



**Pan American  
Health  
Organization**



**World Health  
Organization**  
REGIONAL OFFICE FOR THE  
**Americas**

## **160th SESSION OF THE EXECUTIVE COMMITTEE**

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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 Nicholas J. Treen and John D. Fox, both appointed to the Committee in 2014, and Claus Andreasen, appointed in 2016. Chairmanship of the Committee rotates on an annual basis among the three members. Mr. Fox 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 that is now well established throughout the United Nations (UN) system. It contributes to strengthening an organization's governance, accountability, transparency, and stewardship and to assisting the Director and Executive Committee in fulfilling their oversight responsibilities. 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 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 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 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 practices. It normally comes together twice a year for a two-day meeting, at which it meets with the Director, her senior management, and other staff members, as well as 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 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 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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## **Reporting Period**

5. This annual report covers the Audit Committee's meetings in October 2016 and April 2017. For each meeting, an agenda is agreed upon and a schedule is decided on for open and closed sessions (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. It is a short synopsis of the main topics and issues that have been discussed and it contains what the Audit Committee considers are its most important findings and recommendations.

## **II. THE MAIS MÉDICOS PROJECT**

6. At its meetings, the Committee has continued to follow the development and implementation of the *Mais Médicos* project since its initiation in 2013, with reports from PASB, the Auditor General, and the External Auditor. It took note that the decrease compared to the previous year in financial resources for the project channeled through the Organization was due to the exchange rate and had no implications for operation of the project.

7. The Committee noted the reported effectiveness of the project in providing medical assistance for underserved areas of Brazil and the support maintained for *Mais Médicos* in Brazil despite recent political changes in the country. Members of the Committee were pleased to see that the project has resulted in a mutually beneficial situation for both Brazil and Cuba and were satisfied with the stabilization of the project, although the Committee is concerned about the hardship imposed on the doctors who are serving. The Committee thought the project was a very promising endeavor that possibly could be replicated in others countries.

8. The Committee was reassured to learn that the External Auditor is pleased, overall, with the level of compliance with his recommendations in Brazil. However, the Committee noted the Auditor General and the External Auditor can audit the *Mais Médicos* project only and not the *Mais Médicos* program. It urged Internal Oversight and Evaluation Services to monitor any information that may be available in the public domain regarding relevant audits and reviews by state and federal supreme audit institutions.

9. Last year, the Committee recommended, "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." The Committee reiterates this recommendation.

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

10. At its October session, the Committee appreciated the helpful and reassuring presentations from PASB on implementation of PMIS. It received updates on the implementation status of this process, including the issues and challenges encountered, an overview of financial reports being produced, and the process improvements already made. Some discussion took place regarding pending financial reports generated by the system and the fact that at this point certain manual checks were still necessary.

11. At its April session, the Committee saw impressive progress in the implementation and functions of PMIS and found it reassuring to hear reports on efficiencies and gains enabled by the system. It was agreed that the Organization would be in a good position to prepare a significant report on PMIS by the end of 2018, once the system had fully stabilized and passed through a complete biennial cycle (2016-2017).

**Recommendation 1: That PASB submit a report at the end of 2018 on lessons learned from implementation of PMIS and an analysis of how it can enhance PASB capacities in the areas of internal controls and functioning of the program planning and budget process.**

### **IV. UPDATE ON ENTERPRISE RISK MANAGEMENT (ERM)**

12. The Committee was pleased to see the continued maturity and usefulness of the ERM tool over the past year and, in particular, further development of the top risks process. An overview of the risk register and compliance by the cost centers was presented to the Committee.

13. The Committee commended the Bureau for the rapid progress made in the ERM program, particularly in the implementation of recommendations and the inclusion of risk in the program and budget for the upcoming biennium.

**Recommendation 2: That the establishment of risk appetite and tolerance levels be subject to review and decision by Executive Management.**

**Recommendation 3: That, as this mechanism matures and its value for Executive Management continues to improve, an annual report on ERM and management of the highest risks be submitted to the Subcommittee on Program, Budget, and Administration.**

### **V. INTERNAL OVERSIGHT AND EVALUATION SERVICES (IES)**

14. The International Standards for the Professional Practice of Internal Auditing call for an external quality assessment (EQA) of internal audit activity every five years by a qualified independent assessment team from outside the Organization. With the support of the Committee, IES selected the Institute of Internal Auditors (IIA) Quality Services,

LLC, to lead the review. The EQA of IES auditing activity was concluded on 17 February 2017. The Auditor General provided the Committee with an update of the EQA at its April meeting, based on a draft report from the assessment team, and the final report was submitted to the Committee when it became available following the April meeting.

15. The IES auditing activity was found to “partially conform” with the Standards and to “generally conform” with the IIA Code of Ethics. The IIA Quality Assessment Manual suggests a scale of three ratings: “generally conforms,” “partially conforms,” and “does not conform.” The rating “partially conforms” means that there are “significant opportunities for improvement in effectively applying the Standards and/or meeting their objectives.” The major reason for the rating of only “partially conforms” was that the Internal Audit Charter, approved by Executive Management on 12 September 2011, has never been approved by the PAHO Executive Committee or Directing Council. Also, “the Internal Audit Charter is not an element of financial regulations governing the operations of PAHO.” The report notes that approval of the Internal Audit Charter by the Board [the PAHO Executive Committee or Directing Council] is a critical aspect of the Standards because it demonstrates the functional oversight of Internal Audit and supports Internal Audit’s “organizational independence and objectivity.”

16. The Committee, which continues to have high regard for the IES staff and the quality of their work, regrets that IES received a rating of only “partially conforms” but notes this is in no way a criticism of IES itself. The Committee supports the opinion of the IIA assessment team that the Internal Audit Charter should be approved by the Executive Committee or the Directing Council to assure the firm independence of IES internal audit activity and allow it to earn a “generally conforms” rating. The Auditor General stated his view that the Charter should be included in the policy manual in the first instance, perhaps with a reference to it later in the financial rules. The Audit Committee agreed with this suggestion as a first step.

17. In response to a request from the Committee, the Auditor General presented it with a revised Internal Audit Charter that takes suggestions from the EQA into account. Following its April meeting, the Committee exchanged comments with the Auditor General regarding the draft charter being prepared for presentation to the Director.

18. With regard to the practice of evaluation in PASB, the Committee was pleased to learn of the improvements this past year but noted that the Auditor General believed that development of an appropriate evaluation culture in PASB still had a long way to go. The Committee urged that more work be done to develop a policy, strategy, and plan for establishing an appropriate PASB evaluation culture. In response to a request from the Committee, the Bureau provided an overview of the status of evaluation activity in PASB, including options for future development of the PASB evaluation function. There was a discussion of the three functional options presented, including absorption of the PAHO evaluation function into WHO, which the Committee found unacceptable.

19. The Committee noted that not many reports from the Joint Inspection Unit (JIU) were included in the growing catalogue of PASB evaluations. The Committee encouraged PASB to continue discussions on the role of the JIU to inform the evaluation strategy and offer clarity on how PAHO can take better advantage of it. The Committee noted that most UN organizations (including WHO) reported annually to a governing body committee on the relevance and uptake of JIU recommendations. The Committee noted that for PAHO the Subcommittee on Program, Budget, and Administration would most likely be best suited to consider such a report. PAHO's Legal Counsel clarified that the Organization participates in the JIU as AMRO, under the umbrella of WHO, and that PAHO is not a member of the JIU. The Committee accepts this point but still believes that PAHO could gain benefit from reviewing relevant JIU reports for helpful recommendations and also taking note of views expressed in their regard by the United Nations System Chief Executives Board for Coordination.

20. At its meetings this past year, the Committee reviewed four internal audit reports. With regard to the Internal Audit of the Office of the PAHO/WHO Representative, Barbados and the Eastern Caribbean Countries, the Committee took no issue with the audit and recommendations. In reviewing the Internal Audit of National Voluntary Contributions (NVC) at the Office of the PAHO/WHO Representative in Colombia, the Committee was pleased to note that PASB agrees with the recommendations made. Review of this report led to the observation that there appears to be a plethora of similar issues—such as the use of letters of agreement, following of manual procedures, procurement practices, etc.—that keep arising in audits of country offices. This led to the suggestion that IES conduct a meta-review of such issues to determine why they keep arising and what can be done to address this problem, including how the new capacities of PMIS might be used for the purpose. The Committee was pleased with the Internal Audit of Field Supervision in the *Mais Médicos* project and did not see any problem with the follow-up given to that report. The Committee was surprised by the problems presented in the Internal Audit of the Administration of the PAHO Health Unit and thought it ironic that such problems should exist in an organization established to improve health care, but it was reassured by the Bureau's intention to rectify the situation. The Committee had hoped to review an audit on the PAHO budgetary process at its April meeting, but this important audit was not yet available and should be ready for review at the autumn meeting.

**Recommendation 4: That an Internal Audit Charter be approved by the Executive Committee or Directing Council and embedded, or at least referenced, in the Financial Regulations and Rules of the Organization.**

**Recommendation 5: That more work be done to develop a policy, strategy, and plan for establishing an appropriate PASB evaluation culture.**

**Recommendation 6: That, rather than incorporating the PAHO evaluation service within WHO, the status quo should be maintained.**

## VI. ETHICS OFFICE

21. The Ethics Program Manager provided updates on the work of the advisory and investigation functions and reported that the office's new helpline was fully operational. The Committee noted the features offered by the new case management system and helpline. There was a question regarding the need for additional training to increase awareness of ethical concerns, especially at the country level. The Ethics Office shared information on its recent outreach efforts and future plans, including regular use of a survey to assess the workplace environment and ethical culture in the various departments at Headquarters and in the Country Offices. The Committee agreed on the importance of collecting this type of information.

22. Noting that PAHO has a policy of zero tolerance for fraud and of taking action when there is suspicion, a Committee member asked about the number of fraud cases reported. The Ethics Manager responded that four cases were reported but noted that, as in any other organization, he thought there was more fraud taking place than was actually reported. On the question of investigations, it was confirmed that nine full investigations were completed in 2016, four of which were dismissed without any action.

23. Regarding the Committee's previous recommendations for a peer review of the Ethics Office, considering in particular the combination of ethics and investigation functions in the same office, the Committee appreciated being able to meet informally with the expert selected to conduct the review. The Committee also was pleased to be asked to comment on the report, the basic thrust of which it found most helpful, and to discuss it with the Director. The Committee believes the report presents information that would strongly support completely separating the investigation function from the Ethics Office in order to allow the Ethics Office to serve more effectively as "a champion for moral conduct and ethical health in the Organization" and to assure the independence and objectivity required for professional performance of the investigation function.

**Recommendation 7: That there should be complete separation of the investigation function from the Ethics Office in order to allow both the ethics function and the investigation function to be better performed, in accordance with best practices.**

## VII. EXTERNAL AUDIT

24. The External Auditor team provided the Committee with an overview of their findings and observations collected during visits to Washington, D.C., and several PWRs, including Argentina, Brazil, and Uruguay. The external auditors saw progress in implementation of PMIS and Workday, especially relative to the beginning of 2016. The External Auditor shared areas that needed improvement, including support to country offices in retrieving information from the system and better consolidation of reports, rather than relying on Excel reports prepared outside the system, and fine-tuning reports on bank reconciliation. The External Auditor stated that the system was weak in the management of foreign currencies and that there would be need for improvement in 2017.

25. The term of the Court of Audit of Spain will expire upon completion of the audit for the 2017 financial period. The Bureau expressed its regrets that the Court of Audit of Spain would not seek an extension of its mandate as External Auditor. The Committee noted the excellent work performed by the Court of Audit of Spain and stressed the importance of finding candidates as highly qualified to serve as the next External Auditor, suggesting that the Bureau take advantage of the International Organization of Supreme Audit Institutions (INTOSAI) to come up with a broad slate of candidates.

26. Pursuant to the procedure approved by the 50th Directing Council, PAHO is in the process of selecting a new External Auditor for the 2018-2019 and 2020-2021 biennia. The Director of Administration provided an update on the appointment of the next External Auditor and indicated that he would welcome any advice on this matter. The original nomination deadline of 31 January 2017 had been extended to 30 April, and if no nominations were received by that time, PASB would use the same terms of reference to seek out commercial audit services and report on the results at the 160th Session of the Executive Committee in June. The Committee indicated its strong preference for the continued use of a government's supreme audit institution to serve as External Auditor.

#### **VIII. OMBUDSPERSON**

27. The Committee appreciated an informative presentation by the Ombudsperson on her function to informally help employees resolve workplace-related issues or problems. Noting that evaluative relationships was a top category of concern, the Committee asked if this was indicative of problems with the staff appraisal process. The Ombudsperson responded that there did not appear to be a correlation and that the trend was common in many organizations. The Committee looks forward to following the work of the Ombudsperson.

#### **IX. PROGRAM AND BUDGET PERFORMANCE MONITORING SYSTEM**

28. The Committee was encouraged by the interesting and stimulating presentation on the PAHO Program and Budget Performance Monitoring System. It noted the difficulties of such a system in terms of attribution of responsibility and the potential difficulties resulting from the concept of shared accountability.

29. The Committee expressed the wish to hear more information at future meetings about: *a)* how PASB performance is assessed and measured; *b)* how the success of country plans and key performance indicators is being evaluated; *c)* how the vision and mission of the Organization are updated; *d)* how the issue of attribution of results is managed; and *e)* how the six core functions and nine impact goals in the Strategic Plan relate to, or are reflected in, the Program Budget.

## **X. PAHO FINANCIAL SITUATION**

30. As recommended previously by the Committee, PASB presented the draft of the Financial Report of the Director for 2016. The document noted that 2016 was the first closure with the new Enterprise Resource Planning (ERP) system. Some of the issues encountered during the closure included the recognition of project support costs (PSCs), bank reconciliations, and delay in receiving the actuarial report. PAHO revenue in 2016 was slightly lower compared with 2015 because of a decline in the value of the Brazilian real against the US dollar.

31. The Committee commented on the increase in National Voluntary Contributions (35% of total revenue) outside Brazil, and the Director explained that more countries are becoming interested in channeling resources through PAHO in order to jointly execute programs at the national level. For example, Colombia and Trinidad and Tobago were arriving at agreements with PAHO for joint implementation of programs. The Committee found the presentation encouraging and helpful.

## **XI. DIRECTOR'S COMMENTS ON INTERNAL CONTROLS**

32. PASB presented the Committee with information on the Organization's new Internal Control and Compliance policy and draft PAHO Standard Operating Procedures. The aim of the policy is to create a process to provide reasonable assurance to PAHO management with regard to effective and efficient operations, the reliability of financial and nonfinancial reporting, and compliance with the Organization's policies, rules, and regulations. It was explained that PMIS will provide the bases for assessing compliance and the applicability of policies and rules, as well as for making recommendations to update these policies, rules, and regulations. The Committee noted that it was important not to take away from managers the responsibility for compliance.

33. The Committee saw the new compliance initiative as a welcome and useful step forward. The Committee noted the draft PAHO Standard Operating Procedures: Compliance with Internal Control, but the document was received too late for the Committee to give it appropriate consideration. It looks forward to doing so in its meeting in the fall.

## **XII. PAHO RESPONSE TO JIU REPORT ON FRAUD PREVENTION, DETECTION, AND RESPONSE**

34. The Ethics Program Manager presented the highlights of a report prepared by a working group tasked with reviewing the JIU report "Fraud Prevention, Detection and Response in United Nations System Organizations" and providing an institutional response to the Director of PAHO, as recommended by the 13th Session of the Audit Committee. The report contained 16 recommendations intended to strengthen the prevention, detection, and response to fraud in participating organizations. He clarified that PAHO is not a member of the JIU, but that it participates in its work in its role as

AMRO under the WHO umbrella. The working group presented its analysis of the JIU report to Executive Management in March, including steps that PAHO can take to strengthen its anti-fraud measures. Executive Management is currently analyzing the report to identify the entities responsible for enabling implementation of the recommendations that should start this year and would likely continue into 2018.

35. The Committee was appreciative of the PASB analysis of the JIU report and would like to see implementation of enhanced anti-fraud measures as soon as possible. The Committee requested a status report on implementation at its next meeting in the fall.

### **XIII. CONCLUSION**

36. The Committee again welcomed the cooperation it received from the Director and her continued support of its activities. Her effective leadership has been important for the progress achieved across the broad range of issues considered by the Committee over the past year.

37. Priorities for the Committee in the coming year will be: attention and action on resolving the current conflict of roles regarding the ethics and investigation functions; the need to assure the independence of internal audit activities; development of an appropriate evaluation culture in PASB; establishment and implementation of an effective internal control policy and framework taking advantage of the operational gains and efficiencies that should result from successful implementation of PMIS; continued improvements in ERM; and examination of the program planning and budgeting process.

38. As a final note, the Committee would like to express its admiration and appreciation for the excellent contributions provided by Nicholas J. Treen during his three years on the Committee. He was a great partner with whom to work and he provided effective expertise and leadership on important issues. The Committee regrets that he was not selected for a second term as allowed by the Committee's mandate. Although it is the prerogative of Member States to make such a decision, the Committee believes it has an obligation as a body of independent experts to caution that doing so in the absence of that member having committed an egregious act threatens to undermine the appropriate independence of Audit Committee members.

### **XIV. LIST OF AUDIT COMMITTEE RECOMMENDATIONS**

**Recommendation 1:** That PASB submit a report at the end of 2018 on lessons learned from implementation of PMIS and an analysis of how it can enhance PASB capacities in the areas of internal controls and functioning of the program planning and budget process.

**Recommendation 2:** That the establishment of risk appetite and tolerance levels be subject to review and decision by Executive Management.

**Recommendation 3:** That, as this mechanism matures and its value for Executive Management continues to improve, an annual report on ERM and management of the highest risks be made to the Subcommittee on Program, Budget, and Administration.

**Recommendation 4:** That an Internal Audit Charter be approved by the Executive Committee or Directing Council and embedded, or at least referenced, in the Financial Regulations and Rules of the Organization.

**Recommendation 5:** That more work be done to develop a policy, strategy, and plan for establishing an appropriate PASB evaluation culture.

**Recommendation 6:** That, rather than incorporating the PAHO evaluation service within WHO, the status quo should be maintained.

**Recommendation 7:** That there should be a complete separation of the investigation function from the Ethics Office in order to allow both the ethics function and the investigation function to be better performed in accordance with best practices.

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