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REPORT OF THE AUDIT COMMITTEE OF PAHO

CONTENTS

I.	The PAHO Audit Committee	1
	Role and Function of the Audit Committee.....	1
	Reporting Period.....	2
II.	The <i>Mais Médicos</i> Project	2
III.	PASB Management Information System (PMIS)	3
IV.	Update on Enterprise Risk Management (ERM)	3
V.	Information Security	
VI.	Internal Control and Compliance	4
VII.	Internal Oversight and Evaluation Services (IES)	5
	Internal Audit.....	5
	Evaluation	6
VIII.	Ethics Office	7
IX.	External Audit	8
X.	PAHO Financial Report and Statements	8
XI.	Conclusion	9
XII.	List of Audit Committee Recommendations	9

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 John D. Fox, appointed to the Committee in 2014; Claus Andreasen, appointed in 2016; and Kumiko Matsuura-Mueller, appointed in 2017. Chairmanship of the Committee rotates on an annual basis among the three members. Mr. Andreasen 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, 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 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, 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 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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5. The Committee regularly reviews its Terms of Reference (TOR) to ensure 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 financial statements, in particular the level of depth of the review.

Reporting Period

6. This annual report covers the Audit Committee's meetings in November 2017 and April 2018. 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 contains what the Audit Committee considers are its most important findings and recommendations.

II. THE MAIS MÉDICOS PROJECT

7. At its meetings, the Committee 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. The Committee had earlier recommended 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. Given the extension of the agreements between Brazil and PAHO until 26 April 2023, the Committee understands that contingency plans for completion of the project remain updated. It should be noted that the additional three years for the project will permit the progressive inclusion of more national doctors in the program.

8. The Committee appreciates the continued audit coverage of this significant project by Internal Oversight and Evaluation Services (IES) and the External Auditor. The Committee was reassured to learn that both IES and the External Audit found that local and Headquarters management were actively addressing all recommendations relating to *Mais Médicos* audits in 2017.

9. The Committee appreciates that significant evaluative activity has taken place or is in progress relating to the *Mais Médicos* project. According to IES, there has been high-quality monitoring of project-related indicators and extensive academic research associated with the project. However, there has been no fully independent evaluation of the contributions of the project to the quality of primary health care in Brazil. Nor has there been an evaluation of the lessons learned for PAHO as an organization. An evaluation of the lessons learned would be of particular value given the specific nature of the project.

Recommendation 1. The Committee recommends that the Bureau design and undertake a comprehensive evaluation of the added value resulting from the *Mais Médicos* project. The evaluation should include the lessons learned for PAHO as an organization.

III. PASB MANAGEMENT INFORMATION SYSTEM (PMIS)

10. At its meetings the Committee again appreciated the helpful and reassuring presentations from PASB on implementation of PMIS, including updates on the status of this process, the issues and challenges encountered, and the improvements made. The Committee noted there has been continued progress in the implementation and functions of PMIS such as the biennial closure, and reports and dashboards have been produced by the system. However, the Committee noted with concern that the new Enterprise Resource Planning (ERP), Workday, was not designed to meet some of the operational features typical of international nonprofit organizations and that customization would be not possible. Of particular concern was the challenge that management was facing regarding bank reconciliation and the calculation of exchange rates. At present the Organization is exposed to potential fraud and reputational risk because of the manual processes involved in these procedures.

Recommendation 2. The Committee recommends that management give high priority to implementing automatic bank reconciliation and calculation of correct exchange rates.

11. The Committee was pleased to note that the PASB has followed up on the Committee's recommendation in its 2017 Annual Report to submit a report at the end of 2018 on lessons learned from implementation of PMIS and an analysis of how the system can enhance PASB capacities in areas of internal controls and the program planning and budget process. The PASB informed the Committee that in April 2018 management contracted with an external firm to conduct an evaluation of the implementation of PMIS and identify how to further improve the effectiveness of administrative operations. The Committee looks forward to reviewing this report at its next meeting.

IV. UPDATE ON ENTERPRISE RISK MANAGEMENT (ERM)

12. At its meetings the Committee continued to follow the development of ERM. The Committee was pleased to note the continued maturity and usefulness of the ERM tool and the fact that ERM has been institutionalized in planning and operations processes. The Bureau has developed tools to facilitate the cost center manager's input into the risk register and has been able to work closely with the Department of Planning and Budget to integrate risk factors into the PAHO Program and Budget 2018-2019. An Enterprise Risk Management Standing Committee was established in 2015.

13. The Committee believes there has been good development and improvement in the institutional structure and review of risk. However, the Committee noted with concern that

links between the internal control framework and risk management need to be more explicit, as reported by IES.

Recommendation 3. The Committee recommends that the Bureau give priority to establishing explicit linkage between the internal control framework and the ERM program.

V. INFORMATION SECURITY

14. At the Committee's meeting in November 2017, the Bureau presented the information security roadmap that is being followed by the Organization. The roadmap was developed following ISO 27001, in accordance with the common standards of the UN system, as recommended by the Committee and External Audit. The roadmap provides a snapshot of where the Bureau currently stands and where it should be in such areas as disaster recovery and mobile device management. At the meeting the Committee also discussed the report Information Security Controls Assessment dated March 2016, in particular the Capability Maturity Model Score, which indicated significant gaps in the management of information security incidents cryptography, information security policies, and compliance.

Recommendation 4. The Committee recommends that management take concrete actions to address the gaps identified in the report Information Security Controls Assessment.

VI. INTERNAL CONTROL AND COMPLIANCE

15. At the Committee's meeting in November 2017, the Bureau presented its published Internal Control Framework Standard Operating Procedure. The PAHO internal control framework gathers all internal controls in one document. It is based on the WHO counterpart, with some variances, and is in alignment with the recommendations of the Committee of the Sponsoring Organizations of the Treadway Commission (COSO).

16. Maintaining a sound system of internal control is a prerequisite for achieving PAHO's mandate and objectives and safeguarding funds and assets entrusted to the Organization.

17. The Committee noted that the internal control framework Standard Operating Procedure (SOP) has been developed based on the COSO model, which is in accordance with best practices. Given the pivotal role of the internal control framework, the Committee found that the compliance of the SOP with the COSO model internal control framework should be assessed in order to demonstrate observance of established best practices.

Recommendation 5. The Committee recommends that the Bureau initiate an assessment of compliance of the SOP with the COSO model internal control framework.

18. During the reporting period, the Bureau launched the Administrative Compliance Initiative. The focus of the Initiative is to measure compliance by producing consolidated and automatic reports in order to verify that compliance requirements are being met. The Bureau informed the Committee that, as part of the Initiative, a number of functions have been or are in the process of being introduced, including dashboards. The Bureau has also appointed a Compliance Adviser to support the Initiative. At the Committee's meeting in April 2018, the Compliance Adviser delivered an effective presentation on the approach, process, and tools used for measuring compliance. The Bureau also presented its Accountability Agenda for 2018, which was in its early stages of introduction and is intended to increase transparency and improve harmonization of internal control, risk management, audit, planning, and evaluation.

19. The Committee commends the Bureau for developing and introducing the Administrative Compliance Initiative and establishing the compliance adviser function.

VII. INTERNAL OVERSIGHT AND EVALUATION SERVICES

Internal Audit

20. The Committee is pleased to note that the Director of PASB had issued a revised charter for the internal audit function of Internal Oversight and Evaluation Services (IES). The Committee had recommended a revision of the charter to bring it in line with best practices for internal audit functions within the United Nations system. The Committee is pleased to note that the charter has been published in the Organization's E-Manual and will be considered at the next meeting of the Executive Committee in June 2018.

21. The Committee was presented with an overview of an updated risk analysis used by IES as the basis for developing the internal audit work plan. A risk-based approach allows IES to obtain a view of the most critical operations in order to decide how to focus the limited resources of the internal audit function. The Committee welcomes this approach and has planned to further review the risk-based audit approach used by IES, including how the Organization's risk analysis and register is taken into account. During the course of 2018, the Committee will review the selection criteria for audits of PWRs, in particular the respective risk profiles, subsequent to receiving a detailed report from IES on the criteria currently applied.

22. During the reporting period, the Committee reviewed four internal audit reports. With regard to the internal audit of budgetary processes within PASB, the Committee was concerned about the findings of the audit, in particular the conduct of the audit and the limitations encountered by IES. In view of the severity of the issues raised, the Committee recommended that a follow-up audit be undertaken as a priority. The Committee is pleased to note that this audit is included in the IES Annual Work Plan for 2018. In reviewing the internal audit of the PAHO/WHO Representative Office in Port-au-Prince, Haiti, the Committee was concerned that the observations in the report revealed widespread problems with risk management. As a follow-up on the many risks identified in the audit, the Haiti

PWR Office had discussions with units at PAHO Headquarters on how to improve operations at the administrative level and was working to address all the recommendations, particularly those related to human resources, procurement, and the Program for Essential Medicines and Supplies (PROMESS). In addition, a staff member from Headquarters was temporarily assigned to Haiti to assist in preparing an action plan to address recommendations, including staff training to be compliant with procedures. The Bureau indicated that the national context of Haiti, such as working conditions, social and political changes, and security problems, had contributed to the observations in the audit report. In concluding the review of this audit report, the Committee noted that the headquarters system of controls and monitoring had not been able to identify these risks prior to the audit. The Committee also discussed two audits by Internal Audit of the *Mais Médicos* Project in Brazil. The Committee appreciated the presence of the PAHO/WHO Representative for Brazil at the Committee's meeting in April and was pleased to learn about the action taken on audit observations in the two audits by Internal Audit.

Recommendation 6. The Committee found that audit observations in the Haiti Internal Audit report indicated a lack of sufficient central monitoring on the part of PAHO Headquarters to detect and take corrective measures when an office is not in compliance with basic management procedures and controls. The Committee recommends that the Bureau strengthen its monitoring role.

23. The Committee reviews the status of recommendations issued by IES at every meeting. At its meeting in April 2018, the Committee discussed the response rate of PASB units in the follow-up on recommendations and the process of closing recommendations. The Committee noted with satisfaction that IES performs follow-up on audit recommendations at four-month intervals, when each recommendation is discussed in detail, leading to occasional changes in the wording or allocation to a different unit within the Organization. The Committee expressed concern that many of the IES audit recommendations related to recurrent issues at the country level. The Committee was also concerned that several recommendations were long-standing and dated as far back as 2011, including one relating to project management.

Evaluation

24. In its Annual Report presented in 2017, the Committee recommended that the Bureau undertake work to develop a policy, strategy, and plan for establishing an appropriate evaluation culture in PASB. At its meeting in November 2017, the Bureau presented a document describing the status of the evaluation activity in the Organization. The overall conclusion in the document was that the evaluation activity was not very mature, which confirmed the opinion of the Committee as expressed in its earlier annual reports. It was the Committee's view that a more complete evaluation policy needed to specify the roles and responsibilities, the governance structure, and the nature of the evaluation that would be performed in order to suit PAHO as an organization and add value. The Bureau informed the Committee in April 2018 that work was ongoing to revise the evaluation policy. The Bureau was also working on a standard operating procedure that

will define the roles and responsibilities of all those involved in evaluation and the performance monitoring and assessment process. The Committee requested that the Bureau submit drafts of the new evaluation policy and the standard operating procedure to the Committee for its views before they are put in final form.

VIII. ETHICS OFFICE

25. The Ethics Program Manager provided updates on the work of the Ethics Office's advisory and investigative functions and the use of its new help line. The briefing included facts and figures relating to reports and queries received in 2017. The Committee found the statistics on allegations and investigations to be informative and useful for analytical purposes and commended the Bureau on the decline in the number of reports received. The Ethics Officer attributed this development to enhanced ethical training and increased accountability within the Organization. The Committee was pleased to note that all training and ethical codes are applicable to all staff regardless of the type of contract.

26. In its Annual Report presented in 2017, the Committee recommended 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. This recommendation was among others based on a peer review of the Ethics Office and would, if implemented, ensure the independence and objectivity required for professional performance of the investigation function. The Bureau has followed the Committee's recommendation to separate the ethics function and the investigation function.

27. Following the Committee's recommendation, in March 2018 the Bureau provided the Committee with terms of reference for the new Investigations Office and the post description of the Chief Investigator. The Committee made written recommendations for changes in the two documents, taking into consideration good practices for investigations functions within the UN system, and these were discussed with the Bureau at the Committee's meeting in April 2018. The Committee emphasized its strong view that the Investigations Office should be a separate unit within IES and that the Chief Investigator should report to the head of IES. IES is an independent office and, as such, it could provide an additional level of review for the investigations reports.

Recommendation 7. The Committee recommends that the Bureau take account of the Committee's comments and recommendations on the draft terms of reference for the Investigations Office and the draft post description for the Chief Investigator. These comments are based on good practices for investigative functions within the UN system.

IX. EXTERNAL AUDIT

28. The External Auditor, the Spanish Court of Auditors, provided the Committee with an overview of their findings and observations through video connections at the Committee's meetings. The External Auditor expressed general satisfaction with the level of implementation and commitment of the Organization regarding recommendations, with which the Committee members agreed. The External Auditor indicated that some areas were considered to be at high risk, such as automatic bank reconciliation within the Workday system, which continued to require manual work and adjustments. Since this is a system issue, PASB was dialoguing with Workday to make the necessary adjustments that would allow for the production of precise bank reconciliation reports. Further observations by the External Auditor are mentioned below under PAHO Financial Report and Statements.

29. The Bureau provided the Committee with an update on the appointment of a new External Auditor at its meetings in November 2017 and April 2018. In September 2017, the 29th Pan American Sanitary Conference appointed the National Audit Office of the United Kingdom to serve as External Auditor during the 2018-2019 and 2020-2021 biennia. The Bureau provided the Committee with the presentation made by the National Audit Office during the 29th Pan American Sanitary Conference, including the responses to the Audit Committee questions presented to the incoming External Auditor. At the Committee's meeting in April 2018, the National Audit Office described their audit approach and methodology, including the process for developing the audit plan. The Committee discussed potential focus areas to be included in the audit plan in broad terms. It found the discussion useful and appreciated the opportunity to meet with the incoming External Auditor.

X. PAHO FINANCIAL REPORT AND STATEMENTS

30. At the Committee's meeting in April 2018, the Bureau provided it with an overview of the PAHO financial statements. This was the first biennial closure with the PMIS. At the time of the Committee's meeting, the External Auditor had not concluded their audit of the financial statements and therefore the Committee did not have the opportunity to review their report. However, the External Auditor provided the Committee with an overview of the preliminary audit observations and commended the Organization on its successful implementation of the PMIS. The PMIS has been a valuable tool for the Organization, although it still needed fine-tuning. Important functionalities that were lacking were automated bank reconciliation and automated local currency revaluation of assets and liabilities. The External Auditor also found need for improvements in the presentation of budget information, as it was difficult to maintain an audit trail between actual and budgetary expenditure. With regard to budget implementation, the External Auditor pointed out that there was increased spending at the end of 2017. PASB management was aware of the problem of a high budget implementation rate in the last quarter of the biennium and explained that this was the result of a combination of the timing of the receipt of Assessed Contributions and concerns regarding the uncertainty of funding

on the part of department managers. Management informed the Committee that measures had been taken to ensure a more even expenditure flow in the current biennium.

31. With regard the Statement on Internal Control, the Committee considered that the final conclusion on the effectiveness of the system of internal control was slightly optimistic and did not fully reflect the risk management situation in 2017. The Committee suggested that the financial report provide more detail on the Organization's main risks and the plans for mitigating them.

Recommendation 8. The Committee recommends that the Bureau revise the wording of the Statement of Internal Control so that it more adequately discloses the Organization's main risks and specifies how they are being mitigated.

XI. CONCLUSION

32. 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.

33. Priorities for the Committee in the coming year will be: establishment of an Investigations Office in line with best standards within the UN system for organizing professional and independent investigation functions; development of enhanced anti-fraud measures; development of an appropriate evaluation culture in PASB; continued development 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.

34. Finally, the Committee would like to express its gratitude and appreciation for the excellent contributions provided by Mr. John D. Fox who was appointed to the Committee in 2014. During his tenure, Mr. Fox has provided highly effective expertise and leadership regarding several complex issues which has enabled the Committee to make significant progress concerning these matters. It has been a true pleasure to work with Mr. Fox on the Committee.

XII. LIST OF AUDIT COMMITTEE RECOMMENDATIONS

Recommendation 1. The Committee recommends that the Bureau design and undertake a comprehensive evaluation of the added value resulting from the *Mais Médicos* project. The evaluation should include the lessons learned for PAHO as an organization.

Recommendation 2. The Committee recommends that management give high priority to implementing automatic bank reconciliation and calculation of correct exchange rates.

Recommendation 3. The Committee recommends that the Bureau give priority to establishing explicit linkage between the internal control framework and the ERM program.

Recommendation 4. The Committee recommends that management take concrete actions to address the gaps identified in the report Information Security Controls Assessment.

Recommendation 5. The Committee recommends that the Bureau initiate an assessment of compliance of the SOP with the COSO model internal control framework.

Recommendation 6. The Committee found that audit observations in the Haiti Internal Audit report indicated a lack of sufficient central monitoring on the part of PAHO Headquarters to detect and take corrective measures when an office is not in compliance with basic management procedures and controls. The Committee recommends that the Bureau strengthen its monitoring role.

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