



Pan American  
Health  
Organization



REGIONAL OFFICE FOR THE

World Health  
Organization  
Americas

# 156th SESSION OF THE EXECUTIVE COMMITTEE

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*Provisional Agenda Item 5.9*

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## REPORT OF THE OFFICE OF INTERNAL OVERSIGHT AND EVALUATION SERVICES

### Introduction

1. The Office of Internal Oversight and Evaluation Services (IES) provides this annual summary report for calendar year 2014. It gives an internal oversight perspective on internal controls, risk management and related organizational governance matters in the Pan American Sanitary Bureau (PASB), and it provides an overview of the work undertaken by IES in 2014.
2. Financial Regulation 12.1(d) states that the Director of PASB shall “maintain an internal oversight function reporting to the Director.” IES undertakes independent and objective assurance and advisory activities that are designed to assist the Organization to achieve its objectives, by improving and adding value to the effectiveness and efficiency of institutional governance, internal controls, operations, and processes. Using a systematic, risk-based approach, IES’s main activities are the undertaking of internal audit assignments, the provision of ad hoc advice to the Director of PASB and to management, and the analysis of (and support for) evaluation assignments.
3. IES establishes precise objectives, through an assessment of the relevant risks, for individual internal audit assignments. For each assignment, IES prepares a report addressed to the Director of PASB and copied to concerned individuals in PASB. The assignment reports include findings and recommendations intended to promote effective governance by helping management to address risks and to maintain or enhance internal controls. Important findings and recommendations from individual internal audit assignments in 2014 are discussed in paragraphs 14 to 26 below.
4. The evaluation activity in IES, in collaboration with the corresponding function in the World Health Organization (WHO), has continued a transition from the performance of a small number of assignments to the monitoring, consolidation and analysis of all evaluative assignments undertaken in PASB by various actors. IES’s evaluation work is discussed in paragraphs 27 to 29 below.

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<sup>\*</sup> This revision corrects the title of the report mentioned in paragraph 15.

5. IES also seeks to contribute to Organizational governance, risk management, and internal controls through its participation in a number of internal committees and working groups. For example, IES has advised management on specific matters through the Integrity and Conflict Management System (ICMS) Committee and the Asset Protection and Loss Prevention (APLP) Committee. IES also directly provides the Director of PASB with ad hoc advice on emerging risks and related issues, including the progress of the PASB Management Information System (PMIS) modernization project. Through these activities, IES seeks to contribute to areas of institutional significance by providing timely, forward-looking, and risk-related advice, and by encouraging knowledge sharing and the identification of emerging risks.

## **Management of the Office of Internal Oversight and Evaluation Services**

### ***Independence and Resources***

6. Independence is essential for an impartial internal oversight service. IES's activities are therefore purely advisory in nature, and IES refrains from managerial and decision-making tasks, in order to avoid any conflicts of interest. In the performance of its duties in 2014, IES did not encounter any interference with its independence, nor did it meet any obstacles in terms of the scope of its work and its access to records and information.

7. To guide its work and to assist in maintaining the independent character of its activities, IES follows for internal audits the *International Professional Practices Framework* of the Institute of Internal Auditors, and for evaluations, the United Nations Evaluation Group's *Norms for Evaluation in the UN System* and related guidance.

8. In 2014, IES's personnel resources consisted of five professional positions and three General Service positions. (The former included an internal auditor hired in 2014 specifically for assignments related to the *Mais Médicos* project in Brazil.) IES also incurred expenditure in areas like travel and operating supplies. IES's personnel and other resources were sufficient to implement its 2014 work plan, and no aspects of IES's planned work were either curtailed or deferred for reasons of resource constraints.

### ***Development and Implementation of the Internal Audit Work Plan***

9. In consultation with the Director of PASB, the Auditor General establishes a risk-based internal audit work plan that seeks to balance an appropriate level of annual auditing activity (given PASB's size and complexity) with a reasonable level of resources. The Director of PASB approves the internal audit work plan and all amendments to it. In 2014, IES continued its practice of undertaking 10 annual internal audit assignments, four of which with a thematic focus, and six of which focused on individual PAHO/WHO Representative (PWR) Offices and Pan American Centers. The IES work plan was sufficiently flexible to respond to the demands of emerging risks. For example, IES scheduled an additional internal audit in 2014 to address the *Mais Médicos* project in Brazil, and hired an additional personnel resource to ensure the continuance of

internal audit assignments specific to *Mais Médicos* into 2015 and for the duration of the project. Annex A summarizes the implementation of the 2014 work plan. IES completed and reported to management on all of its planned assignments.

10. Management has continued to develop an Enterprise Risk Management (ERM) process to identify risks to the achievement of PAHO's objectives (and related risk mitigation mechanisms, including internal controls). This is discussed further in paragraphs 18 and 19 below. IES has used the ERM findings to guide its work, alongside its own assessments of risk.

### ***IES's Coordination with other Sources of Assurance***

11. IES coordinates and shares details of its activities with PAHO's External Auditor (the Spanish Court of Audit) and with the Geneva-based Office of Internal Oversight Services (IOS) of WHO. This coordination maximizes the efficiency and effectiveness of all sources of oversight in PASB and avoids both gaps and duplications in internal oversight coverage, thereby contributing to the protection of the Single Audit Principle of the United Nations system. In 2014, WHO's IOS continued to rely on IES's work and did not perform internal audit assignments in the Americas.

12. IES receives advice from PAHO's Audit Committee, and it participates in the network of Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions, to identify emerging trends and to assimilate best practices from other international organizations.

### **Principal Internal Oversight Findings and Recommendations in 2014**

13. Paragraphs 14 to 26 below summarize findings and recommendations from IES's internal audit assignments in 2014. IES also provides more general observations on internal controls in PASB in paragraphs 34 to 38 below.

#### ***Internal Audits: Thematic***

14. The **"Internal Audit of Fixed Assets in the PASB" (IES report 07/14, dated December 2014)** focused on property, plant and equipment located at the Washington, D.C. Headquarters. IES found that internal controls were operating in a partially satisfactory manner. Management was working to update and implement policies and standard operating procedures for the safeguarding of fixed assets, and was analyzing inconsistencies between fixed asset registers and the results of a full count of fixed assets in 2014 — the initial count results were 3% lower than the balances in the fixed asset registers in gross (i.e. undepreciated) terms. In its recommendations, IES emphasized the importance of ironing out inconsistencies in the fixed asset registers before the transfer of information to the PMIS system. IES also advised management on the strengthening of internal controls over the custody and tracking of information technology devices; the disposal of information technology devices and the elimination of PASB information held therein; and the need for the timely reporting of missing or lost assets for

consideration by the Asset Protection and Loss Prevention Committee, in line with PASB policy.

15. In the **“Internal Audit of International PAHO Consultants” (IES report 08/14, dated December 2014)**, IES found that internal controls were operating satisfactorily. The assignment was intended both to complement the “Internal Audit of the Obtaining of References and the Performance of Background Checks in the Recruitment Process” for fixed-term personnel (IES report 08/13, dated December 2013), and to follow up weaknesses in the management of International PAHO Consultant (IPC) contracts that IES reported in 2011 (in internal audit report number 04/11, dated July 2011).

16. The IPC is a mechanism for the Organization to obtain professional expertise for a specific period of time, for the performance of advisory work or a product-based assignment. It offers a cost-effective, flexible and time-restricted mechanism for contracting personnel. PASB’s annual expenditure on IPC contracts is in the region of US\$ 10 million. As with other forms of personnel contract (and indeed other forms of expenditure), competition is normally required for the hiring of IPCs. The competitive process encourages the hiring of the best available talent for consulting work in PASB, and it encourages the fair and equal treatment of all candidates, thereby reducing opportunities for discretionary practices and favoritism. (Policy allows for a waiving of competition in urgent cases, when the rapid hiring of expertise is in the Organization’s best interests.) In 2011, IES had found a general pattern of noncompliance with the policy requirement for a documented, competitive IPC hiring process based on an assessment of three candidates. Furthermore, at that time, the exceptions to competitive hiring had not been adequately justified. IES therefore concluded that, in 2011, internal controls in this area had not been operating satisfactorily. In 2014, however, IES found far more rigorous compliance with the competitive process, and (apart from one or two isolated, borderline cases), written justifications for exceptions to competition were consistently and adequately documented. IES therefore concluded that internal controls in this area were now operating satisfactorily.

17. The main objective of the assignment titled **“Management Review Mechanisms for Internal Controls in the PASB” (IES report 04/14, dated August 2014)** was to assess the efficiency and effectiveness of management’s processes to monitor the operation of internal controls. IES found that the processes were partially effective. In particular, IES found that PASB lacked a well-defined Internal Control Framework. A recently-developed Internal Control Framework at WHO provided a possible approach for PASB to follow, or perhaps to adapt to PASB’s circumstances. A more rigorously-defined internal control framework would promote a systematic approach to internal controls, rather than the somewhat patchy aggregation of processes and routines that currently constitute PASB’s system of internal control.

18. IES also found that PASB’s Enterprise Risk Management (ERM) activities had failed to provide management with the prioritized, high-level summary of risks (and related risk-mitigating actions) that an effective ERM process should deliver. PASB’s

ERM process had been a large-scale, “bottom-up” exercise of gathering (by mid-2014) nearly 600 risks applicable to individual offices. The ERM process had been bloated with detail and, as a consequence, the full potential of ERM as a management tool had not been fully realized. In mid-2014, management estimated that a further two years of information-gathering would be necessary before PASB would have been in a position to consolidate the voluminous ERM information into a high-level summary of institutional risks. IES recommended a radical simplification of ERM so that it satisfied more rapidly and more effectively the Organization’s needs – IES advocated a shift to a far less complex process that would prioritize top-level risks, communicate to management the Organization’s most significant risks and related mitigation strategies, and provide information that could be compared with the WHO’s ERM practices. To facilitate and oversee this process, IES recommended that management reactivate the Risk Management Committee, which had met only once (in November 2012).

19. In IES’s view, the combination of a more clearly-defined Internal Control Framework and a more focused and simplified ERM process would significantly enhance management monitoring of internal controls. In addition, the PMIS modernization project offers an opportunity to move beyond the present reliance on manual, paper-driven transactions, and to embed more internal controls of a preventive nature in system-driven processes. PMIS promises enhancements to the visibility of transactions, the general flow of information around PASB, and the prevention or detection of exceptions to internal controls.

20. In the **“Internal Audit of the PAHO Purchasing Card Program” (IES report 06/14, dated November 2014)** IES found that internal controls over the PAHO purchasing card were operating satisfactory. The purchasing card offers a convenient purchasing mechanism for small items of expenditure. Although this area was well-controlled, IES identified some opportunities for improvement, including the use of more prescriptive language in the *PAHO Purchasing Card Program User Guide* (most recently revised in July 2014), improvements to segregation of duties between budget-holders and cardholders, and the avoidance of the occasional practice of individuals sharing a single card.

#### ***Internal Audits: PAHO/WHO Representative (PWR) Offices***

21. In 2014, IES undertook seven internal audits of PWR Offices, with the principal objectives of reviewing the internal controls that mitigated administrative and financial risks, and of following up findings and recommendations from past audits. The offices audited by IES in 2014 were those in Argentina, Bolivia, Brazil (twice), the Dominican Republic, Haiti and Peru. The internal audits in Brazil focused on the *Mais Médicos* project, and are discussed in paragraphs 23 to 25 below. The audit in Haiti focused on following up findings and recommendations from an internal audit of 2013, and IES found that local management had made significant progress in implementing pending recommendations and in tightening a range of internal controls in both regular country office activities and the Essential Medicines Program (*Programme de Médicaments Essentiels*, PROMESS). IES found the results of all the country office internal audits to

be satisfactory or partially satisfactory; in no cases did IES consider internal controls to be operating unsatisfactorily.

22. In the country office audit reports, IES made recommendations to improve the implementation of internal controls and to enhance compliance with PASB's regulations, rules, policies and procedures. Systemic and important areas of concern related to segregations of responsibilities between personnel for administrative tasks; information technology security; controls over electronic banking transactions; compliance with policies for Letters of Agreement; the rigor of documentation that supported the expenditure category of "courses and seminars"; and internal controls over inventory and transactions in the Expanded Textbook and Instructional Materials Program (PALTEX). Some of the findings of country office internal audits had implications for management at PASB Headquarters in Washington, D.C., in cases for which Organization-wide solutions to internal control weaknesses were required. Therefore, in addition to recommendations addressed to local management, IES also raised recommendations to headquarters management.

23. The *Mais Médicos* project is a ground-breaking example of South-South technical cooperation that aims to expand the access of the Brazilian population to primary health care services, and PAHO plays an important facilitating role in the project. Owing to the materiality and complexity of the project, and the consequent need for adequate internal oversight, in the second semester of 2014 IES hired an internal auditor specifically for the project, to implement quarterly audits of the *Mais Médicos* project (in addition to the regular schedule of country office audits). In 2014, IES undertook two internal audits of the *Mais Médicos* project.

24. In the **"Internal Audit of the office of the PWR Brazil: the *Mais Médicos* Project"** (IES report 05/14, dated September 2014), IES found that internal controls for administrative and financial matters were partially satisfactory. IES recommended that management document more comprehensively the major, risk-mitigating internal controls over the project; finalize a database of participants in the *Mais Médicos* project which was then in progress of implementation; and expedite the pending recruitment of a Compliance Specialist. IES also recommended, at the regional level, a wider strengthening of PASB's project management process, to ensure that an adequate and documented risk assessment of major projects is undertaken prior to their acceptance by management.

25. In the **"Internal Audit of the office of the PWR Brazil: Banking Arrangements, Disbursements and Investments of the *Mais Médicos* Project"** (IES report 09/14, dated January 2015), IES found that internal controls in these areas were partially satisfactory. IES recommended that local management tighten the process of reviewing and validating payments relating to the project to ensure the highest levels of accuracy. Additionally, IES found that the database of participants in the project was – as noted in the earlier internal audit report 05/14 – still under development. The database is a fundamental internal control mechanism for this project, to control information on the numbers and movements of participants. At the regional level, IES found that

arrangements to invest local currency cash balances had been delayed in the first semester of 2014, resulting in interest income foregone, but that the matter had been resolved by the date of the audit.

26. Local and regional management was actively addressing all the matters raised in the two IES internal audit reports on *Mais Médicos* discussed in paragraphs 24 and 25 above.

### ***Evaluations***

27. The evaluation activity in IES in 2014 continued a transitional reorientation of emphasis from the performance of a small number of evaluation assignments to the collection, monitoring and interpretation of all evaluation assignments undertaken across PASB by various actors. The change of focus aims to assist management in planning, collecting and identifying lessons learned from PASB's overall evaluative activity, by consolidating the findings of evaluations to assess performance and to assist institutional learning and decision-making.

28. IES has developed an inventory of planned, ongoing and completed evaluation assignments, and an inventory of evaluation reports, and has provided guidance and advice to management on evaluative methodology. IES has collaborated with the WHO's Global Network on Evaluation to ensure a systematic approach, to promote the *Evaluation Practice Handbook*, and to implement the *PAHO Evaluations Policy* (based on the corresponding WHO policy). IES's inventory of evaluations has been incorporated into the WHO-wide registry of evaluations maintained by IOS Geneva, which includes evaluations from all WHO regions.

29. As a result of these developments, IES shall provide to the Director of PASB, from 2015, analyses of lessons learned from evaluations.

### ***Other Areas of Activity***

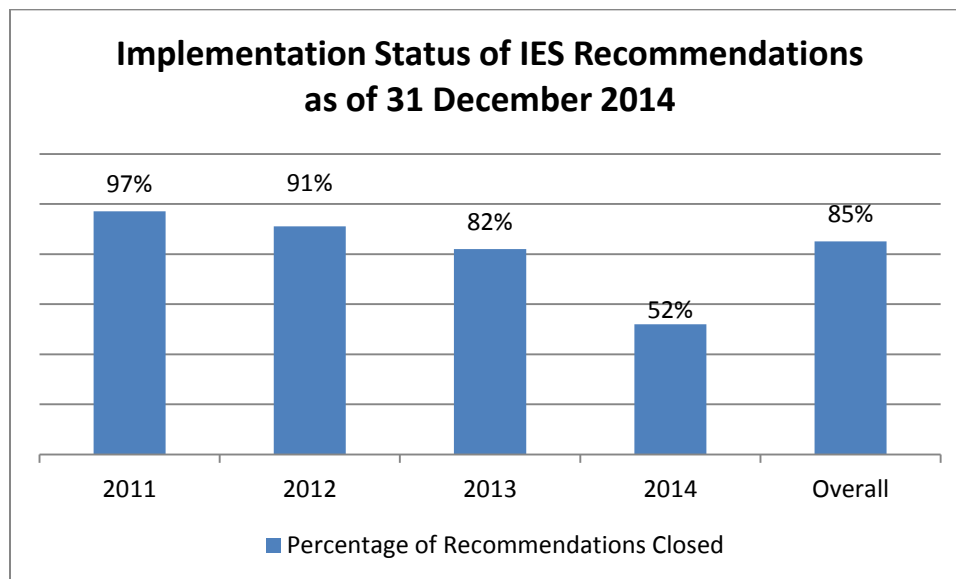
30. IES did not undertake any investigations in 2014. Investigative activities continued to be performed by PASB's Ethics Office.

### **The Implementation Status of IES's Recommendations**

31. Following the Director of PASB's acceptance of individual internal audit reports (within two months following their issuance), IES follows up the implementation status of the recommendations published in the reports. In 2014, the Director of PASB accepted all the reports and recommendations raised by IES.

32. Three times per year, IES follows up with management the implementation status of the internal audit recommendations. IES pays particular attention to the time distribution of the pending recommendations, with a focus on the longer-pending issues. The following graph shows the implementation rates for all the years from which

recommendations remained pending at 31 December 2014. In 2014, there was an improvement in the aging of recommendations; several recommendations raised in 2009 were resolved in the course of the year, and the oldest recommendations pending at 31 December 2014 dated from 2011. The overall implementation rate is comparable to rates in other international organizations. (The relatively low implementation rate for the 2014 recommendations reflects the usual time lag between the issuance of internal audit reports, their acceptance by the Director of PASB, and their subsequent follow-up.)



33. In 2014, as in the previous year, the Director of PASB chaired a meeting to discuss with managers the status of pending IES recommendations in their areas of work. These meetings stimulated the resolution of many recommendations, and they reflected the tone at the top of the Organization which takes seriously the IES recommendations. The oldest pending recommendations address some of the most stubborn challenges facing PASB—these include the need for a rigorous project management framework; clarifications to the policies for Letters of Agreement and the expenditure category of “courses and seminars”; the inadequacy of analyses of travel expenditure available to management; and administrative challenges at the Latin American and Caribbean Center on Health Sciences Information (BIREME), a Pan American Center in Brazil.

### **IES’s Overall Opinion of PASB’s Internal Control Environment**

34. Internal controls are procedures, mechanisms and activities that manage risk and increase the likelihood of the achievement of the Organization’s objectives. Internal controls cover a wide variety of risk-mitigating measures, from the physical custody of Organizational assets to the use of handover notes to capture the institutional memory of separating personnel. The rationale and justification for every internal control is the risk(s) to institutional objectives that the internal control purports to address. The broader internal control environment places individual internal controls in the Organization’s



overall operating style; its operating policies and practices; and its assignment of authority, responsibility and accountability to personnel.

35. Based on the findings of its internal audits and its other internal oversight activities in 2014 (and in previous years), and taking into account the findings of other sources of assurance, IES's overall opinion is that PASB's internal control environment provides reasonable assurance over the accuracy and timely recording of transactions, assets and liabilities; the mitigation of risks to the achievement of the Organization's objectives; and the safeguarding of assets. Absolute assurance is, of course, impossible, owing to inherent limitations for most internal controls. The extent of compliance with internal controls may deteriorate (or improve) over time, and a range of factors (including error, fraud, and changes to operations and procedures) may render some internal controls temporarily inadequate.

36. The Organization's ever-changing risk profile implies a continuous evolution of internal controls. In particular, the PMIS modernization project is expected to bring a significant degree of automation to internal controls, embedding them into non-manual processes and thereby reducing risks in the execution of administrative tasks and financial transactions. Any large-scale information system project like the PMIS entails implementation risks, but it also offers an opportunity to replace paper transactions with automated processes and thereby to embed internal controls of a preventive nature in day-to-day operations. The PMIS should thereby promote enhancements to the visibility of transactions and to the efficiency and effectiveness of information flows in PASB. It should also enhance the prevention (and detection) of exceptions to internal controls.

37. In current institutional governance theory, the concept of "three lines of defense" (based on military or perhaps sporting metaphors) is commonly used to describe the protection of the achievement of Organizational objectives. The "three lines of defense" model has been criticized on the grounds of possible oversimplification, but it provides an interesting way of perceiving institutional governance. The first and second "lines of defense" are provided by management: the first line consists of day-to-day, risk-mitigating internal control activities, and the second is based on higher-level managerial review activities, including ERM and policy development and compliance monitoring. The "third line of defense", which operates behind management's defenses, is the assurance provided by internal auditors (and others). Overall, IES has seen a gradual improvement in PASB's three "lines of defense" in recent years. For example, for the first line, the safeguarding of assets has been strengthened through enhanced management approval of transactions for the disposal of fixed assets. For the second line, management has brought clarity to policy matters by consolidating previously-fragmented policy statements in the PAHO/WHO E-manual. For the third line, the ongoing implementation of IES's recommendations points to management's commitment to the continuous enhancement of internal controls.

38. As in previous years, IES continues to advise management that, to further strengthen PASB's internal control environment, the links of risks to Organizational objectives and to risk-mitigating internal controls needs to be clearer. As discussed in

paragraphs 17 to 19 above, the development of a more clearly-defined Internal Control Framework and, in parallel, a more focused ERM process that prioritizes key risks and their mitigating measures would define more clearly the connections between the Organization's objectives, risks, and risk-mitigating internal controls.

Annexes

**Annex A****Implementation of the IES Internal Audit Work Plan for 2014**

	<b>Thematic Internal Audits</b>	<b>Date and Reference Number of IES Report</b>
1	Internal Audit of Fixed Assets in PASB	December 2014 – No. 07/14
2	Internal Audit of International PAHO Consultants	December 2014 – No. 08/14
3	Management Review Mechanisms for Internal Controls in PASB	August 2014 – No. 04/14
4	Internal Audit of the PAHO Purchasing Card Program	November 2014 – No. 06/14
	<b>PWR-Specific Internal Audits</b>	
5	Internal Audit of the Office of the PWR Argentina	July 2014 – No. 03/14
6	Internal Audit of the Office of the PWR Bolivia	April 2014 – No. 02/14
7	Internal Audit of the Office of the PWR Brazil: the <i>Mais Médicos</i> Project	September 2014 – No. 05/14
8	Internal Audit of the Office of the PWR Brazil: the Banking Arrangements, Disbursements and Investments of the <i>Mais Médicos</i> Project	January 2015 – No. 09/14
9	Internal Audit of the Office of the PWR Dominican Republic	April 2014 – No. 01/14
10	Internal Audit of the Office of the PWR Haiti	January 2015 – No. 10/14
11	Internal Audit of the Office of the PWR Peru	January 2015 – No. 11/14

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## ANALYTICAL FORM TO LINK AGENDA ITEM WITH ORGANIZATIONAL MANDATES

**1. Agenda item:** 5.9 - Report of the Office of Internal Oversight and Evaluation Services

**2. Responsible unit:** Internal Oversight and Evaluation Services (IES)

**3. Preparing officer:** David O'Regan, Auditor General

**4. Link between Agenda item and Health Agenda for the Americas 2008-2017:**

There is no explicit link, but IES's activities touch on the general institutional mechanisms that underpin PASB's role in the Health Agenda.

**5. Link between Agenda item and the amended PAHO Strategic Plan 2014-2019:**

This document links principally to Category 6, *Corporate Services/Enabling Functions* and in particular to:

6.2, *Transparency, Accountability, and Risk Management* ("PAHO operates in an accountable and transparent manner and has well-functioning risk management and evaluation frameworks.")

6.3, *Strategic Planning, Resource Coordination, and Reporting* ("Financing and resource allocation aligned with priorities and health needs of the Member States in a Results-based Management framework.")

6.4, *Management and Administration* ("Effective management and administration across the three levels of the Organization.")

**6. List of collaborating centers and national institutions linked to this Agenda item:**

None.

**7. Best practices in this area and examples from countries within the Region of the Americas:**

None.

**8. Financial implications of this Agenda item:**

IES's recommendation address issues of risk mitigation, and organizational efficiency and effectiveness, and most have financial implications.