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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 Audit 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 Martín Guozden, re-appointed for a second three-year term in 2021; Alan Siegfried, appointed in 2019; and Clyde MacLellan, appointed in 2020. Chairmanship of the Audit Committee rotates on an annual basis among the three members. Mr. MacLellan 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 and is now well established throughout the United Nations system. The PAHO 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, the PAHO 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 Audit 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 United Nations 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 (TORs), 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 Audit Committee is conducted in accordance with internationally accepted 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 Audit Committee reviews documents and policies provided at its meetings, receives briefings and presentations, and holds closed/executive/private sessions with certain presenters without members of management present. It may, if needed, visit PAHO/WHO Representative (PWR) Offices and Centers. No such visits were made during the period of this report. The last time that the Audit Committee visited a PWR Office or Center was March 2013.

4. An important aspect of the Audit Committee is that it is 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.

5. The Audit Committee regularly reviews its Terms of Reference to ensure that they are up to date and in line with the best practices for audit or oversight committees of similar organizations within the United Nations system.

Reporting Period

6. This annual report covers the Audit Committee's work at its 22nd Session in November 2021 (fall session) and the 23rd Session in April 2022 (spring session). Given the extraordinary and unprecedented circumstances presented by the COVID-19 pandemic, both sessions were held virtually.

7. As a general rule, for each meeting, an agenda is agreed upon and a schedule is adopted for the open and closed sessions (the latter to discuss confidential and sensitive matters). After each meeting, the Audit Committee prepares minutes 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 the 169th Session of the Executive Committee (CE169), the Audit Committee issued 74 recommendations to the Bureau, 67 of which had been closed prior to the 170th Session of the Executive Committee (CE170). The Audit Committee acknowledged the work done by management and agreed to close more recommendations during the period covered in this report, clarifying the actions necessary to accomplish this outcome. The Audit 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 CE169	Closed as of CE169	Issued during the Period	Closed during the Period	Open as of CE170
2015	14	14	-	-	-
2016	14	14	-	-	-
2017	21	21	-	-	-
2018	14	14	-	-	-
2019	8	4	-	3	1
2020	1	-	-	1	-
2021	2	-	2	1	3
2022	-	-	2	-	2
Total	74	67	4	5	6

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

9. The Audit Committee closed four recommendations during its 22nd Session and one recommendation during its 23rd Session.

II. INVESTIGATIONS AND ETHICS MATTERS

10. The Chief Investigator briefed the Audit Committee on the work undertaken by the Investigations Office, including recent trends and achievements. The Investigations Office continued to see a decline in the number of reports, likely due to the extended emergency telework and travel restrictions. Notably, there had been an uptick in fraud-related complaints from 2020 to 2021. The Chief Investigator attributed this trend to actions taken by the Bureau to better detect novel fraud—for example, the development of new fraud risk profiles. The Audit Committee was also informed that work on the Investigations Protocol (Recommendation AC18.3) was ongoing. The Investigations Office would continue to review the Protocol in collaboration with the Integrity and Conflict Management System and aimed to have the Protocol finalized by the 2022 fall session.

11. While appreciating the presentation made by the Chief Investigator on the work of the Investigations Office, the Audit Committee looks forward to finally receiving the Investigation Protocol. As a result, the longstanding recommendation regarding the Investigation Protocol remains open.

12. The Ethics Program Manager provided the Audit Committee with an overview of the work of the Ethics Office. The Ethics Program Manager was pleased to report that the Policy on Preventing Sexual Exploitation and Abuse, the Policy against Fraud and Corruption, and the Protection Against Retaliation Policy had all been issued in 2021. The Ethics Office had also undertaken initiatives related to the disclosure of conflicts of interest for both candidates under recruitment and consultants, completion of an Ethics and Climate survey, and the development of a new Code of Ethics.

13. In reference to the Policy on Preventing Sexual Exploitation and Abuse, the Audit Committee asked what the obligations were for individuals and entities collaborating with PAHO. The Ethics Program Manager explained that while the Bureau did not have the authority to enforce the Policy with people or entities outside the Organization, there was still an expectation that they would abide by it. He added that the Bureau was reviewing ways in which the principles contained in the PAHO Policy could be included in agreements with vendors, contractors, and partners. The Audit Committee was also informed that discussions were ongoing with regard to the Organization joining the United Nations Clear Check Initiative¹ so that individuals who had committed misconduct elsewhere in the United Nations system would be flagged and not employed by PAHO.

14. Given the developments with respect to the fraud policy, the Audit Committee closed the outstanding recommendation and expressed its interest in receiving updates on the results of the work of the Ethics Program Manager.

¹ More information is available from <https://unsceb.org/briefing-note-clear-check>.

III. INFORMATION SECURITY

15. The Bureau updated the Audit Committee on statistics contained in the Information Security Metrics Dashboard, including; *a)* incidents that had occurred during the past 12 months; *b)* emerging security vulnerabilities across different platforms; *c)* actions taken to increase Organization-wide security awareness and user compliance; *d)* new metrics related to information security spending and solution providers compliance; and *e)* upcoming security improvements, such as automatic updates for both traditional and mobile devices. The Audit Committee was informed that the Bureau retained a top cybersecurity rating among agencies in the United Nations system. The Audit Committee was also informed that the Information Security Specialist had left the Organization and that an offer had been made to a candidate to fill that position, now at a higher level than previously classified.

16. The Audit Committee recognized the dashboards as a good practice and was pleased to hear that the Bureau had taken steps to reduce risk by recruiting a new Information Security Specialist. Acknowledging the potential vulnerabilities associated with shadow IT systems, the Committee asked if the Bureau had a plan to minimize the use of these systems at the country level. The Audit Committee also expressed support for the addition of the information security spending metric, as well as efforts to allocate more financial resources to cybersecurity matters. Both of these matters are being addressed by the Bureau.

17. Regarding the risks posed by shadow Information Technology (IT) systems, the Bureau responded that it was actively working to define the data architecture and the technology architecture going forward in order to have a more comprehensive approach for new projects being developed. A list of current systems and databases had also been developed to facilitate the enforcement of data standards across these platforms, as well as the inclusion of these systems in assessments (i.e., regular penetration tests and vulnerability tests).

18. The Audit Committee thanked the Bureau for the comments and recommended that the Bureau include these types of controls in the regular updates, including information specific to the monitoring and oversight of IT security in PWR Offices, updates on emerging cybersecurity threats, and the identification and control of shadow IT systems.

19. The Audit Committee also stressed the importance of employee cybersecurity training and compliance with that training. The Audit Committee discussed measures to encourage more personnel to complete the required training, including linking completion of the course to performance. The Bureau agreed that it would be necessary to drive training uptake among personnel but expressed reservations about taking a stronger mandatory enforcement approach. As a result, the Audit Committee recommended that the Bureau develop a plan to improve compliance with its cybersecurity training.

20. Finally, in terms of the degree of independent assurance on the IT processes, the Bureau told the Audit Committee that an external review was last conducted by the United Nations International Computing Center (UNICC) in 2015. Since then, additional targeted assessments have been carried out under contracts between management and third parties, including penetration exercises done in July 2020 and an external security review of the Bureau's Microsoft Cloud implementation. The Audit Committee was also informed that the Office of Internal Audit would not be immediately adding such a review to its current work plan and instead allowing time for the changes previously described to take hold. The Audit Committee reiterated the value of comprehensive independent and objective assurance reviews on a periodic basis as an effective mechanism for identifying gaps and vulnerabilities through a wider set of assurances and kept its related recommendation open.

IV. AFTER-SERVICE HEALTH INSURANCE SUSTAINABILITY

21. The Audit Committee was reminded that the After-Service Health Insurance (ASHI) liability had increased significantly in recent years, mostly due to an unfavorable shift in market interest rates. At the request of the Global Oversight Committee of the Staff Health Insurance (SHI) Fund of WHO, PAHO had been working on a plan that combined reductions in claim costs and increases in contributions. This plan was presented to the SHI Global Oversight Committee at its April 2021 meeting.

22. The Bureau updated the Audit Committee on its work to address the risks associated with ASHI. The Bureau remained committed to increasing net ASHI assets despite facing significant challenges. Several initiatives planned to yield additional savings, including: *a)* increasing the PAHO contribution from 4% to 8% toward the unfunded liability through an "ASHI tax," and *b)* implementing a 10% surcharge on non-staff positions, to be paid by hiring entities. The Bureau was also looking into implementing a new third-party administrator in Latin America and the Caribbean and had discussed the proposal with the WHO Staff Health Insurance Global Oversight Committee.

23. The Audit Committee acknowledged that the cost-saving measures had taken effect and noted that the changing interest rate environment was resulting in a net decrease in the valuation of the overall liability. The Audit Committee also sought clarification on the management of returns on investments and supported the Bureau's actions to pool its investments with those of the WHO ASHI assets.

24. Acknowledging the actions taken by management in addressing the ASHI liability and the progress to date, the Audit Committee closed its outstanding recommendation.

V. PROGRAM, BUDGET AND EVALUATION

25. Effective 16 July 2020, the Office of Internal Oversight and Evaluation Services was renamed the Office of Internal Audit, given that the evaluation function previously assigned to the former Office of Internal Oversight and Evaluation Services was transferred to the Department of Planning and Budget (PBU), subsequently renamed the Department of Planning, Budget and Evaluation (PBE). The objective was to help ensure

that evaluation is included in the Bureau's planning cycle and hopefully allow the Bureau to utilize the findings of future evaluations in an active manner.

26. The Bureau provided a brief introduction of the PAHO Program Budget 2022-2023, adopted by the 59th Directing Council in September 2021, and gave an update on the PAHO Evaluation Policy. The Bureau told the Audit Committee that the evaluation function was recognized as a key pillar of the Bureau's results-based management framework and highlighted that the Policy was aligned with both United Nations and WHO standards, as well as international best practices. Three evaluations had been completed; five evaluations were ongoing or in the initial design phase; and one additional evaluation was planned for 2022. To avoid creating a parallel approach, reporting on the evaluations had been linked to the planning, budgeting, and monitoring processes for 2022-2023. The Bureau communicated that the lessons learned from each evaluation would be used in policy development and decision-making.

27. Referencing the Audit Committee's outstanding recommendation, in particular the peer review component, the Bureau stressed that this approach was recognized as good practice. However, sufficient time was needed to first implement the Policy and document lessons learned prior to the peer review. As a result of this information, the Audit Committee agreed to close the recommendation. The Audit Committee also expects to be updated on the performance of the evaluation function at future meetings.

VI. ENTERPRISE RISK MANAGEMENT AND THE PASB MANAGEMENT INFORMATION SYSTEM

28. The Bureau provided the Audit Committee with an update on the major developments related to PMIS that had been implemented in the period covered by this report. These developments included, among others: *a)* new functionalities, including, robotic process automation related to procurement processes, automation of Workday testing, modernization of the Strategic Planning and Monitoring System, COVID-19 vaccine procurement operations, and the recruitment process; *b)* the implementation of new dashboards and improved data analytics for decision-making; and *c)* the introduction of additional internal controls.

29. The Bureau also gave a presentation on how the second line of defense, particularly the management level of internal controls, can be strengthened. Key actions to strengthen the second line were noted. For example, the quarterly compliance certification done by Cost Center Managers was cited as an important tool for gathering systematic information and reviewing compliance performance across all levels of the Organization.

30. The Audit Committee thanked the Bureau for the presentations and asked how the Bureau was coordinating the decommissioning of various tools and systems as was planned in the PMIS Strategic Roadmap for 2022. Additionally, the Audit Committee requested clarification on the roles and oversight responsibilities in relation to the three lines of defense. The Bureau explained that responsibilities were dependent upon the business

process and that coordination across several areas was often required. Oversight by the second line was also indicated to be dependent on the process in question. The Bureau underscored the importance of the compliance function and dashboards in terms of monitoring.

31. The Bureau also acknowledged that more alignment between the risk management function and the compliance function was needed and informed the Audit Committee that the Bureau planned to integrate compliance under the umbrella of enterprise risk management.

32. The Audit Committee thanked the Bureau for the presentation and expressed its continued interest in the development of the risk management dashboards. The Audit Committee asked for a closer look at some dashboards and compliance reports mentioned during the presentation at future sessions so that it can focus on the risk mitigation actions of management as well as its ability to monitor the extent of residual risk.

VII. INTERNAL AUDIT MATTERS

33. The Auditor General provided a brief update on the status of the Work Plan of the Office of Internal Audit. The Audit Committee was also provided with the draft Report of the Office of Internal Audit for 2021 (Document CE170/23), which will be presented under a separate agenda item at the Executive Committee in June 2022. The Auditor General informed the Audit Committee that four thematic audits and four audits of PWR Offices were planned for the next year. One of the thematic audits was an audit of the second line of defense in the Bureau, requested by the Audit Committee last year.

34. The draft Report of the Office of Internal Audit noted that no unsatisfactory rating had been given for any of the internal audit assignments in 2021. This is the fourth consecutive year with no unsatisfactory ratings overall and the fifth year with no unsatisfactory ratings for PWR Offices. The Auditor General concluded that there is a continuing overall adequacy of internal controls throughout PASB.

35. During the discussion of risk areas arising during development of the Internal Audit Plan, the Auditor General highlighted that, in accordance with a previous Audit Committee recommendation, his office included an audit of the Latin American and Caribbean Center on Health Sciences Information (BIREME) in its work plan, given that the entity had not been audited in eight years. The Audit Committee noted that the PWR Office in Argentina was not included in the updated Internal Audit Plan and reiterated the importance of ensuring that all PWR Offices are subject to timely periodic audits.

36. In response to a question from the Audit Committee, the Auditor General stated that the process of requiring acceptance of findings prior to the release of a report was no longer a hindrance to efficiency since the release of the reports are no longer being delayed. The Auditor General stated that the reports were being shared with those audited at the same time as the Director received the report, but that the Director's acceptance of the findings did not occur until after her review of the reports.

37. Four internal audit reports were discussed in detail with the Auditor General. The first report reviewed was the Internal Audit of the PWR Office and the PROMESS Program in Port-au-Prince, Haiti. The second report reviewed was the Internal Audit of Shared Services in PASB. The third report reviewed was the Internal Audit of Administrative Compliance in PAHO Emergency Operations and the fourth report reviewed was the Internal Audit of Staff Health Insurance Claims.

38. The Audit Committee was also presented with an update on the status of the recommendations related to the Office of Internal Audit and the process for the Internal Audit Quality Assessment Review. The Auditor General reported that 86% of all recommendations issued for the five-year period ended 31 December 2021 had been implemented by management and that only one recommendation had been outstanding for more than two years.

39. Regarding the Internal Audit Quality Assessment Review, the Auditor General provided the Audit Committee with a proposal for completion of the assignment, including the scope, objectives, methodology, timelines, and the names of the individuals completing the assignment. The Audit Committee took note of the proposal and requested that any interviews of the Audit Committee be performed with the Committee as a whole rather than with individuals. Given that the information provided on the Internal Audit Quality Assessment fulfilled the expectations of the Audit Committee's recommendation, the Committee closed the outstanding recommendation.

VIII. EXTERNAL AUDIT MATTERS

40. The Bureau provided the Audit Committee with an overview of the Financial Report of the Director for 2021. The External Auditor, the National Audit Office (NAO) of the United Kingdom of Great Britain and Northern Ireland, discussed the preliminary audit findings related to their audit of the financial statements included in that report.

41. As has been the case in prior years, the Audit Committee received this briefing prior to the certification of the accounts in order to allow for an understanding of the issues and provide any advice in advance of finalization and certification. This practice is consistent with a past explanation by the NAO—namely, that presenting its findings to the Audit Committee after the Report of the External Auditor was signed would diminish the value that the Audit Committee could bring to the work and recommendations of the NAO. Recognizing that the Audit Committee acts in an advisory capacity and does not approve or endorse the financial statements, it agreed that input prior to certification is of greater value than after the entire exercise has been completed.

42. The Audit Committee was satisfied with the draft Audit Completion Report of the External Auditor, noting that the work of the External Auditor had been completed in accordance with the Audit Plan for 2021. The view of the Audit Committee was that the External Auditor's risk assessment of material misstatement was thorough and comprehensive. Key audit findings highlighted in the draft report included the valuation of land and buildings and the ASHI liability, as well as the mandatory issues of fraud and

internal control. As of the time of the meeting, none of these issues were expected to result in a qualification of the 2021 year-end financial statements.

43. Per the Audit Committee's request, two open Audit Committee recommendations were discussed—specifically, the recommendation on synchronization of the chart of accounts and the recommendation related to the redesign of financial data models. Regarding synchronization of the chart of accounts, the Bureau concluded that the current chart of accounts provided the information needed in relation to budget monitoring. In terms of the financial data models, the Bureau had implemented new procedures to help with closure processes in Workday. As a result, the Bureau confirmed that the audit trail was intact and improving, and therefore considered that the recommendations had been implemented.

44. The Audit Committee took note of the comments and was satisfied with the information presented. Noting the substantial progress made by the Bureau on both fronts, the Committee closed the two recommendations.

45. The Audit Committee was also provided with a report on the in-progress external audit recommendations. Observing that progress on implementing the recommendations had been slow, the Audit Committee requested that the external auditors work with management to identify the long-standing recommendations as well as those in which there was a discrepancy between the External Auditor and the Bureau, determine the cost-benefit, assess the resources available, and consider having a discussion with the Audit Committee on whether a recommendation should be closed—rather than leaving the recommendation open and moving the deadline. For the remaining outstanding recommendations, the Audit Committee will arrange for a detailed discussion of the recommendations by subject area and invite the responsible parties within the Bureau responsible for those subjects to participate in the discussion.

IX. CONCLUSION

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

47. Priorities for the Audit Committee in the coming year will be: *a)* reviewing the Terms of Reference of the Investigations Office in line with best standards within the United Nations system; *b)* cybersecurity matters; *c)* updates on risk monitoring and compliance in the context of Enterprise Risk Management; and *d)* the status of outstanding recommendations arising from the work of the External Auditor. The Audit Committee also intends to review the recommendations arising from the past meeting of the United Nations Audit Committee Chairs and determine applicability to the work of the PAHO Audit Committee, including the recommended good practices for United Nations Audit Committee Secretariats.

X. AUDIT COMMITTEE RECOMMENDATIONS ISSUED DURING THE PERIOD AND MAIN OPEN RECOMMENDATIONS FROM PRIOR PERIODS

Recommendation 1. The Audit Committee recommends that the Bureau develop a plan to drive an uptake in compliance with its cybersecurity training, including concrete actions and performance measures.

Recommendation 2. The Audit Committee recommends, for the next meeting of the Committee, that the Bureau and the External Auditor work together to streamline the content of the report on the in-progress external audit recommendations, including segregating those recommendations (a) that are no longer deemed useful and (b) on which there is disagreement between the two parties.

Recommendation 3. The Audit Committee recommends that the Bureau identify all second line of defense controls used to manage cybersecurity risks in PAHO/WHO Representative Offices and include those controls as well as the related performance metrics in the Information Security Metrics Dashboard.

Recommendation 4. The Audit Committee recommends that the Bureau prepare terms of reference for the External Quality Assessment including timelines and provide the document to the Committee for review and feedback during its spring session.

Recommendation from 2021. The Audit Committee recommends that the Office of Internal Audit facilitate an outside independent assessment of IT security to further enhance independence and objectivity of the process.

Recommendation from 2019. The Audit 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. It also recommends that future presentations include statistics that show the number of cases involving external parties vis-à-vis internal ones. Finally, the Committee requests that the revised Investigation Protocol be presented for their comments.
