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WORLD HEALTH ORGANIZATION



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REPORT OF THE AUDIT COMMITTEE OF THE PAN AMERICAN HEALTH ORGANIZATION

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What is the Audit Committee?

Origin and Composition

1. The 49th Directing Council of the Pan American Health Organization (PAHO) established the Audit Committee in September 2009 by Resolution CD49.R2, “Establishment of the Audit Committee of PAHO.” The committee has three members, whose initial terms of office have been staggered to allow for rotation. Their terms can be renewed only once. The Chair rotates on an annual basis. In the first year, Amalia Lo Faso chaired the committee; and in the second year, Peter Maertens. Audit Committee members are comprised of the following persons:

- Alain Gillette (June 2010–June 2014)
- Amalia Lo Faso (June 2010–June 2013)
- Peter Maertens (June 2010–June 2012).

Within the United Nations System

2. The concept of an audit committee has gained prominence over the past two decades in corporations trading on stock exchanges. It has been introduced into the United Nations (UN) system over the past ten years. The establishment of audit committees has been both recommended by external auditors and identified as a best practice by the Joint Inspection Unit (JIU), in that it contributes to strengthening the governance and accountability structure. To be effective, all committee members should be experts who are both impartial and independent of PAHO and its operations. All three current members are experts on governance, internal control, risk management, and internal and external audit; and their only relationship to PAHO is through the Audit Committee.

Function

3. As a guiding principle, PAHO’s Audit Committee provides external, independent, senior-level advice regarding the Organization’s financial controls and reporting structures, risk management, internal and external audit, and other internal controls to the Director of the Pan American Sanitary Bureau (PASB) and PAHO Member States through the Executive Committee. The Audit Committee comes together twice a year for two days, when it meets with PASB’s Executive Management, other staff members, and the External Auditor. In addition, the committee reviews many documents and policies, receives briefings, and may visit PAHO/WHO Representative Offices (PWRs)—as it did in 2011, when its members visited PWRs and regional Pan American Centers in four countries to enhance their understanding of PAHO’s operations, internal controls, projects executed under voluntary funds, and audit follow-up mechanisms.

Terms of Reference of the Audit Committee

4. The Terms of Reference contained in aforementioned Resolution CD49.R2 require the Audit Committee to:

- (a) review and monitor the adequacy, efficiency, and effectiveness of the Organization's risk assessment and management processes, the system of internal and external controls (including PAHO's internal oversight and External Auditor function), and the timely and effective implementation by management of audit recommendations;
- (b) advise on issues related to the system of internal and external controls as well as their strategies, work plans, and performance;
- (c) report on any matter of PAHO policy and procedure requiring corrective action, and on improvements recommended in the area of controls, including evaluation, audit, and risk management;
- (d) comment on the work plans and the proposed budget of both the internal and external audit functions;
- (e) advise on the operational implications of the issues and trends apparent in the financial statements of the Organization and on significant issues related to financial reporting policy;
- (f) advise on the appropriateness and effectiveness of accounting policies and disclosure practices, and assess changes and risks in those policies; and
- (g) advise the Director in the selection process of the Auditor General of PAHO, and advise the Executive Committee in the selection of the External Auditor.

5. The Audit Committee does not perform either external or internal audits, nor is it responsible for internal control or risk management or any other areas covered. It provides advice to both the Director and Member States and gives its views on whether these areas are operating adequately.

Reporting Period

6. This report covers audit operations from May 2011–April 2012, including the 2011 Financial Statements, related work done by the External Auditor, and the annual Financial Report submitted by the Director.

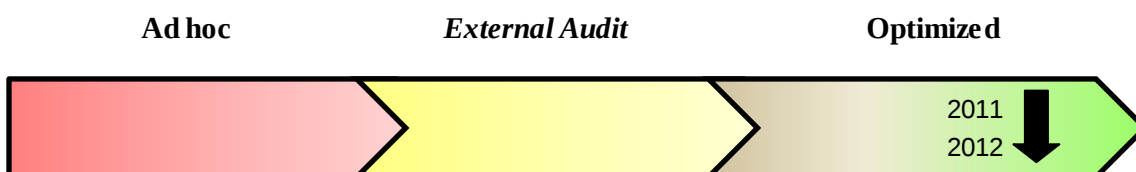
Findings of the Audit Committee

7. The Audit Committee reviewed documents, received presentations, and studied the areas consistent with its Terms of Reference. While the Chair was in Panama for a

non-PAHO assignment, he took the opportunity to visit the Organization's Panama operations and had briefings on two projects financed by voluntary funds. Summary conclusions are shown below in graphical format, using arrows to indicate where the Audit Committee perceived PAHO to be at the end of April 2011 and at the end of April 2012. The measures are subjective but nonetheless constitute a benchmarking based on the committee members' experience, emphasizing the strong areas within PAHO in the green section and the areas that require attention in the red and yellow sections. The movement of the arrows shows the progress that the Audit Committee has seen by comparing results from 2011 with those from 2012.

8. Some areas reviewed by the Audit Committee were audited by the External Auditor in 2011 and reported upon in the Long-Form Report on the 2011 Financial Statement Audit (hereafter referred to as the Long-Form Report). Where this is the case, the Audit Committee refers to the report of the External Auditor rather than providing the same information again.

External Audit



Solid in 2012, but prepare for the new External Auditor.

The 2011 External Audit

9. The 2011 External Audit was done by the National Audit Office of the United Kingdom (UK/NAO). A new NAO Director was responsible for the 2011 audit, but much of the staff from the audit team has remained. The Audit Committee reviewed the plans of the External Auditor and noted that they were coordinated with the work of PASB's Office of Internal Oversight and Evaluation Services (IES) and based on appropriate risk considerations. The Audit Committee reviewed the following External Auditor's reports and discussed them with the NAO Director:

- Long-Form Report on the 2011 Financial Statement Audit
- Audit Completion Report and Management Letter on the 2011 Financial Statements Audit
- Report to Management on the Audit Visit to PWR Argentina
- Report to Management on the Audit Visit to PWR Brazil

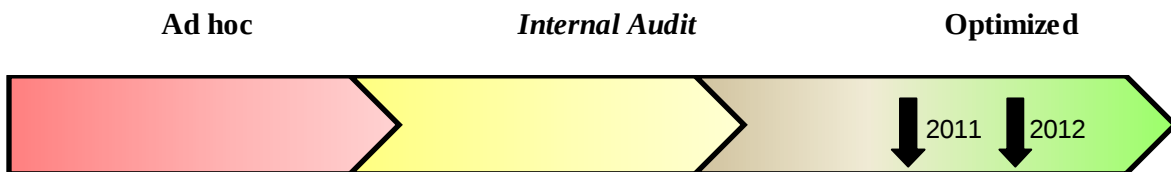
10. The Audit Committee is of the view that the external audit was performed in accordance with the agreement between PAHO and the NAO as well as the professional standards that guide the work of external auditors of the United Nations, its funds and programs, and its specialized agencies. The Audit Committee did not identify any issues in addition to those raised by the External Auditor, which it would need to bring to the attention of the Executive Committee or the Director in relation to the 2011 Financial Statements or the audits thereof.

11. The Audit Completion Report and Management Letter reviewed the extent to which the recommendations of the External Auditor are being implemented. In the view of the Audit Committee, despite the fact that a significant number of recommendations are shown as having been only partially implemented, the work done by PAHO nevertheless provides a solid basis on which most of the issues can be resolved. However, some recommendations will remain open.

The 2012 External Audit and Beyond

12. The external audit for the 2012–2013 and 2014–2015 accounts is to be carried out by the Court of Audit of Spain, which was elected by PAHO's Directing Council pursuant Resolution CD51.R3 (2011). The Audit Committee was informed that, as of the end of April 2012, a contract had not yet been signed with the Court of Audit of Spain. It would be a matter of concern if there were no external auditor to be called upon during any specific period of time. The Audit Committee has been briefed on the situation and supports the steps being taken by the Director to address the issues related to getting a contract signed.

Internal Audit



Solid in 2012, but PAHO should improve the implementation of open recommendations.

Effectiveness of the Internal Audit

13. The Audit Committee is satisfied with the internal audit activities provided through PASB's Office of Internal Oversight and Evaluation Services (IES). It has noted improvements made in staffing, in the number of significant subjects audited, and in the

impact of its reports in terms of strengthening controls within the Organization. The Audit Committee wishes to draw attention to some of the good practices that it noted:

- (a) solid annual risk-based audit planning has been done, and delivery of the plan has been accomplished;
- (b) there is a transparent annual Report of the Office of Internal Oversight and Evaluation Services;
- (c) an annual opinion was given on the Organization's internal controls;
- (d) the ability of the External Auditor to rely on the internal audit work of IES; and
- (e) the quarterly follow up and reporting on open IES recommendations was carried out.

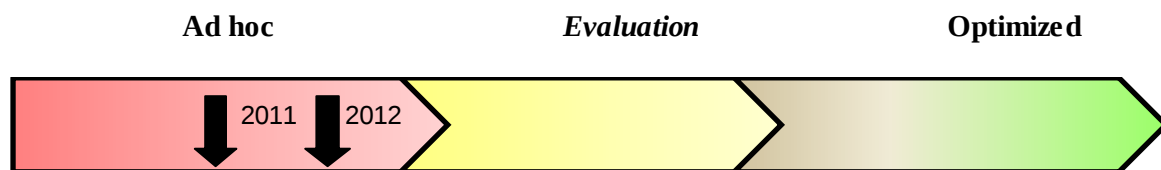
IES Recommendations

14. IES follows up quarterly on open recommendations and reports thereon in a transparent manner, highlighting long-outstanding, high-priority recommendations. The number of recommendations is growing. This calls for extra effort on the part of management to ensure implementation. The Audit Committee was given a draft policy on Audit and Management Review Follow-up, which should result in more effective monitoring of the implementation of all oversight recommendations.

Review by the External Auditor

15. The External Auditor has reviewed internal audit activities and identified some areas for improvement in his Long-Form Report on the 2011 Financial Statement Audit.

Evaluation



An evaluation policy, strategy, and methodology need to be further developed.

Effectiveness of Evaluation

16. IES has one person completely dedicated to its evaluation function. This individual has completed two main evaluations, as well as some small-scale ones, and has

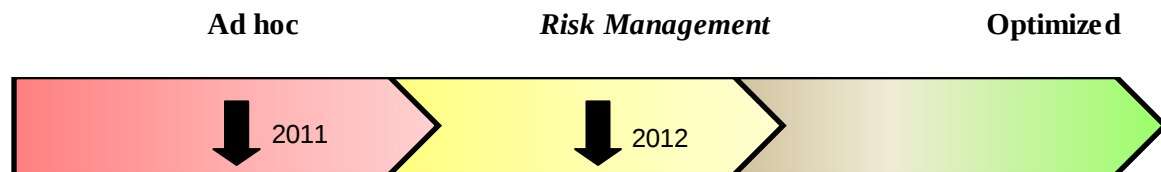
given advice on another evaluation. The details are reflected in the Report of the Office of Internal Oversight and Evaluation Services (Document CE150/23) submitted to the 150th Session of the Executive Committee. Program and project managers also outsource evaluations, independently of IES. To demonstrate the important contributions that these evaluations can and should make to PAHO's delivery mechanisms, IES has summarized the lessons learned from 18 reports produced outside IES.

17. Evaluation Terms of Reference and reports should be available to major stakeholders and be public documents. Documentation on evaluations in easily consultable and readable form should also contribute to both transparency and legitimacy.

Need for a Policy

18. At this time, all evaluation reports are mostly for internal use. The usual transparency accorded to donors, recipients, and stakeholders needs to be developed. The Audit Committee has discussed with PASB's Executive Management the need to have both a policy and a strategy that provide clear guidance as to when and how evaluations should be conducted and managed, and what standards should be used for these tasks and their reporting. Such a policy/strategy would also include definition of the roles and responsibilities of such partners as consultants, program managers, and IES.

Risk Management



**The basic elements for an Enterprise Risk Management (ERM) system
are being put into place.**

Risk Management Developing in PAHO

19. In 2011, PAHO took significant steps to introduce an Enterprise Risk Management (ERM) system, with help from voluntary funding. Some of the achievements include:

- (a) defining a risk management framework based on the 31000 standard of the International Standardization Organization (ISO);
- (b) establishing a Senior Risk Management Committee;

- (c) making progress towards producing a draft policy and a handbook, as well as towards designing initial training;
- (d) acquiring a software platform referred to as the Risk Management Information System; and
- (e) conducting pilot exercises related to two PWRs, as well as to the procurement function and the revolving funds.

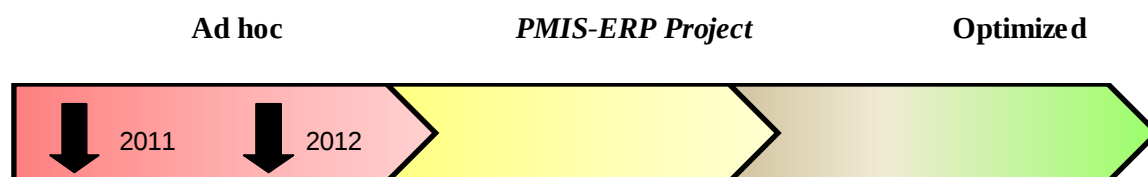
Next Steps

20. The Audit Committee has discussed with EXM the steps to be taken in 2012–2013. These include completing the risk registry, covering more of the Organization, and integrating ERM into PAHO’s Strategic Plans. One area that needs to be attentively managed is the monitoring and follow-up of mitigation plans (designed to lessen risks).

Review of the External Auditor

21. The External Auditor has done a review of the introduction of ERM and has suggested which areas need to be strengthened in NAO’s Long-Form Report.

Information Systems



The project is coming to a more solid footing, but there are many red flags to be dealt with.

Background

22. The initial efforts to introduce the PASB Management Information System (PMIS) using an integrated software package, referred to as an enterprise resource planning (ERP) system, started in 2008. The modernization project was formally announced in June 2011 by the Director.

23. The Audit Committee fully understands the need to introduce PMIS through an ERP system, and it recognizes that such a project will have a significant impact on the Organization’s work processes, procedures, and internal controls. However, there are other considerations as well. One of these consists of the fact that at least one of the systems that need to be replaced is so outdated that it relies on a unique support system

that the United Nations International Computing Center (ICC) will be keeping in operation only for PAHO from mid 2014 onwards. This makes the system costly and thereby puts its continuity at risk. Until the current accounting system is replaced, there remains some risk that the system may not be able to produce the financial statements at some future time.

24. Such a change-over to an ERP system implies that the Organization has to adjust its work processes to the software; and that requires a significant amount of reengineering of ongoing processes, which will impact the very way in which many staff members will be working. In addition, the project requires many types of technical skills that very few organizations, including PAHO, would have internally and that are expensive to acquire on a contractual basis. The risk of not being able to bring all these factors together is that the PMIS-ERP Project will fail or only partially succeed. This risk is usually high for any organization, and PAHO is no exception.

25. For this reason, the Audit Committee has asked for briefings on the project's progress at each of its meetings, and it has provided advice accordingly to PASB Executive Management and the project team. This topic was already mentioned in the first Report of the Audit Committee (Document CE148/20 [2011]) submitted to PAHO's 148th Session of the Executive Committee.

Progress to Date

26. Until June 2011, progress was slow; and many of the elements needed for the success of the PMIS-ERP Project were not yet in place. Since then, several of the required elements have been put into place, including:

- (a) a Steering Committee consisting of senior managers, which is taking an active role;
- (b) an Advisory Committee that offers a wide breadth of expertise throughout the Organization;
- (c) external consultants who can help with various aspects of the project;
- (d) progress made on selecting software; and
- (e) decisions made to slow down the project until more of the required elements are in place, in order to ensure a solid basis on which to start the full-scale project.

Next Steps

27. Management recognizes many of the required elements that need to be put into place and has started to work on them. These elements include the following:

- (a) making further progress in the overall governance and leadership of the project;
- (b) reviewing the business case and priorities, as well as involving stakeholders;
- (c) realigning the tender on the business case, including giving a higher priority to the project as defined in business terms;
- (d) continuing with the acquisition process, based on further work;
- (e) adopting Control Objectives for Information and Related Technology (COBIT), a professional project management tool for a comprehensive business case;
- (f) closely interconnecting the Terms of Reference of both the System Integrator and the Change Management Advisors;
- (g) creating a solid project team seconded from the best staff within PAHO;
- (h) creating a risk registry for the project; and
- (i) legally guaranteeing the continuity of the current mainframe until the ERP system becomes satisfactorily operational.

28. The Audit Committee would add to this listing the need to start defining and documenting the new processes and how they will be implemented within the Organization before replacing the existing systems. This involves definition and documentation tasks with stakeholders on how the existing processes and procedures will change. In turn, this will ensure that they are extensively defined, documented, understood, and accepted by the users. This aspect should begin as soon as the choice of software is made. Without this step, there is a danger that existing procedures or parallel systems will continue to be maintained that cannot be supported by the software. In the view of the Audit Committee, insufficient attention has been paid to this aspect of change management.

29. The Audit Committee noted that several External Audit recommendations—and, on some minor points, full International Public Sector Accounting Standards (IPSAS) compliance—may not be fully implemented until the new ERP system is operational. Any slippage of its timeline could eventually have an impact on audit opinions on annual Financial Statements. The Committee took note that PASB's Executive Management was evaluating the current processes of COBIT to determine the best approach to take for its implementation.

The External Auditor Review

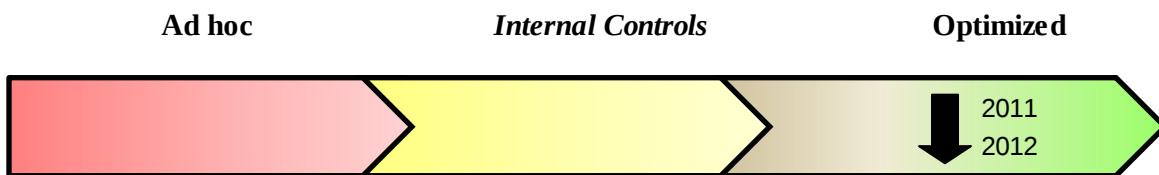
30. The External Auditor has done a review of the development of the PMIS-ERP Project and has offered recommendations for strengthening the project, which can be found in the Long-Form Report on the 2011 Financial Statement Audit.

Audit Committee Recommendations

31. The Audit Committee recommends that:

- (a) the tender be realigned on the business case;
- (b) further progress be made in the overall governance and leadership of the project;
- (c) the terms of reference of the system integrator and of the change-management advisors be closely interconnected; and
- (d) the continuity of the current mainframe services be legally guaranteed until the ERP becomes operational in a satisfactory way.

Internal Controls



Various confirmations have been given that the Internal Controls were effective.

Definition

32. Internal Controls can be defined as all the systems, procedures, reviews, checks, and balances—including the governance structures—that support the orderly and efficient achievement of PAHO's mandate and objectives while safeguarding its resources, funds, and assets; deterring and detecting errors, fraud, and theft; ensuring the accuracy and completeness of its accounting data; producing reliable and timely financial and management information; and ensuring compliance with its policies and plans. It therefore comprises of a wide array of activities and improvements identified by PASB's Executive Management, by PAHO's internal and external oversight bodies, and by others.

Statement of Internal Control

33. The Director issued a statement of responsibility in the Financial Report of the Director and Report of the External Auditor for 2011 (*Official Document 342*), presented to the 150th Session of the Executive Committee wherein she explains her responsibility for internal controls and the significant elements that are part of it. On the basis of the governance systems in place, she concludes that—in her opinion—the “Organization’s system of internal control was effective throughout the financial reporting period 1 January 2011 through 31 December 2011, and remain so on the date” that she signed the statement. In her statement, she referred to IES’ overall opinion that the “PAHO internal control environment is adequate to provide reasonable assurance that transactions and activities are authorized and properly recorded.” The External Auditor referred to this statement as being consistent with his own, and this is also consistent with the observations made by the Audit Committee.

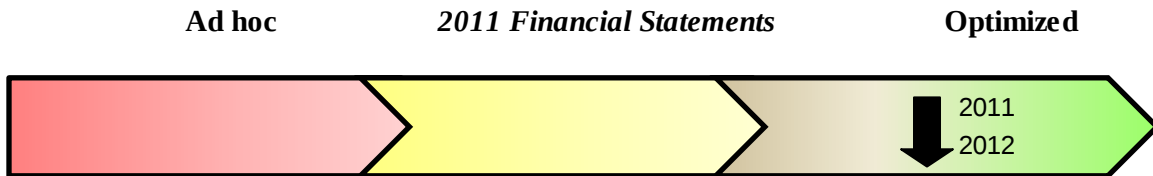
Areas for Improvement

34. The Director includes a number of weaknesses in her statement of internal control, as well as the actions PAHO has taken to address these issues. A number of these are also touched upon in this report. Her points include the following:

- (a) corporate administrative systems, referring to the work being done to implement the PMIS;
- (b) project implementation, particularly in relation to Voluntary Contributions;
- (c) succession planning for staff;
- (d) emergency response, referring to the Emergency Operations Center;
- (e) the international economic environment and its impact on the budget; and
- (f) the funding of long-term employee benefits.

35. In the view of the Audit Committee, the statement on internal controls made by the Director reflects best practices, relies on the various oversight functions, and is consistent with the observations of the Audit Committee.

2011 Financial Statements



**The External Auditor has given a positive opinion on the financial statements.
The Financial Statements highlight an unfunded liability for employee benefits.**

PAHO's Financial Statements

36. In accordance with its Terms of Reference, the Audit Committee reviewed documents, received presentations, and studied the areas reported by the External Auditor in the Long-Form Report on the 2011 Financial Statement Audit. The Audit Committee is satisfied with the 2011 Financial Statements and the audit thereof. It has not identified any issues in addition to those mentioned in the 2011 Financial Statements or in the *Financial Report of the Director and Report of the External Auditor for 2011*. The 2011 Financial Statements and the comparative figures for 2010 are IPSAS compliant. This was achieved by a staff dedicated to working on the IPSAS project for several years.

Liability for Employee Benefits

37. The 2011 Financial Statements include a liability regarding employee benefits related to after-service health costs, amounting to US\$ 181 million. This is elaborated upon in note 12. In relation to this liability, the Director—in her Internal Control Report—states that:

While several initiatives have been implemented to provide some funding on both an annual and ad hoc basis, the Organization does not have a comprehensive plan to fully fund the [After Service Health Insurance] ASHI liability over a determined period of time ... The Organization will be contracting with an actuarial firm in 2012 to provide an analysis of the various options to meet the funding requirement. This comprehensive plan will be presented to the PAHO Governing Bodies for consideration in 2013.

38. The Audit Committee wishes to draw the attention of the Member States to this liability and the importance of agreeing to a comprehensive plan to meet its funding requirement over time.

Class Action Suit

39. The Audit Committee received a briefing on note 26 in the 2011 Financial Statements relating to a class action lawsuit that was filed against the Government of the United States of America and PAHO, including the Organization's response. The Audit Committee noted how PASB's Executive Management handled this issue, which refers to activities that, while unrelated to PAHO's role over half-century ago, present a potential risk in terms of legal fees and damages. It also reviewed the report issued in September 2011 in Washington, D.C. by the United States Presidential Commission for the Study of Bioethical Issues entitled "Ethically impossible" research conducted on sexually transmitted infections in Guatemala from 1946 to 1948. The Audit Committee has asked PASB's Executive Management to keep it informed of any developments that may significantly affect risk management and financial statements.

The Work of the Audit Committee for 2012–2013

40. The Audit Committee will pursue its mandate and follow up on the issues raised in its reports, in order to help PAHO further improve and move into the optimal zone as identified in the above charts. It has asked for more information relating to several offices and intends to visit PAHO operations in Brazil in spring 2013.

41. PASB's Executive Management indicated that staff would make a presentation on the role of the Pan American Health and Education Foundation (PAHEF) during the next session of the Audit Committee.

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