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REPORT OF THE AUDIT COMMITTEE OF PAHO

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I. THE PAHO AUDIT COMMITTEE

Role of the Audit Committee

1. The 49th Directing Council of the Pan American Health Organization (PAHO) established the Audit Committee in 2009 by Resolution CD49.R2, “Establishment of the Audit Committee of PAHO.” The Committee held its first meeting in November 2010. Members of the Audit Committee shall be appointed to serve no more than two full terms of three years each. The initial terms of office for the first Committee members were staggered to allow for rotation. Current members of the Audit Committee are Amalia Lo Faso, Nicholas J. Treen, and John D. Fox, the latter two joining the Committee in November 2014. Mr. Treen is replacing Mr. Gillette, who had completed his four-year term.¹ Mr. Fox is completing the unexpired term of Mr. Maertens, who resigned from the Committee. The Chair of the Committee rotates on an annual basis among the three participating members. Ms. Lo Faso, who was the only member with experience on the Committee in November 2014, served as Chair for the Ninth Session of the Committee. Mr. Fox is the current Chair.

2. The concept of an audit committee has gained prominence over the past two decades in administrations, corporations and the United Nations system. It contributes to strengthening the governance and accountability structure. To be effective, all committee members should be experts who are both impartial and independent of the given organization and its operations. All three current members of PAHO’s Audit Committee are experts on governance, internal control, risk management, financial management and internal and external audit; their only relationship to PAHO is through the Audit Committee.

3. In accord with its terms of reference (see below), the Audit Committee provides external, independent, senior-level advice to the Director of the Pan American Sanitary Bureau (PASB) and to PAHO Member States through the Executive Committee. The Audit Committee comes together twice a year for two days, when it meets with PASB’s executive management, other staff members, and the External Auditor. In addition, the Committee reviews many documents and policies, receives briefings, and may visit PAHO/WHO Representative Offices (PWRs)—as it did, most recently, in March 2013 with the Brazil PWR and two Pan American Centers (the Latin American and Caribbean Center on Health Sciences Information, or BIREME, and the Pan American Foot and Mouth Disease Center, or PANAFTOSA— to enhance their understanding of PAHO’s operations, internal controls, projects executed under voluntary funds, and audit follow-up mechanisms.

¹ According to paragraph 5 of the Terms of Reference of the Audit Committee, one of the initial three members of the Audit Committee was appointed for an initial term of four years.

4. The Terms of Reference (Resolution CD49.R2) require the Audit Committee to:
- 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 (including PAHO's internal oversight and External Auditor function), and the timely and effective implementation by management of audit recommendations;
 - b) advise on issues related to the system of internal and external controls as well as 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 both 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 on significant issues related to financial reporting policy;
 - f) advise on the appropriateness and effectiveness of accounting policies and disclosure practices, and assess changes and risks in those policies; and
 - 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.
5. The Audit Committee does not perform either external or internal audits, nor is it responsible for internal control or risk management or any other areas covered.

Reporting Period and Scope

6. This report covers audit and related operations from May 2014 to April 2015, including the 2014 Financial Statements, related work done by the External Auditor, and the annual Financial Report of the Director. The Audit Committee reviewed documents, received presentations, and studied the areas consistent with its Terms of Reference. When areas so reviewed have also been mentioned in external and/or internal audit reports for the same period, the Audit Committee makes reference to such reports rather than providing the same information again.

II. THE ADEQUACY OF THE 2014 EXTERNAL AUDIT

7. The 2014 External Audit was performed by the Court of Audit of Spain, elected by PAHO's Directing Council pursuant Resolution CD51.R3 (2011). The External Auditor is responsible for the annual accounts from 2012 to 2015. The External Auditor was present at the Audit Committee meetings of November 2014 and March 2015. In planning and performing his work, the External Auditor has taken into account risk considerations as well as advice from the Audit Committee and is in frequent contact with PASB's Office of

Internal Oversight and Evaluation Services (IES). The Audit Committee considers the External Auditor's audit plan and staffing for 2014 to be appropriate.

8. The Audit Committee reviewed the following External Auditor's reports and discussed them with his team, as necessary:

- Opinion and Long-Form Report on the 2014 Financial Statements Audit (May 2015);
- Management Letter on the 2014 Financial Statements Audit (May 2015);
- Report to Management on the Audit Visit to the Brazil Country Office (February 2015);
- Report to Management on the Audit Visit to the Cuba Country Office (October 2014);
- Report to Management on the Audit Visit to the Colombia Country Office (October 2014).

9. The Audit Committee is of the view that the External Audit was performed in accordance with the agreement between PAHO and the Court of Audit of Spain and notes that the External Auditor's statement is in line with the International Standards on Auditing of the International Federation of Accountants, the Audit Standards and Guidelines formulated by the United Nations Board of Auditors and the International Standards of Supreme Audit Institutions.

10. In addition to those issues raised by the External Auditor regarding the 2014 Financial Statements, the Audit Committee did not identify any significant issue which it would need to bring to the attention of the Executive Committee or the Director, nor did the Audit Committee find any issue resulting from the audit thereof.

11. The External Auditor's Long-Form Report on the 2014 Financial Statements Audit reviewed the status of implementation of prior years' recommendations and identified other areas for improvement as a result of the 2014 audit. With regard to prior years' recommendations, the Audit Committee noted with satisfaction that 11 out of 12 recommendations of the External Auditor for 2013 have been implemented and closed and that the twelfth recommendation, relating to Letters of Agreement, is in progress.

12. The Audit Committee took note of the improvements reported by the External Auditor in the country offices' management of Letters of Agreement and in understanding International Public Sector Accounting Standards (IPSAS) concepts. The Committee also noted that the External Auditor reviewed major undertakings of the Organization, including the implementation of PASB Management Information System (PMIS), the *Mais Médicos* project and staff management issues, and recommended several improvements in these areas. With regard to the PMIS project, the Committee shares the External Auditor's concerns about the successful implementation of Phase 2, given the project's tight deadlines and potential risks that, if not properly managed, might interfere with meeting the project timetable. For *Mais Médicos*, the Committee joins the External Auditor in urging the Organization to increase focus on, among other things, improving

the database of Cuban doctors, monitoring for compliance with internal controls, and improving the management of unspent balances. With regard to staff management issues, the Committee took note of the External Auditor's report that 25% of staff at grades P4 and above will reach retirement age in the next three years and the need to ensure appropriate timely succession and knowledge transfer so as not to compromise the work of the Organization. In this regard, the Committee encourages PAHO to proceed quickly with its human resources initiatives for a strategic approach to human resources management to enable the Organization to meet its program objectives and goals in a changing environment.

13. The Audit Committee acknowledges the continuity in high standards of external audit and PAHO's focus on implementing the External Auditor's recommendations.

III. THE EFFECTIVENESS OF THE 2014 INTERNAL AUDIT

14. The Audit Committee is satisfied with the internal audit activities provided through the Auditor General's Office of Internal Oversight and Evaluation Services (IES) in PASB. It has continued to note the impact of IES reports in terms of strengthening controls within the Organization and identifying areas for potential cost control and savings. The Audit Committee commends PAHO for its good IES practices, which include:

- a) full independence and appropriate professionalism;
- b) solid annual risk-based audit planning, and reliable delivery of the plan;
- c) transparent IES annual report, including an opinion on internal controls;
- d) the ability of the External Auditor to rely on IES work; and
- e) semiannual follow-up and reporting on open IES recommendations.

15. The Committee notes that the Director has decided to change the follow-up of IES recommendations from quarterly to semiannual. The Committee will monitor the impact of this change, but believes the change is warranted in view of the robust emphasis and support that the Director places on seeing recommendations closed, including meetings once a year with concerned staff regarding internal audit recommendations followed by external audit recommendations.

16. The Committee noted that the Auditor General indicated that IES performed all audits to address risk areas in the IES 2014 work plan and that the 2015 work plan was prepared on the basis of risks, discussion with management, and a cyclical element regarding the selection of some PWR Office assignments.

17. The Committee was pleased to learn that the Auditor General believes that there has been an improvement in the aging of IES recommendations in the second semester of 2014, and looks forward to monitoring the continuation of this improvement.

18. In discussing IES reports on “Management Review Mechanisms for Internal Controls in the PASB” and “*Mais Médicos*,” the Committee commended IES for making good recommendations regarding the reinforcement of internal controls throughout PAHO, including the *Mais Médicos* project.

Recommendation 1: The Audit Committee recommends that PAHO should now develop an internal control framework and policy for PAHO as a whole based on guidelines from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

19. The Auditor General informed the Committee that IES was planning an independent Quality Assessment Review (QAR) in early 2016, as required every five years by the Institute of Internal Auditors (IIA).

Recommendation 2: The Audit Committee recommends that the Institute of Internal Auditors be used to conduct the independent Quality Assessment Review of IES and that the latter should do a self-assessment in 2015 as preparation for the QAR.

20. Regarding disbursements and cash management in the *Mais Médicos* project, the Auditor General reported that the only recommendation was for improved diligence by the PWR Brazil when transferring funds to the Cuban Embassy. While improvements were needed to validate payments, the audit found no major discrepancies, and the Director of Administration informed the Committee that improvements to the database were expected in June 2015.

21. The Committee was pleased to learn that the Auditor General believed internal controls in Brazil were improving amid a complex situation. Regarding project support costs in Brazil, a matter that the Committee believes to be of great importance, the Auditor General highlighted the recent work of the IES internal auditor dedicated to the *Mais Médicos* project and his focus on the accuracy for project support costs and full recovery of direct costs. The Auditor General reported that no major issues were found and that the financial statements were a fair characterization of the actual support costs. The Committee looks forward to a review of the ensuing IES report at its next session.

22. The Audit Committee notes continued progress in internal audit coverage, identification of areas for improvement, cost control, and savings. The Committee also welcomes the PAHO Director's support for the appropriate independence of IES and for overseeing the timely implementation of IES recommendations.

IV. EVALUATION

23. The Committee was pleased to learn of the appointment of an evaluation officer in IES and of IES plans to collect, monitor, and interpret all evaluation assignments carried out by various actors across the Organization. This will enable IES to provide advice to management on planning, collecting, identifying, and analyzing lessons learned from PAHO's overall evaluation activity and thus assist institutional learning and

decision-making. IES will also be the focal point for providing advice regarding evaluation methodologies and techniques to PAHO units that will be conducting evaluations in their own areas of work as well as preparing an analysis of lessons learned from evaluations on a regular basis.

Recommendation 3: The Audit Committee recommends that PAHO take advantage of the new evaluation officer to increase focus on building an evaluation culture throughout the Organization.

V. RISK MANAGEMENT

24. Development of an Enterprise Risk Management (ERM) system has been under discussion since the inception of the Audit Committee in 2010, but progress has been slow in integrating risk management into the Organization's operational support and program processes for a variety of reasons. Presented with an update of ERM at its Tenth Session, the Committee noted that progress has been achieved in setting up and using the risk register. It noted that the risk register would be compatible with that of WHO. The Committee continued to encourage the Organization to use a top-down approach to identify major risks in meeting its objectives.

Recommendation 4: The Audit Committee recommends that Executive Management review major and highest risks monthly.

Recommendation 5: The Audit Committee recommends that consideration be given to making use of ERM to improve strategic planning and the program budget formulation process.

VI. THE 2014 FINANCIAL STATEMENTS

25. In accordance with its Terms of Reference, the Audit Committee reviewed documents, received presentations, and studied the areas reported by the External Auditor in the Long-Form Report on the 2014 Financial Statement Audit. The Audit Committee took particular note of the Accounting Policies and Basis of Preparation of the Financial Statements.

26. The Committee is satisfied with the 2014 Financial Statements and the audit thereof. It has not identified any issues that it wishes to bring to the attention of the Executive Committee in addition to those mentioned in the 2014 Financial Statements or in the *Financial Report of the Director and Report of the External Auditor for 2014*. The 2014 Financial Statements and the comparative figures for 2014 are IPSAS-compliant.

27. The Committee notes the analysis of the External Auditor and his comments that "the consolidated financial statements present fairly, in all material respects, the financial position" that they "have been properly prepared in accordance with International Public Sector Accounting Standards" and "the accounting policies have been applied on a basis consistent with that of the preceding financial period". The Committee also notes that

2014 is the first year of the budgetary biennium 2014-2015 and that the year closed with a net surplus of \$23.7 million.² The reasons for this, as outlined in the External Auditor's Long-Form Report, include the increase in Voluntary Contributions, primarily represented by the implementation of the *Mais Médicos* project. The External Auditor also makes reference to the liability for current and non-current employee benefits, which increased by 4.1% to \$211.6, and states that in the short term, PAHO has sufficient resources to fund such benefits but that future funding may be a financial challenge for the Organization. The Committee agrees with the External Auditor on the need for PAHO to take steps to address this matter and looks forward to the Organization's comprehensive plan to cover this liability.

VII. MAIS MÉDICOS

28. At its meeting in November 2013, the Audit Committee received an initial presentation on the *Mais Médicos* project in technical cooperation between PAHO and the Ministries of Health of Brazil and Cuba and has continued to receive updates at its sessions since then. Based on these continued updates, the Committee has concluded that the operations of the project, currently planned to last at least four years (April 2013 to May 2017), have been progressing although there were issues that continue to require attention. The Committee did note that the Risk Register for the *Mais Médicos* project does not list any very high or high residual risks. The Committee was pleased to learn of the appointment of experts from well-respected institutions to conduct an external evaluation of the project as well as the appointments of a compliance specialist and an internal auditor specifically dedicated to the project. Regarding funding and expenditures to date and comparison to delivery, the Committee was informed that there was nothing of major concern. The Committee is reassured that the External Auditor believes good measures were being taken by PWR Brazil regarding his recommendations but shares the concerns of the External Auditor that the COLPADI database (used to keep track of the use of the Cuban doctors) needed improvement.

Recommendation 6: The Audit Committee recommends that, in view of the magnitude and importance of the *Mais Médicos* project, Member States be made aware of what the project entails.

Recommendation 7: The Audit Committee recommends that, in addition to the important operational and management issues addressed, future status reports on *Mais Médicos* also address gains and results achieved (or not achieved) in regard to intended substantive health care benefits compared to baselines when the project was established. Related to this, the *Mais Médicos* risk register should include risks (and opportunities) related to such health care benefits.

² Unless otherwise stated, all figures are expressed in United States dollars.

Recommendation 8: The Audit Committee recommends that active measures be planned to assure that sufficient Brazilian doctors would be available to sustain the gains achieved by the *Mais Médicos* project after the Cuban doctors return home.

Recommendation 9: The Audit Committee recommends that, in view of the *Mais Médicos* project having been fully established, future financial statements regarding the project (with budget comparison) be presented in terms of calendar years in order to better allow for consideration in the context of overall PAHO financial statements.

VIII. PASB MANAGEMENT INFORMATION SYSTEM (PMIS)

29. The Committee has continued to receive reassuring updates on the development and implementation of PMIS with the timeline of the project remaining on track and no reported budget issues. The first phase of the project (human capital and payroll with Workday) has been completed, and the second phase (finance, budget and procurement) was underway. The Committee noted that implementation of phase two and ongoing work related to module integration would be more challenging, and it agreed that changing PAHO culture and behaviors would be necessary to obtain maximum benefits from the new systems. The Committee looks forward to monitoring the PASB response to this challenge.

IX. PAHO'S FINANCIAL SITUATION AND DIRECTOR'S STATEMENT ON INTERNAL CONTROL

30. The Director included the usual Statement on Internal Control in the *Financial Report of the Director and Report of the External Auditor for 2014*, wherein she explains her responsibility for internal control and the significant elements that are part of it. As in previous years, the Director acknowledges a number of weaknesses in her Statement, as well as the actions PAHO has taken or planned to address these issues. A number of these are also touched upon in this report. Her points center on the following:

- a) Corporate Administrative Systems, referring to the work being done to develop and implement the PASB Management Information System (PMIS);
- b) Project implementation, particularly in relation to Voluntary Contributions and development and implementation of a Resources Management Framework (RMF) expected in 2015;
- c) Succession planning for staff;
- d) Emergency response, referring to measures to strengthen and enhance the ability of the Organization to respond to emergencies and disasters in the Region;
- e) Impact of the international economic environment on the Organization, referring to the management of investments and the monitoring of exchange rates in country offices;

- f) Funding of long-term employee liabilities; and
- g) Improving IT security of PAHO's Headquarters Network.

31. Based on its examinations, and subject to its comments below, the Audit Committee shares the Director's confidence that "as a result of the actions taken to address the significant issues noted above, the system of internal control will continue to be strengthened." She notes, "In my opinion, the Organization's system of internal control was effective throughout the financial reporting period 1 January 2014 through 31 December 2014, and remains so on the date I sign the statement."

32. The Audit Committee notes "IES's overall opinion that the 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." The Committee agrees with the observation of the Auditor General that "the Organization's ever-changing risk profile implies a continuous evolution of internal controls" and that the PMIS modernization project should assist in the improvement of internal controls as they evolve. The Committee is pleased that the Auditor General believes "the ongoing implementation of IES's recommendations points to management's commitment to the continuous enhancement of internal controls." The Committee agrees with the advice of the Auditor General that "to further strengthen the PASB's internal control environment, the links of risks to Organizational objectives and to risk-mitigating internal controls needs to be clearer."

33. The External Auditor did not have anything to report regarding the Director's Statement on Internal Control. This is also consistent with the observations made by the Audit Committee, which fully endorses the related external and internal audit recommendations and the Director's commitment to further address identified weaknesses and ensure continuous improvement of the system of internal control.

34. In the view of the Audit Committee, the Director's Statement on Internal Control reflects best practices, relies on the various oversight functions, and is consistent with its own observations.

X. ETHICS AND FRAUD

35. The Committee requested and received an update on the Ethics Office case management system currently being used and reiterated—with agreement from the Ethics Office—the necessity to establish a robust and accurate case management system for all sources and kinds of complaints and investigations. In reviewing information received regarding cases referred to the Ethics Office, the Committee noted nothing of major concern except for a slow and steady increase in outstanding cases as well as an increase of workplace-related complaints and issues. For demonstration purposes, the Committee reviewed a sample investigation file and noted the extensive work and thoroughness of statements and other material that had been gathered in that case.

36. Regarding workplace conduct, the Committee noted that PAHO should make greater efforts to raise staff awareness about the desirability of addressing conflicts and managing disagreements prior to escalating the situation to the Ethics Office. The Committee suggested that, if it were considered that attitude and behavioral issues were becoming more challenging, a culture survey may be useful to help management develop appropriate action to ensure that PAHO values are maintained and to enable a proper work environment for all staff.

37. The Committee was concerned that the dual role of the Ethics Office—to provide policy advice and guidance on ethical issues as well as conduct investigations into allegation of misconduct—may give rise to, or may be perceived as, a conflict of interests. The Committee requested a report from the Ethics Office on this issue to support further discussion on this matter at its November session.

XI. BUILDING SECURITY

38. The Committee received briefings on building security concerns at both its Ninth and Tenth Sessions. The Committee was informed that a condition assessment would be presented to the Executive Committee in June 2015 along with an updated Master Capital Plan and real estate strategy to address the security vulnerabilities identified in a report from the United Nations Department for Safety and Security (UNDSS). In view of this, the Committee decided it would be duplicative to report on the details of the briefings it received, except to note that the Committee was concerned at the projected magnitude of financial resources estimated to be required to address the security vulnerabilities—\$12.2 million to address UNDSS recommendations within a total repair cost of \$58 million for all PAHO-owned offices.

Recommendation 10: The Audit Committee recommends giving consideration to establishing a sustainable source of funding for major capital needs related to addressing security vulnerabilities by drawing on a combination of possibilities. These could include Post Occupancy Charges levied against all regular and extrabudgetary posts (a source used by other United Nations system organizations for such a purpose), Program Support Costs (becoming very sizable now from the *Mais Médicos* project), and others that may be contemplated.

XII. SELF-ASSESSMENT

39. The Audit Committee conducted a self-assessment of its activities for the third consecutive year, having introduced it in May 2013. The self-assessment is modeled after that of the equivalent committee for WHO (Independent Expert Oversight Advisory Committee), which is based on best practices; the Committee benchmarked its activities against the United Nations Joint Inspection Unit's report on "The Audit Function in the United Nations System." The self-assessment shows that the relationship between PAHO and its Audit Committee is in line with best practices. A copy of the self-assessment would be available from PASB upon request.

XIII. CONCLUSION

40. The Audit Committee appreciates the full cooperation of PAHO management and is satisfied that progress continues to be achieved in many of the Organization's activities. The Audit Committee will pursue its mandate and follow-up on the issues raised in its reports. Attention in particular will be paid to continuing development of the *Mais Médicos* project, roll out and effectiveness of the new PMIS, implementation of the new evaluation policy, integration of the ERM system into PASB planning, budgeting and operations, as well as developments in the ethics and investigation areas.

XIV. LIST OF AUDIT COMMITTEE'S RECOMMENDATIONS

Recommendation 1: The Audit Committee recommends that PAHO should now develop an internal control framework and policy for PAHO as a whole based on guidelines from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

Recommendation 2: The Audit Committee recommends that the Institute of Internal Auditors be used to conduct the independent Quality Assessment Review of IES and that the latter should do a self-assessment in 2015 as preparation for the QAR.

Recommendation 3: The Audit Committee recommends that PAHO take advantage of the new evaluation officer to increase focus on building an evaluation culture throughout the Organization.

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Recommendation 5: The Audit Committee recommends that consideration be given to making use of ERM to improve strategic planning and the program budget formulation process.

Recommendation 6: The Audit Committee recommends that, in view of the magnitude and importance of the *Mais Médicos* project, Member States be made aware of what the project entails.

Recommendation 7: The Audit Committee recommends that, in addition to the important operational and management issues addressed, future status reports on *Mais Médicos* also address gains and results achieved (or not achieved) in regard to intended substantive health care benefits compared to baselines when the project was established. Related to this, the *Mais Médicos* risk register should include risks (and opportunities) related to such health care benefits.

Recommendation 8: The Audit Committee recommends that active measures be planned to assure that sufficient Brazilian doctors would be available to sustain the gains achieved by the *Mais Médicos* project after the Cuban doctors return home.

Recommendation 9: The Audit Committee recommends that, in view of the *Mais Médicos* project having been fully established, future financial statements regarding the project (with budget comparison) be presented in terms of calendar years in order to better allow for consideration in the context of overall PAHO financial statements.

Recommendation 10: The Audit Committee recommends giving consideration to establishing a sustainable source of funding for major capital needs related to addressing security vulnerabilities by drawing on a combination of possibilities. These could include Post Occupancy Charges levied against all regular and extrabudgetary posts (a source used by other United Nations system organizations for such a purpose), Program Support Costs (becoming very sizable now from the *Mais Médicos* project), and others that may be contemplated.

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