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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 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 are appointed in a personal capacity to serve no more than two full terms of three years each. Current members of the Audit Committee are Amalia Lo Faso (whose second term ends 30 June 2016), Nicholas Treen, and John Fox, with the latter two appointed to the Committee in 2014. The Chair of the Committee rotates on an annual basis among the three members, and Mr. Treen is the current Chair.
 2. The concept of an audit committee is a normal and internationally accepted best practice in both private and public sectors that is now well established throughout the United Nations (UN) system. It contributes to strengthening an organization's governance, accountability, transparency, and stewardship. To ensure effectiveness, 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 Committee collectively provide, inter alia, expertise in 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 processes. All three members have extensive senior level experience of the UN system and 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, the Audit Committee provides its advice to the Director of the Pan American Sanitary Bureau (PASB) 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 practice. It normally comes together twice a year for two-day meetings, where it meets with the Director, her senior management, and other staff members, as well as 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 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 perform external or internal audits, or investigations. It is not responsible for the operation and effectiveness of internal controls, financial or risk management, or any of the other areas of operations it reviews. The Committee is not a substitute for the functions of the Director or the Executive Committee and its Subcommittee on Program, Budget, and Administration.
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Reporting Period

5. This annual report covers the Audit Committee's meetings in November 2015 and March 2016. At each meeting, an agenda is agreed upon, and open and closed sessions (to discuss confidential and sensitive matters) are planned. 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. It is a short synopsis of the main topics and issues that have been discussed and contains what the Audit Committee considers are its most important findings and recommendations.

II. THE 2015 CONSOLIDATED FINANCIAL STATEMENTS

6. Financial Resources Management gave a presentation to the Committee at the March 2016 meeting on the progress made in developing the draft 2015 financial report; internal control statement; and financial statements, policies, and notes. However, although requested, the Committee did not receive any drafts or detailed information concerning the financial reports and statements during the March meeting. The Committee regrets not receiving any of the drafts to enable it to review and comment on them before the External Auditor completed its audit. The Committee was informed that it was merely a matter of timing and that they would share the statements when they were finalized. The Committee considered that the Organization needed to give this higher priority to enable the Committee to carry out what it considers to be one of its most important functions and to ensure that in future, draft financial reports and statements are provided to the Committee in time for its first meeting of the year, which is held normally in late March. At their request, audited financial reports, statements, and accounts were provided to the Committee in April.

7. An update was provided to the Committee on the development of an internal controls framework and policy. While there had been little progress in developing a framework and policy, the hierarchy of PAHO's practices and procedures was explained as being organized in three levels: *a)* e-manual policies; *b)* implementing Standard Operating Procedures; and *c)* job aids, which explain discrete steps in procedures. Some progress had also been made with the PASB Management Information System (PMIS) dashboards and PMIS Standard Operating Procedures. The Committee suggested that a smaller and more conceptual policy document should be developed first and should refer to the adoption of the Committee of Sponsoring Organizations of the Treadway Commission (COSO)¹ framework for internal control, the use of Enterprise Risk Management (ERM), and the use of the "three lines of defense"² model". In a more practical sense, it should also cover, inter alia, accountabilities to implement and achieve value for money and sound financial management in implementing work plans and strategies; methods on how to ensure that all country offices operate properly at the same managerial and operational levels; and the responsibilities to avoid waste, fraud, and

¹ See www.coso.org

² See <https://www.iaa.org.uk/resources/audit-committees/governance-of-risk-three-lines-of-defence/>

extravagance. The Committee further noted that developing Standard Operating Procedures and revising manuals, while welcomed, would not be very effective if they were treated and implemented in the same ad hoc fashion as current procedures and manuals.

Recommendation 1: That in future, draft financial statements, comments, reports, and accounts be provided to the Committee in time for its first meeting of the year for review and discussion to enable the Committee to fulfill one of its most important functions.

III. EXTERNAL AUDIT

8. The 2015 External Audit was performed by the Court of Audit of Spain, which has been responsible for auditing and certifying the annual accounts of PAHO since 2012. The mandate of the External Auditor was extended for an additional and final two-year period by the Directing Council in 2015. The External Auditor attends all open Committee meetings and presents reports and provides information on his audit.

9. The Audit Committee notes that the External Audit was performed in accordance with the agreement between PAHO and the Court of Audit of Spain, and considers that the External Auditor's work 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. The Committee was not informed of, and did not itself identify, any material issues or high risks arising from the work of the External Auditor that the Committee needed to bring to the attention of the Director or the Executive Committee during the period of this report.

10. The Committee has been informed by the External Auditor that he had issued a clear audit opinion on the consolidated financial statements. As is normal practice, the External Auditor has also prepared a long form report of matters arising during the audit. This report is of great value and makes many useful and sensible recommendations for improvement and for practical resolutions of the matters raised. From among the many matters identified in the External Auditor's report, the Committee highlights the following results, risk areas, and challenges for particular attention:

- The overall financial result for PAHO was a deficit of US\$ 8.8 million³ (it is normally a surplus) arising from total expenditures of \$1,468.9 million against total revenues of \$1,460 million. The External Auditor noted that at present, PAHO has sufficient financial resources to meet its obligations.
- PAHO has significant unfunded Staff Health Insurance liabilities.

³ Unless otherwise stated, all figures are expressed in United States dollars. Note that figures have been rounded.

- Business continuity planning needs to be improved. This is often a serious and difficult issue for many organizations.
- Some opportunity spending at the end of the biennium was identified. This brings risks of lack of value for money and sound financial management. It is an indication of weakness in financial planning and budgetary control.
- There is currently a peak in retirements due to the age profile of staff. This has contributed to a rise in interim appointments and some delays in recruitments.

11. With regard to prior period recommendations made by the External Auditor, the Committee noted with satisfaction that the External Auditor was content with the high level of implementation achieved by the Organization. The Committee acknowledges the high standards and quality of external audit that PAHO receives, the excellence and usefulness of the cooperation between the Committee and the External Auditor, and welcomes the Director's strong focus on implementing the External Auditor's recommendations.

IV. INTERNAL AUDIT AND EVALUATION

12. The Committee is satisfied with the internal audit (IA) and evaluation activities provided through the Auditor General's Office of Internal Oversight and Evaluation Services (IES) during the reporting period. It has continued to note the impact of internal audit reports in terms of strengthening controls and identifying areas for potential cost control and savings. There has been a welcomed increase in evaluation activity, and steps are underway for a better evaluation culture to be established that will bring more opportunities for learning and improved accountability. The Committee was pleased to see a good level of implementation of IES recommendations.

13. The Auditor General informed the Committee that IES will carry out an independent Quality Assessment Review (QAR) of the internal audit function in 2016, as required every five years by the Institute of Internal Auditors (IIA). This was welcomed by the Committee, which noted that such a review was required under the IIA Standards but that this was not a performance assessment of the Auditor General, though it provided assurance that the internal audit function was meeting the standards for internal audit set out by the IIA. The Committee welcomed the Auditor General's intention, as part of preparations for the QAR, to revise the internal audit charter to meet IIA and UN best practices. The Committee recalled that evaluation functions in other UN organizations normally had an official document similar to the internal audit charter (often an audit and evaluation charter or an oversight—audit, investigation, and evaluation—charter). The need to have the essential aspects of the internal audit and the evaluation functions (independence, mandate, working standards, scope, access to persons, and information, etc.) embedded in the regulatory framework via a Charter was important.

Recommendation 2: That a charter document be developed for the IES evaluation function similar to that of the IA function (noting that it is planned to review the IA

Charter following the QAR). Both charters should be embedded in the regulatory framework of the Organization.

V. RISK MANAGEMENT

14. 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. However, the Committee is now able to note that significant progress has been achieved in setting up and using the risk register and that a Risk Manager has been recruited. The Committee continued to encourage PASB to also develop an effective top-down approach using senior managers to review, identify, and manage the high risks that may affect the achievement of results, performance, and objectives of PAHO. The Committee was also pleased to see that the highest risks identified through use of the corporate risk register were being escalated into the now regular review by senior managers of the highest risks facing PAHO.

VI. THE MAIS MÉDICOS PROJECT

15. The Committee has been following the development and implementation of the *Mais Médicos* project since 2013, and has continued to receive updates at its meetings since then. Based on these continued updates, the Committee has seen that the project, currently planned to last until April 2018, is now progressing well with high approval ratings in Brazil. This year, the Committee was informed of the interesting and useful evaluation work related to the project being carried out in Brazil. It also heard of details of internal audit work on the project and the results of the annual visit that the External Auditor makes to the project. The Committee was pleased to see that issues relating to the COLPADI database (used to keep track of the use of the Cuban medical staff) have been improving and that the project risk assessment continues to see no high risks. In line with the Committee's recommendations of last year, it was good to see that more information concerning project activities, results, and finances was being provided to Member States in official documents such as the Director's Comments on the PAHO Financial Statements. The project has continued to recover significant sums to PAHO from project support costs (some \$65 million since 2013). This is a large, one-off source of revenue that should have special and careful management to achieve effective results, providing good value for money and visibility.

16. The Committee was interested to know that the project could provide many lessons for exchanging knowledge and services to support primary health care between countries, and that Cuba is supporting several other countries in a similar way it does for Brazil. The sustainability of the primary health care improvements achieved were discussed and it was noted that the *Mais Médicos* project was just one component of a larger program by the Brazilian Government to improve access to health services in needed areas, e.g. addressing shortfalls in medical training that could eventually mitigate the need for non-local medical staff.

Recommendation 3: In view of the extremely large amounts of program support costs (PSC) generated by the *Mais Médicos* project, that special arrangements be put in place to plan, manage, and account for expenditures so that such spending is prioritized, effective, and will achieve good value for money.

Recommendation 4: That PAHO will continue to identify learning opportunities by encouraging and carrying out research and evaluation of both the supply and demand side of the exchange and provision of primary health resources in the Region.

Recommendation 5: That a strategy and plan be developed for establishing how the *Mais Médicos* project would finish and ensure sustainability of the primary health care improvements achieved.

VII. PASB MANAGEMENT INFORMATION SYSTEM (PMIS)

17. The Committee has continued to receive updates on the development and implementation of PMIS. At the last Committee meeting, it was pleased to hear about the implementation of Phase II of PMIS at the end of 2015 and, while it believes that the system is not yet all that it should be, it recognizes that the ongoing issues were expected during the initial operation of the system and settling-in period, and received assurances that they will be soon fully resolved.

VIII. ETHICS AND INVESTIGATIONS

18. Regarding workplace conduct, the Committee noted that PASB should make greater efforts to raise staff awareness about the desirability of addressing conflicts and managing workplace disagreements, for example, using the Ombudsman and mediation services, prior to escalating such situations into investigations. The Committee has 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 PASB values are maintained and to enable a proper work environment for all staff. The Committee understands that two such surveys are underway and hoped that these would be complementary and not overlap.

19. For some time, the Committee has been concerned that the dual role of the Ethics Office—to provide policy advice, training, and guidance on ethical issues and protect whistleblowers from harassment on the one hand and to conduct impartial investigations into allegation of misconduct on the other—may give rise to, or may be perceived as, a conflict of interests. The Committee had hoped that in general there would be more awareness of the requirements to be impartial and to risks of conflicts of interest in the investigation and integrity processes. It had hoped that after several discussions these issues would have by now been mostly avoided by a full adoption of the United Nations Secretariat model,⁴ where investigations are not part of the Ethics Office (they are the

⁴ www.un.org/en/ethics/

responsibility of the Office for Internal Oversight Services) as this was the best practice to follow. In addition, the Committee again advised that a peer review of the existing arrangements for ethics, the integrity and conflict management system, and investigation be carried out and that it be completed before the Committee's next meeting in October 2016.

20. The Committee expressed misgivings about the relatively small amount of time being spent on ethics-related areas and hoped that once ethics and investigations were separated, this would improve.

Recommendation 6: That there be a peer review of the ethics and integrity and conflict management system to make recommendations for improvement to the system and ensure that there were no conflicts of interest or conflicting functions within the system.

Recommendation 7: That the functions of ethics and investigation be separated and report to different organizational offices, fully following the UN Secretariat model.

IX. MAINTENANCE AND SECURITY

21. The Committee noted the progress being made in addressing significant building security and maintenance backlog problems at Headquarters and the country level. It welcomed the practical financing solutions developed for dealing with them, the rapid progress made at the country level, and the commitment to fully budget for this in future periods. The Committee was pleased to be informed of the actions and plans to address the needed enhancements and repairs within the next five years.

22. In respect of information and cybersecurity, it noted the steps taken in this area to improve information technology (IT) governance and establish information security (IS). For IS, it is hoped that these new arrangements would be fully put in place as soon as possible and be sufficiently independent of IT management.

Recommendation 8: That the information security management system comply with the International Organization for Standardization/International Electrotechnical Commission International Standard on Information Technology (2013)⁵ as soon as practical, and that certifications be obtained to demonstrate the achievement of the Standard.

X. PROGRAM AND BUDGET

23. The Committee had useful and enlightening presentations during its November 2015 and March 2016 meetings from the Department of Planning and Budget on PAHO

⁵ See ISO/IEC27001:2013 at:
http://www.iso.org/iso/home/store/catalogue_ics/catalogue_detail_ics.htm?csnumber=54534

planning instruments.⁶ The Committee has acquired a better and clearer understanding of PAHO strategic and program planning processes with its strong country level and bottom-up focus; and its results chain, indicators, impacts, outputs, and outcomes. In the future, the Committee will wish to see how a theory of change approach is being applied and how the performance measurement process is being developed. It was explained that the Organization's performance was being defined, monitored, and examined by both PASB and Member States, both jointly responsible for the achievement of results at the output, outcome, and impact levels. To support this, PASB has developed an IT-based Strategic Plan Monitoring System (SPMS) to facilitate assessing progress towards the achievement of strategic outcomes, outputs and impact goals. The Committee noted the ambitious size, depth, and complexity of the process and the challenges it brings to transparency, in deciding what needed to be done first and what really mattered to the countries and PASB. It expressed some concerns in how to achieve effective PASB budget control, and was therefore pleased to see IES future plans to audit the budgetary processes. The Committee noted the good quality control, data verification and validation mechanisms in place, but warned of the challenges inherent in shared responsibility, i.e., reduced accountability. In order to achieve the PAHO Strategic Plan's 9 impact goals and the related 30 outcomes, PASB work is organized into 6 programmatic categories and 30 program areas in a biennial Program and Budget. The Committee noted that there were currently some 113 outputs developed and 137 output indicators, with baselines and targets to measure achievement of the outputs in the current Program and Budget. The Committee will return to these important matters at its autumn meeting for further information and consideration to enable it to add value.

XI. AUDIT COMMITTEE MATTERS

24. In 2015, the Audit Committee completed a self-assessment of its activities indicating that the role and functions of the Audit Committee remain broadly in line with best practices. For 2016, the Committee hopes to send to senior staff and to Member States a feedback questionnaire on how it operates and, in particular, how to make it more helpful and useful. PASB is currently working on a draft proposal. With the information provided from the self-assessment and the feedback questionnaires, the Committee aims to develop over the next year suggestions for any needed changes to its terms of reference. It will fully discuss any suggested changes with the Director before making any recommendations to the Executive Committee. The Committee again requested that it have "read-only" access to the PAHO intranet for research and learning purposes, and it hopes that this will be provided soon.

25. PASB has also been asked to provide proposals and suggest content for intranet and internet sites for the Committee (it was suggested that those in place for the WHO Audit Committee would serve as a helpful starting point).

⁶ Including the PAHO Strategic Plan 2014-2019 as approved by the Governing Bodies in 2014. This is guided by PAHO's vision, mission, values.

XII. CONCLUSION

26. The Committee acknowledges the important support and full cooperation of the Director for its activities. It is very satisfied that under her motivated leadership, progress continues to be achieved in many of the topics and areas it has considered since its last annual report. The Committee will continue to follow up on important issues it has raised in this and in previous reports, e.g., achieving certification in internationally accepted information and cybersecurity standards, and following closely some important ethics and investigation issues. During the next period, in addition to the normal areas of continued interest, attention will be paid to the full implementation of the new evaluation policy, the development and implementation of a more modern internal control policy and framework, work and strategic planning, budgeting and progress reporting processes, and the fuller use of the ERM system in these areas. It will look into the work of the Ombudsman and focus more attention on the good and consistent management and operation of country offices and centers.

XIV. LIST OF AUDIT COMMITTEE'S RECOMMENDATIONS

Recommendation 1: That in future, draft financial statements, comments, reports, and accounts be provided to the Committee in time for its first meeting of the year for review and discussion to enable the Committee to fulfill one of its most important functions.

Recommendation 2: That a charter document be developed for the IES evaluation function similar to that of the IA function (noting that it is planned to review the IA Charter following the QAR). Both charters should be embedded in the regulatory framework of the Organization.

Recommendation 3: In view of the extremely large amounts of program support costs (PSC) generated by the *Mais Médicos* project, that special arrangements be put in place to plan, manage, and account for expenditures so that such spending is prioritized, effective, and will achieve good value for money.

Recommendation 4: That PAHO will continue to identify learning opportunities by encouraging and carrying out research and evaluation of both the supply and demand side of the exchange and provision of primary health resources in the Region.

Recommendation 5: That a strategy and plan be developed for establishing how the *Mais Médicos* project would finish and ensure sustainability of the primary health care improvements achieved.

Recommendation 6: That there be a peer review of the ethics and integrity and conflict management system to make recommendations for improvement to the system and ensure that there were no conflicts of interest or conflicting functions within the system.

Recommendation 7: That the functions of ethics and investigation be separated and report to different organizational offices, fully following the UN Secretariat model.

Recommendation 8: That the information security management system comply with the International Organization for Standardization/International Electrotechnical Commission International Standard on Information Technology (2013) as soon as practical, and that certifications be obtained to demonstrate the achievement of the Standard.

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