fully engaged with the implementation of IPSAS, and to provide guidance and observations to support management and give confidence to Member States in line with the internal/external audit cycle of assurances.</p>	<p>The Audit Committee was established in 2009 by the 49th Directing Council. In 2010 the Executive Committee of PAHO appointed three highly qualified individuals to serve as members of the PAHO Audit Committee. The Committee held its inaugural session on 4-5 November 2010 and its second session from 31 March to 1 April 2011.</p>	<p><b>Implemented</b></p>

## 112 Annex B - Implementation of Prior Year Recommendations

**Recommendation 9:** We recommend that PAHO establish an overall risk register to identify and manage the most significant risks facing the organization. This preliminary risk register should be owned and discussed by senior management and made available to the audit committee for their consideration.

The Office of the Director of Administration (AM) is in the process of developing a formal, proactive, and structured risk management framework for PAHO. The risk management framework establishes the implementation of an organization-wide, phased and systematic approach to risk management which is integrated with PAHO's Results Based Management (RBM) framework to ensure that it will support and enhance the RBM process and achieve objectives and expected results by proactively identifying, assessing, evaluating, prioritizing and controlling risk across the Organization.

We note the progress that PAHO has made towards implementing this recommendation. However, a risk register has not yet been prepared and we continue to recommend this in the current year's report.

**Partially Implemented.**

**Recommendation 10:** We recommend that once suitable oversight arrangements have been established that the Auditor General prepare an Annual Report to the Director and Member States. This should provide details of audit coverage, a statement in respect of compliance with international standards and an assessment and opinion on the framework of internal controls.

IES has prepared its annual summary report for 2010 for submission to the Executive Committee and the Audit Committee. It includes details of internal audit coverage; states IES' adherence to the "International Professional Practices Framework" of the Institute of Internal Auditors; and includes Auditor-General's opinion of the internal control environment in PAHO.

Agreed. We have reviewed a draft of the report which has been submitted to the Audit Committee's second session in March 2011.

**Implemented**

**Recommendation 11:** We recommend that PAHO should produce a Statement on Internal Control (SIC) alongside the 2010 financial statement, after seeking sufficient assurances from senior management and the Office of Internal Oversight and Evaluation Services that internal controls are operating effectively. We encourage PAHO to support the SIC with appropriate evidence on the operational effectiveness of internal controls.

The Office of the Director of Administration (AM) prepared the Statement of Internal Control to be included with the 2010 Financial Report of the Director.

We welcome the steps that PAHO have taken to prepare a SIC and have provided our comments on this.

**Implemented**

**Recommendation 12:** We recommend that PAHO establish a timetable for developing business continuity plans for the remaining Country Office on a risk basis.

PAHO has prepared the first PAHO Continuity of Operations Policy which has been published. This requires each separate PAHO premise (including HQ, all PWRs and Centers) to have Business Continuity Plans (BCPs). By making this a Policy, clearly assigning the responsibility for the development and maintenance of BCPs and requiring the identification of resources and personnel, accountability for up-to-date BCPs has been established and this should facilitate completion and maintenance of BCPs.

We note the progress that PAHO has made in approving the policy, and development of a timetable.

**Partially Implemented (ongoing)**

**Recommendation 13:** We recommend that the headquarters business continuity plan is updated and rolled out across the headquarters divisions so that all staff are fully apprised of the agreed business continuity arrangements and that this is tested and reviewed periodically. Testing should include an assessment of the ability to recover and retain the functionality of all key systems in the event that the main buildings are inaccessible.

The response to this recommendation will be addressed, in the implementation of the PAHO Continuity of Operations Policy, as stated above in the intended action of recommendation 12.

We note the progress that PAHO has made in approving the policy, and development of a timetable.

**Partially Implemented (ongoing)**

**Recommendation 14:** We recommend that PAHO open discussions with WHO about the governance of the WHO Staff Health Insurance (SHI). This should include ensuring that reference to PAHO and its discreet interest in the SHI are reflected in the Fund's rules and regulations. These regulations should also provide for an effective mechanism for the presentation of annual financial statements and an independent audit opinion.

There is a working group established who have responsibility for formulating proposals to change the SHI arrangements. A significant proposal concerning the change in the governance of the SHI Fund has been presented and will again be reviewed at a meeting, which is scheduled to take place in June 2011. The proposal will eliminate the Joint Meeting as the policymaking body and will shift responsibility to a Global Management Committee. Changes to the governance proposal are expected to be submitted for the next meeting by the Association of Former Staff Members and the AMRO/PAHO Regional Surveillance Committee. A specific reference to PAHO in the proposal has yet to be included, but will be submitted for the next working group.

We note that discussions are progressing. However, there has not yet been any specific action that affects PAHO.

**Not Implemented**

**Recommendation 15:** We recommend that PAHO obtains confirmation of its share of underlying assets as well as liabilities from the WHO SHI, and explore the potential savings available by booking the administrative costs directly to the SHI, to reflect the treatment adopted by WHO.

An analysis of the contribution of PAHO to the underlying assets of the SHI Fund was prepared by the Coordinator of Staff Insurances at WHO. The analysis, which was preliminary in nature, was intended to demonstrate that PAHO could not substantiate a claim to the assets based primarily upon the contribution deficit imposed by PAHO retired staff. Discussions on this matter are ongoing, but it appears unlikely that PAHO will be able to obtain a share of a portion of the underlying assets of the SHI Fund. Suggestions concerning the possibility of booking administrative costs to the SHI Fund have not been well received to date.

We note the ongoing discussions and we continue to recommend that PAHO obtain a clear agreement on how jointly controlled assets are to be identified and attributed between PAHO and WHO.

**Partially Implemented (Ongoing)**

## 114 Annex B - Implementation of Prior Year Recommendations

**Recommendation 16:** We recommend that Country Offices develop a risk register which is reviewed and updated by senior management on a regular basis. We encourage Country Offices to escalate key strategic risks to headquarters for inclusion in the Organization wide risk register.

Ref to Recommendation No. 9.  
Expected completion date is early 2012.

We note the progress that PAHO has made towards implementing this recommendation. However, Country Offices' risk registers have not yet been prepared and we continue to recommend this in the current year's report.

**Partially Implemented.**

**Recommendation 17:** We recommend that PAHO obtains a clear commitment from project beneficiaries to receive and utilise equipment or supplies for the purposes intended; and that project agreements provide for the right of inspection. Additionally, we would recommend that before accepting a project PAHO undertakes an assessment of operational and reputational risk.

The proposal for Review and Approval of Voluntary Contributions has been distributed among the entities in PAHO for their comments.

We welcome developments in this area but have continued to identify projects undertaken in 2010 which present significant risks to the organization (and have commented on these in the body of this report).

**Not Implemented**

---