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## REPORT OF THE AUDIT COMMITTEE OF PAHO

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## **I. THE PAHO AUDIT COMMITTEE**

### **Role and Function of the Audit Committee**

1. The 49th Directing Council of the Pan American Health Organization (PAHO) established the Audit Committee in 2009 under Resolution CD49.R2, Establishment of the Audit Committee of PAHO. The Committee held its first meeting in November 2010. Members of the Audit Committee are appointed in their personal capacity to serve no more than two full terms of three years each. Current members of the Audit Committee are Kumiko Matsuura-Mueller, appointed in 2017; Martín Guozden, appointed in 2018; and Alan Siegfried, appointed in 2019. Chairmanship of the Committee rotates on an annual basis among the three members. Mr. Guozden is the current Chair.
  2. The concept of an audit committee is a normal and internationally accepted best practice in both the private and public sectors, one that is now well established throughout the United Nations (UN) system. PAHO's Audit Committee contributes to strengthening the organization's governance, accountability, transparency, and stewardship and assists the Director and Executive Committee in fulfilling their oversight responsibilities. To ensure effectiveness, Audit Committee members are experts of the highest integrity who are both impartial and fully independent of the organization they serve. The three current members of the PAHO Committee collectively provide, inter alia, expertise in the processes of governance and accountability, external audit, internal audit, internal control, risk management, financial management and reporting, accounting, monitoring and evaluation, planning and budgeting, and ethics and integrity. All three members have extensive senior-level experience in the UN system and/or other international and national public sector bodies. Their only relationship to PAHO is through the Audit Committee, and they receive no remuneration for their work beyond travel expenses.
  3. In accordance with its Terms of Reference (TOR), the Audit Committee provides advice to the Director of the Pan American Sanitary Bureau (PASB, or the Bureau) and also to PAHO Member States through the Executive Committee. The work of the Committee is conducted in accordance with internationally accepted standards and best practices. It normally comes together twice a year for a two-day meeting, at which it meets with the Director, senior management, and other staff members, as well as with the Auditor General and the External Auditor. In addition, the Committee reviews documents and policies provided to it at its meetings and receives briefings and presentations. It may, if needed, visit PAHO/WHO Representative Offices (PWRs) and Centers. No such visits were made during the period of this report.
  4. An important aspect of the Audit Committee is that it is only advisory and does not conduct investigations or perform external or internal audits. It is not responsible for the operation or effectiveness of internal controls, financial or risk management, or any of the other areas of operation that it reviews. The Audit Committee is not a substitute for the functions of the Director or the Executive Committee or its Subcommittee on Program, Budget, and Administration.
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5. The Committee regularly reviews its Terms of Reference to ensure that they are up to date and in line with the best standards and practices for audit or oversight committees of similar organizations within the United Nations system. In April 2018, the Committee shared its most recent review with PASB and proposed some modifications to the current TOR, including changes related to the Committee's role in reviewing the Organization's financial statements, in particular the level of depth of the review. In this regard, the Executive Committee has the authority to make recommendations regarding needed changes. Any proposed amendments to the TOR need to be submitted to the Subcommittee on Program, Budget, and Administration for discussion, after which they would be referred to the Executive Committee and then to the Directing Council for approval.

### Reporting Period

6. This annual report covers the Audit Committee's work at its 19th meeting in December 2019 (fall session). Given the extraordinary and unprecedented circumstances presented by the COVID-19 pandemic, the 20th Session, scheduled for April 2020, was cancelled.

7. As a general rule, for each meeting, an agenda is agreed upon and a schedule is decided for open and closed sessions (the latter to discuss confidential and sensitive matters). After each meeting, the Audit Committee prepares a summary record with comments and recommendations for the Director. An annual report is prepared for submission to the Executive Committee for its June meeting each year. This report is a short synopsis of the main topics and issues that have been discussed and contains what the Audit Committee considers to be its most important findings and recommendations.

8. From 2015 up to the time of its 19th Session in December 2019 (AC19), the Audit Committee issued 68 recommendations to the Bureau, 56 of which had been closed before the meeting. The Committee acknowledged the work done by management and agreed to close two more recommendations, clarifying the actions necessary to accomplish this. The Committee also requested that the Bureau ask for clarification regarding recommendations when necessary. The Bureau took note of the updated status of the recommendations, which is reflected in the table below.

**Table 1. Status of Recommendations Made by the Audit Committee since 2015**

Year issued	Recommendations issued as of CE164	New recommendations at AC19	Recommendations closed	Open recommendations as of CE167
2015	14	-	14	-
2016	14	-	14	-
2017	21	-	19	2
2018	14	-	10	4
2019	5	3	1	7
<b>Total</b>	<b>68</b>	<b>3</b>	<b>58</b>	<b>13</b>

Note: There are four recommendations that have been combined/tracked with other recommendations. These recommendations have only been counted once.

9. The tentative agenda for the 20th Session, scheduled for April 2020, was focused on the open recommendations made by the Audit Committee in order to close those in time for the report to the Executive Committee.

## **II. PASB MANAGEMENT INFORMATION SYSTEM (PMIS)**

10. The Bureau provided the Committee with an update on the status of the PASB Management Information System (PMIS) roadmap as well as the progress made toward addressing open recommendations since the previous session. This included efforts by the Bureau to reduce the workload of administrative tasks, enhance the Workday system, and increase the use of digitization in the work performed by PASB. The Committee also received a summary of the recommendations from the Administrative Services and Workday Assessment performed by Accenture, as well as the responses to these recommendations and the actions taken to implement them.

11. Regarding the possible effects of the current financial situation in PAHO, the Bureau emphasized that the PMIS roadmap was funded through various sources of monies allocated for information technology (IT) projects, including funds from the approved 2020-2021 biennial work plan and from the Master Capital Investment Fund. This funding had been approved by Executive Management. The Committee was pleased to note the Bureau's report of these improvements with respect to finances.

12. With regard to the redesign of the financial data model, the Committee was informed that management is currently adjusting the ledger to align with the International Public Sector Accounting Standards (IPSAS) accounts structure. Furthermore, the Bureau acknowledged the importance of using financial reports that are fully automated and delivered from Workday, and explained that progress was being made in this respect.

13. The Committee also inquired about the expansion of robotic process automation as part of artificial intelligence. The Bureau remarked that in 2019 three pilot programs were being prepared, related to *a)* purchase orders from requisition, *b)* the creation of expense reports from spend authorizations, and *c)* procurement funds. In 2020, the operating procedures are to be analyzed so that the modification and expansion phases can take place by 2021. The Committee was also informed that a shared services pilot in Brasilia, Brazil, would be launched in January 2020, which would integrate back-office administrative transactions from Buenos Aires, Argentina.

**Recommendation 1. The Committee recommends that the redesign of all financial data models be considered as priority and applied in all financial reports, including those used in daily operations.**

## **III. IT SECURITY**

14. Recommendation AC18.2 addressed the integration of cybersecurity actions into business continuity management and the development of metrics for compliance issues detected in the information security controls assessment completed in 2017. In response,

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the Bureau presented the Committee with information regarding the evolution of the Bureau's information security initiative. This included an update on the information security metrics established; the elements of the revised information security policy; procedures, standards, and guidelines; and an implementation timeline.

15. The Committee noted the positive developments in the planning roadmap. It suggested that the Bureau thoroughly analyze and clearly determine which metrics would be measured, indicating baselines and targets and including third-party data risk exposure. The importance of employee awareness was emphasized. Toward this end, the Committee offered suggestions such as using fake phishing exercises to evaluate user awareness. The Committee made inquiries regarding funding for data privacy, due diligence related to cloud computing, reduction of the creation and use of applications outside of the core system, and the desire to have an attack and penetration review performed in the not too distant future.

16. The Bureau informed the Committee that data to be used for metrics was being collected and that dashboards would be developed in the first quarter of 2020. It explained that the United Nations had been working with organizations on the matter of data privacy and that a set of privacy principles had been drafted and would be adapted and implemented as necessary. Regarding cloud computing, the Committee was informed that the Bureau monitored reports from each provider and in turn determined any risk of using the particular provider. The Bureau informed the Committee of the intention to publish a procedure for the certification of shadow applications and to then establish a roadmap to ensure that all applications would be aligned throughout the Organization. Additionally, the Director of Administration clarified that most shadow applications were from the legacy system and were gradually being replaced, further noting that the risk to the PAHO domain was limited. Finally, the Bureau indicated that an advanced persistent attack exercise targeting the full environment is planned for the coming year.

17. The Committee appreciated the explanations and the concept note submitted by Management. IT security had been an important topic for the Audit Committee. There had been concerns about residual applications used outside the core system of the Bureau, and the Committee noted that the IT Security Policy and Procedure Framework had been presented in 2019. The Committee stressed the importance of full integration between cybersecurity, enterprise risk management, and the business continuity plan and noted that the IT Security Policy would be an evolving document.

#### **IV. INVESTIGATIONS MATTERS**

18. The Chief Investigator provided the Committee with an overview of the work of the Investigations Office, which included investigation statistics, outreach activities, achievements and challenges, and next steps for the Investigations Office. The Committee made inquiries regarding *a)* the expected date of completion of the updated Terms of Reference of the Investigations Office and the Investigation Protocol; *b)* the increase in occupational fraud reported since 2016; and *c)* the use of forensic e-discovery tools to assist during investigations and whether they were necessary.

19. The Director informed the Committee that completion of the Terms of Reference of the Investigations Office was expected in 2020. The pending clarifications concerned the scope of work of the Investigations Office and matters related to external investigations. The Investigations Office would begin revising the Investigations Protocol once the updated TOR were approved. The Committee suggested that the Bureau submit the draft TOR for comments, as this could produce useful feedback. The Director indicated that the TOR would be shared with the Committee once Executive Management had come to an agreement on the final draft version.

20. The Committee was informed that the increase in reports of occupational fraud could be a result of the referral of cases from the Office of Internal Oversight and Evaluation Services and from departments such as Human Resources Management and Financial Resources Management. As an example, the Auditor General stated that the Internal Audit of Travel Expenditure in the PASB in particular revealed some suspicious transactions that were then referred to the Investigations Office. In terms of the use of e-discovery tools, the Chief Investigator clarified that the office was seeking to purchase two specific software programs that can sort emails more efficiently and extract data from mobile phones.

21. The Director noted that there were limited resources to expand the relatively small Investigations Office, which was tasked with ensuring that internal fraud and harassment are captured and dealt with effectively and in a timely manner. This required finding a balance between an efficient investigations function and the scope of the Investigations Office.

22. While appreciating the presentation made by the Chief Investigator on the work of the Investigations Office in 2019, the Committee looks forward to receiving the revised Terms of Reference of the Investigations Office in its next session, and subsequently the Investigation Protocol for comments by the Committee.

## **V. PROGRAM AND BUDGET PERFORMANCE MONITORING ASSESSMENT**

23. The Bureau provided the Committee with an overview of program and budget performance monitoring assessment in PAHO and the end-of-biennium assessment process, including the results chain, the joint monitoring and assessment of outputs and outcomes, and the assessment reports. The discussion of this item focused on *a)* the status of PAHO compared to other Regional Offices of the World Health Organization (WHO); *b)* the ability of managers to monitor expenditure; *c)* the effects of depreciation on the cost center analysis; *d)* redeployment of resources; and *e)* monitoring of program performance against budget expenses.

24. Regarding the relationship between PAHO and WHO, the Bureau explained that the independent legal status of PAHO as the public health agency of the inter-American system means that Member States of the Region approve its mandates and documents separate from WHO governing bodies. Accordingly, PAHO has an approved Strategic Plan with detailed health indicators at impact, outcome, and output levels, unlike the

13th General Programme of Work of WHO. The Bureau informed the Committee that PAHO managers can monitor expenditure against budget in real time and do not have to wait until closure, though it can take time for a transaction to post due to the various approvals needed.

25. The Committee was informed that a report of all expenditures against the authorized spending allocation could be created and distributed to concerned parties at any moment. It was further explained that an assurance process whereby a survey is sent to cost center managers had been implemented in order to certify the review of monthly compliance reports, which included implementation against authorized budget.

26. With respect to redeployment of resources, the Bureau explained that there is a fair amount of flexibility to shift resources so long as the budget remains within the corporate budget approved by Member States. Regarding how often managers can view program performance against budget expenses, the Bureau informed the Committee that the Bureau undertakes the program monitoring assessment exercise every six months, and there would not be a high appetite for assessing progress more often. It was explained that this process requires a manual assessment of progress toward the objectives and cannot be done automatically, as the Workday system does not offer this capability.

27. On the matter of the transfer of the evaluation function to the Planning and Budget Department, the Bureau informed the Committee that the intention was to have a dedicated staff member and to rely on an external, independent evaluation capacity. The Committee appreciated the information received and indicated that more items related to Planning and Budget would be discussed in the future.

## **VI. INTERNAL OVERSIGHT AND EVALUATION SERVICES (IES)<sup>1</sup>**

28. The Auditor General provided a brief update on the status of the revised PAHO Evaluation Policy as well as the result of the peer review conducted by the United Nations Evaluation Group (UNEG). The Director informed the Committee that the evaluation function would be transferred to the Department of Planning and Budget (PBU) to help ensure that evaluation is included in the Bureau's planning cycle. The Director emphasized that this decision would not limit participation of PAHO in the evaluation process but rather, would allow PAHO to utilize the findings of future evaluations in an active manner. The Committee indicated that it looked forward to receiving additional information on this matter at its next session.

29. Regarding the Report of the Office of Internal Oversight and Evaluation Services for 2018 (Document CE164/26), the Committee inquired whether there was a summary statement on resources and whether resources for IES were adequate. The Auditor General noted that adequate resources were available, as mentioned in the report.

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<sup>1</sup> Effective 16 July 2020, the Office of Internal Oversight and Evaluation Services was renamed the Office of Internal Audit (OIA) given that the Evaluation function previously assigned to IES was transferred to the Department of Planning and Budget (PBU).

30. The Auditor General shared the methodology for the selection of country offices to audit and for thematic audits, as well as the status of the IES work plan for 2019. It was noted that actions were taken to better clarify the work plan, the risk elements, and considerations moving forward. The Committee was also provided with worksheets, including the input used by IES to develop the risk parameters. The risk assessment process for scoring was kept consistent with the processes from the previous year. The Committee noted that this method was consistent with the methodologies suggested by the Institute of Internal Auditors. It was recommended that more emphasis be placed on the specific risks associated with the operations profile of each PAHO/WHO Representative Office, an approach that could further improve the quality of the audits with regard to the PWR Offices.

31. The Committee asked the Auditor General how he might add to the existing work plan if additional resources could be made available. In response, the Auditor General highlighted the importance of PWR Office visits and stated that perhaps more such visits could be scheduled in the future. It was noted that, unlike WHO, PAHO does not perform desk audits but instead conducts country office audits in situ, which enhances the process in terms of oversight. Challenges remained with respect to smaller sites, as in the cases of the two longest-pending audits, those of the Latin American Center of Perinatology, Women and Reproductive Health (CLAP/WR) and the PWR Office in Jamaica. The discussion around the 2020 work plan also focused on risk management, internal controls, and governance. The Committee emphasized the importance of ensuring that these aspects are covered in the 2020 work plan.

32. The status of the Internal Audit Quality Assessment recommendations (report issued in April 2017) was also presented. It was noted that based on the assessment by the Institute of Internal Auditors, the majority of the areas were satisfactory; however, there was one area of concern, namely that the Audit Charter was not an official document within the governance structure of the Organization. In response, per recommendation of the Audit Committee, the PAHO Audit Charter was updated with language to address this issue in paragraphs 30.2 and 50.4 of the PAHO e-manual. Regarding the topic of institutional ethics, the Auditor General explained that the separation of investigations from the Ethics Office meant that the area had been in a state of flux in the recent biennium. As a result, this topic had not been looked at thoroughly by IES but was included in the discussions for the 2021 plan. The External Auditor added that this topic was discussed at a recent UN panel, highlighting its importance.

33. The Internal Audit of Travel Expenditure in the PASB, which focused on travel reports, was discussed. Two recommendations in the report were classified as priority, one related to compliance and the other to security. The latter concerned incidents where staff on duty travel have opted to stay in risky accommodations in order to realize economic benefits. The Committee indicated that better rules need to be set in place on this issue and suggested that such incidents should be reflected in the performance evaluation of staff to more effectively discourage this behavior. The Bureau explained that while there are policies in place, the report identified gaps that the Bureau is already addressing. In the case of staff using Airbnbs instead of hotels while on duty travel, there was no policy

prohibiting the practice, and therefore the specific actions to be taken were unclear. Other mechanisms had also been put in place to mitigate these issues, many of which were aligned with WHO procedures.

34. The Auditor General presented the results of the Internal Audit of the Office of the PAHO/WHO Representative in Brasilia, Brazil. Due to the focus on other issues, such as *Mais Médicos*, the PWR Brazil had not been audited since January 2016. There were 12 recommendations, of which three were identified as priority. Given the nature of the recommendations and the fact that improvements had already been observed, the report assessed the audit as partially satisfactory with some improvement needed.

35. The Committee expressed satisfaction with the report, noting that the findings leading to each recommendation were very straightforward. The Committee then invited the PAHO/WHO Representative in Brazil to comment on the report. In response, the Representative reiterated the importance of the audit in the review of the operations of the office and explained that certain recommended controls and changes had already been implemented.

**Recommendation 2. The Committee recommends that IES update its Charter to reflect its current mandate regarding evaluation.**

**Recommendation 3. The Committee recommends that IES perform an interim Internal Audit Quality Assessment as required by the International Professional Practices Framework.**

## **VII. EXTERNAL AUDIT**

36. The External Auditor, the National Audit Office of the United Kingdom and Northern Ireland (NAO), discussed the importance of presenting the audit findings to the Audit Committee prior to the certification of the accounts no later than 15 April 2020. The NAO explained its view that presenting its findings to the Committee after the Report of the External Auditor was signed would diminish the value that the Committee could bring to the work and recommendations of the NAO. The Committee clarified that in its advisory capacity, it does not approve or endorse the financial statements. Given the extraordinary and unprecedented circumstances presented by the COVID-19 pandemic, the 20th Session of the PAHO Audit Committee, scheduled for April 2020, was cancelled. Thus, the Committee was not able to receive an overview on the PAHO financial statements prepared by the Bureau.

37. The Committee was satisfied with the focus of the 2019 Audit Planning Report and considered that its contents were in line with the areas of work and review of the Committee and Executive Management. The Committee inquired about the dual visits of the internal and external auditors to the PWR Office in Haiti. The External Auditor explained that although the two functions were complementary, the NAO country office visits were carried out to understand the operations of the Organization rather than to examine purely compliance aspects. In the view of the External Auditor, the PWR Haiti had a high-risk

profile, particularly with respect to PROMESS (the essential medicines program) and inventory stocks. The Committee was informed that the visit to the PWR Haiti would also be linked with the Caribbean subregion and would focus on project management and resource mobilization. The Auditor General supported the External Auditor's view that the emphasis of the audits would be different for the two functions and stated that two audit visits to PROMESS within a 12-month period would not be excessive, especially considering its risk profile.

38. The Committee appreciated the complementary approach to the work of the external and internal auditors and observed that the NAO would continue to rely on the work performed by IES. The Committee noted the unique challenges of the PWR Haiti and agreed with the need to continue enhancing internal controls in that office. On this note, the NAO highlighted the relevance of understanding the pressures and realities that affect operations in the field. This perspective is gained by visiting a number of country offices, including those with operations considered to be good practice, such as the Smart Hospitals project in the Caribbean.

39. The view of the Committee was that the External Auditor's planning process was thorough and comprehensive enough to meet the needs of the Organization. Specifically, the Committee signaled the need to address the risk issues that arise from segregation of duties. In addition, the Committee expressed the need to reduce the high volume of manual processes required to prepare the financial statements.

40. Regarding the progress of the 2019 financial audit, the External Auditor explained that during the interim visit a significant amount of work was completed, taking pressure off the final audit visit. Substantive interim audit work was undertaken, and discussions were focused on areas that had the potential to be difficult, such as valuation of buildings and the After-Service Health Insurance (ASHI). The NAO indicated that having the knowledge from the prior year and more time to explore other matters increased the efficiency of the interim audit.

41. The Committee looks forward to discussing the synchronization of the chart of accounts with the budget and planning cost structure in its next session.

42. The Committee was presented with the Management Letters from country office visits to Brazil and the Dominican Republic. The External Auditor highlighted a number of issues that arose from these visits, related to *a)* the *Mais Médicos* project in Brazil, *b)* financial management, *c)* risk management, and *d)* human resources matters. The Committee was informed that the External Auditor was satisfied with the arrangements of the *Mais Médicos* project and how it was reflected in the financial statements, and that the dialogue regarding the legal aspects of the project would continue. The External Auditor also discussed the issue, in relation to both the Brazil and Dominican Republic offices, of financial management and how it was undertaken within the administrative teams. A more systematic approach to regular budget monitoring in ongoing management arrangements within the cost center was considered necessary. On matters of risk management, the External Auditor found that in both country offices the process was viewed as a corporate

exercise in checking boxes, rather than as a conversation and an exercise in risk mitigation. Finally, the External Auditor addressed the value for money and legal risks related to contingent staffing in the country offices.

43. The Committee noted the insufficient assessment of fraud in both Brazil and the Dominican Republic and reiterated its recommendation to issue the Fraud Policy and focus on training throughout the Organization. The Committee emphasized the importance of sufficient risk assessment and management at the project and cost center levels and considered that insufficient monitoring of expenditure through Letters of Agreement could potentially lead to mismanagement of resources. The External Auditor agreed with the need for a more systematic process to identify fraud risks at the corporate and local levels and pointed to various initiatives that could improve financial management, including a suite of key reports in an ongoing dashboard for PAHO/WHO Representatives.

44. At the request of the Committee, the Legal Counsel addressed the two components of the issues related to the closure of the *Mais Médicos* project. One of them was the responsibilities vis-à-vis the payments that were due to PAHO and to the governments of Cuba and Brazil following the early termination of the Agreements, which were being negotiated directly with both governments. The second concerned the lawsuit in the United States of America, which was filed in Southern District of Florida. PAHO has filed a motion to transfer the venue of the federal lawsuit to the Federal District of the District of Columbia and awaits a decision.

## VIII. CONCLUSION

45. The Audit Committee welcomed the cooperation it received from the Director and management. This full support and cooperation has been crucial for the progress achieved across the broad range of issues considered and recommended by the Committee.

46. Priorities for the Committee in the coming year will be: *a)* reviewing the Terms of Reference of the Investigations Office in line with best standards within the UN system; *b)* establishment of the PAHO Evaluation Policy in line with UNEG standards; *c)* cybersecurity matters; *d)* update on risk management and tolerance in the context of Enterprise Risk Management; and *e)* an examination of the program planning and budgeting process.

47. Finally, the Committee would like to express its gratitude and appreciation for the excellent contributions provided by Ms. Kumiko Matsuura-Mueller, who was appointed to the Committee in 2017. During her tenure, Ms. Matsuura-Mueller has provided valuable contributions to the work of the Committee with her solid experience as Chief Finance Officer in the UN system and her vast expertise in financial and administrative management and related matters. She took the lead on many complex issues, enabling the Committee to contribute highly relevant advice on the Organization's work. It has been a great pleasure to work with Ms. Matsuura-Mueller on the Committee.

**IX. LIST OF MAIN AUDIT COMMITTEE OPEN RECOMMENDATIONS FROM PREVIOUS YEARS**

**Recommendation 1.** The Committee recommends that the Terms of Reference of the Investigations Office be revised taking into account its comments including the details of *a)* the procedures for the intake for allegations; *b)* the reporting lines of the Investigations Office; and *c)* follow-up on action taken as a result of investigations findings and submit the revised Terms of Reference for its review.

**Recommendation 2.** The Committee recommends that the Bureau fully integrate the cybersecurity actions into the business continuity and that the ITS Department of PASB develop metrics for each compliance issue detected in the assessment, determining the level of risk exposure based on the metrics established, with periodic monitoring and reporting to EXM. These metrics should be reflected in the revised IT Security Policy and Procedure Framework.

**Recommendation 3.** In revising the evaluation policy, the Committee strongly recommends to align the policy with the UNEG standards and norms in particular with respect to *a)* the process for developing and deciding on the evaluation plan; *b)* the approval of the plan (by the Director/Governing body); *c)* approval of the Terms of Reference/methodology of the evaluation to be conducted; and *d)* quality assurance of the reports, bearing in mind that PAHO is a member this group. Furthermore, the Committee recommends that PAHO submit the draft evaluation policy for a peer review (UNEG) before resubmitting the policy to the Committee.

**Recommendation 4.** The Committee recommends that management synchronize the chart of accounts with the program budget and planning cost structure or create a system that can process both.

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