



PAN AMERICAN HEALTH ORGANIZATION
WORLD HEALTH ORGANIZATION



49th DIRECTING COUNCIL

61st SESSION OF THE REGIONAL COMMITTEE

Washington, D.C., USA, 28 September-2 October 2009

Provisional Agenda Item 5.4

CD49/26 (Eng.)

29 July 2009

ORIGINAL: ENGLISH

PROPOSAL FOR THE ESTABLISHMENT OF AN AUDIT COMMITTEE

1. Following the recommendations of the Organization's External Auditors and as a means of bolstering the Pan American Health Organization's (PAHO) ongoing efforts to establish a governance framework that reflects international best practices (which includes the establishment of the Ombudsperson's Office in 2005, the adoption of PAHO's Code of Ethical Principles and Conduct in 2005, the appointment of an Information Security Officer in 2005, the establishment of an independent Ethics Office in 2006, and the creation of the internal Integrity and Conflict Management System in 2007, among others), the Director of the Pan American Sanitary Bureau ("the Director") proposed the establishment of an Audit Committee in PAHO.

2. The proposed Audit Committee is to serve in an independent expert advisory capacity to assist the Director and PAHO's Member States, through the Executive Committee, by providing independent assessment and advice on the operation of the Organization's financial control and reporting structures, risk management processes and adequacy of the Organization's systems of internal and external controls, including PAHO's Office of Internal Oversight and Evaluation Services, the External Auditors and the administration and management of the Organization.

3. In March 2009, the Director presented this agenda item for the first time at the Third Session of the Subcommittee on Program, Budget, and Administration of the Executive Committee (SPBA) together with draft Terms of Reference for the proposed Audit Committee. The Member States took careful note of the proposal and requested that the PAHO Secretariat open a virtual workspace to permit the Member States to submit detailed feedback and comment on the draft Terms of Reference, to be incorporated into a new proposal for consideration at the 144th Session of the Executive Committee of PAHO in June 2009. The Committee considered the proposal and recommended that the 49th Directing Council approve the establishment of the Audit Committee as set forth in the proposed Terms of Reference (Annex A).

Action by the Directing Council

4. The Directing Council, after reviewing the information provided, is invited to consider adoption of the resolution recommended by the 144th Session of the Executive Committee (see Annex B).

Annexes

TERMS OF REFERENCE FOR THE PAHO AUDIT COMMITTEE

Guiding Principle

1. An Audit Committee shall be established by the Directing Council of the Pan American Health Organization (PAHO) to exercise an independent consultative function, providing the Director of the Pan American Sanitary Bureau (“the Director”) and the PAHO Member States, through the Executive Committee, with advice on the operation of the Organization’s financial controls and reporting structures, risk management processes, and other audit-related controls. The Committee shall perform this function through independent reviews of the work carried out by PAHO’s system of internal and external controls, including PAHO’s Office of Internal Oversight and Evaluation Services (IES), the External Auditor, and the administration and management of the Organization. The work of the Audit Committee shall be conducted in accordance with internationally accepted standards and best practices and in compliance with PAHO’s policies, regulations, and rules. The Audit Committee does not substitute the function of the Executive Committee of PAHO or of its Subcommittee on Program, Budget, and Administration (SPBA).

Role of the Committee

2. The PAHO Audit Committee shall:
- (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, 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 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 significant financial reporting policy issues;

- (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.

Membership of the Committee

3. The Audit Committee shall be composed of three members who shall reflect the highest level of integrity and be fully independent from PAHO. The Audit Committee shall be appointed by the Executive Committee of PAHO. Members shall serve in their personal capacity. Each Member shall serve as Chairperson of the Committee for one year on a rotational basis.

Criteria for Membership

4. All members of the Committee must have recent and relevant senior-level financial, audit, and/or other oversight related experience. Such experience should reflect, to the extent possible:

- (a) experience in preparing, auditing, analyzing, or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues faced by PAHO, including an understanding of relevant accepted accounting principles;
- (b) an understanding of and, if possible, relevant experience in the inspection, monitoring, and evaluation processes;
- (c) an understanding of internal control, risk management, investigation, and procedures for financial reporting; and
- (d) a general understanding of the organization, structure, and functioning of international organizations in the UN system.

Terms of Appointment

5. The Members of the Audit Committee shall be appointed to serve no more than two full terms of three years each. The election cycle shall be fixed upon establishment of the Committee. Members may be reelected for a second and final term of three years, with the exception of the initial three Members of the Committee, who shall be appointed

by drawing of lots to serve an initial term of two, three, or four years. Former members of the Audit Committee may be reappointed to the Committee subject to not serving more than two full terms.

Call for Proposals

6. The Director shall recommend a list of qualified candidates. The list will be notified to the SPBA prior to the Executive Committee Session and must include an extended CV of each of the candidates.

7. The list of candidates will be subject to assessment, which may include requests for additional information and subsequent modification. The highest ranked candidates, according to the Criteria for Membership, will be proposed by the SPBA to the Executive Committee for decision.

Responsibility of Members

8. In performing their functions, Members of the Audit Committee shall neither seek nor receive instructions from any national government authority. They shall act in an advisory, non-executive, capacity and be fully independent from any government or PAHO body, structure, or entity. Members shall be guided solely by their expertise and professional judgment, taking into account the collective decisions of PAHO's Governing Bodies.

9. Members of the Audit Committee shall be required to sign a confidentiality statement at the beginning of their tenure, as well as a PAHO Declaration of Interest Form. Where an actual or potential conflict of interest arises, the Member shall declare such interest to the Committee and will be excused from the Committee's discussion on the corresponding issue.

Meetings and Rules of Procedure

10. The PAHO Audit Committee shall normally meet in regular sessions twice a year. Additional meetings may be scheduled on an *ad hoc* basis as necessary. The Chairperson of the Committee shall determine the timing of meetings and the need for any additional meetings in the course of the year. He/she shall also set the agenda of the meetings, taking into account relevant requests from the Director and/or the Executive Committee of PAHO. The meetings shall be convened by the Secretariat of the Committee on behalf of the Chairperson. Members of the Audit Committee shall normally be given at least four weeks' notice of meetings.

11. The Director, the External Auditor, the Auditor General of PAHO, the Director of Administration of PAHO, and the Financial Resources Manager of PAHO shall attend meetings of the Audit Committee at the invitation of the Chairperson of the Committee.
12. The Audit Committee may decide to meet in closed session from time to time as determined by the Committee.
13. The Audit Committee shall endeavor to work on the basis of consensus.
14. Members serve in their personal capacity and cannot be represented by an alternate attendee.
15. The administrative and secretariat support function of the Audit Committee, including the preparation and maintenance of minutes of the meetings, shall be carried out by independent staff hired on an as needed basis for that purpose, and will report directly to the Chairperson on matters relating to the work of the Audit Committee.

Disclosure

16. The Audit Committee secretariat, observers, and any third party invited by the Committee to attend its sessions shall not make any document or information public without the Committee's prior authorization.
17. Any Audit Committee Member reporting on the Committee's work shall ensure that confidential materials are secured and shall keep other Members adequately informed.

Access

18. The Audit Committee shall have access to all records and documents of the Organization, including, but not limited to, audit reports and work documents of IES and reports issued by the External Auditors.
19. The Audit Committee shall be able to call upon any PAHO staff member or employee, including senior management of the Organization, and request meetings with any parties, as it deems necessary to obtain information relevant to its work.
20. PAHO's External Auditors and Auditor General shall also have unrestricted and confidential access to the Chairperson of the Committee.
21. The Audit Committee may obtain legal or other independent professional advice if it is considered necessary.

Reporting

22. The Chairperson of the Audit Committee shall interact regularly with and report to the Director on the results of the Committee's deliberations, as well as any issues relevant to its business.

23. The Audit Committee shall prepare an annual report of its work for the Executive Committee of PAHO. The Audit Committee may also prepare ad-hoc reports as requested by the Executive Committee. The Director shall be given the opportunity to comment on all reports prior to their submission to the Executive Committee.

Resources

24. The Audit Committee shall be provided with such resources as are necessary to undertake its duties. Funds shall be included in the biennial budget of the Organization to provide for administrative support, travel, and accommodation costs in relation to Committee Members' duties. Such travel shall be conducted in accordance with PAHO regulations and rules. The Members shall serve without remuneration from PAHO.

Review of the Terms of Reference

25. The Executive Committee will periodically review the output of the Audit Committee, assess its effectiveness and make appropriate recommendations, in consultation with the Director, regarding its membership and Terms of Reference. The Terms of Reference of the Audit Committee may be modified by the Directing Council as necessary.



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Washington, D.C., USA, 28 September-2 October 2009

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Annex B
ORIGINAL: ENGLISH

PROPOSED RESOLUTION

ESTABLISHMENT OF AN AUDIT COMMITTEE

THE 49th DIRECTING COUNCIL,

Having reviewed the document *Proposal for the Establishment of an Audit Committee* (Document CD49/26);

Acknowledging the Organization's ongoing efforts to establish a governance framework that reflects international best practices; and

Noting the proposal to establish an independent expert advisory body to advise the Director of the Pan American Sanitary Bureau and PAHO's Member States on the operation of the Organization's financial controls and reporting structures, risk management process, and other audit-related controls,

RESOLVES:

1. To establish an Audit Committee for the Pan American Health Organization (PAHO).
2. To approve the following Terms of Reference for the PAHO Audit Committee:

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 - (b) advise on issues related to the system of internal and external controls, 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 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 significant financial reporting policy issues;
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CD49/26 (Eng.)
 Annex C

ANALYTICAL FORM TO LINK AGENDA ITEM WITH ORGANIZATIONAL AREAS

1. Agenda item: 5.4. Proposal for the Establishment of an Audit Committee.

2. Responsible unit: Office of the Director

3. Preparing officer: Michael A. Boorstein, D/AM

4. List of collaborating centers and national institutions linked to this Agenda item:

N/A.

5. Link between Agenda item and Health Agenda for the Americas 2008-2017:

None.

6. Link between Agenda item and Strategic Plan 2008-2012:

SO 16: To develop and sustain PAHO/WHO as a flexible organization, enabling it to carry out its mandate more efficiently and effectively. Reference to RER 16.2: monitoring and mobilization of financial resources strengthened to ensure implementation of the Program Budget, including enhancement of sound financial practices and efficient management of financial resources.

7. Best practices in this area and examples from countries within the Region of the Americas:

World Health Organization, World Food Program, Universal Postal Union, National Audit Office.

8. Financial implications of Agenda this item:

Need for funds for administrative support, travel and accommodation costs in relation to Committee Members' duties. Resolution calls for funds to be included in the Biennial Budget of the Organization for this purpose.



PAN AMERICAN HEALTH ORGANIZATION
Pan American Sanitary Bureau, Regional Office of the
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CD49/26 (Eng.)
Annex D

**Report on the Financial and Administrative Implications for the
Secretariat of the Resolution Proposed for Adoption**

1. Agenda item: 5.4. Proposal for the Establishment of an Audit Committee.

2. Linkage to Program Budget 2008-2009:

- (a) **Area of work:** Strategic Objective 16.
- (b) **Expected result:** RER 16.2: Monitoring and mobilization of financial resources strengthened to ensure implementation of the Program Budget, including enhancement of sound financial practices and efficient management of financial resources.

3. Financial implications

- (a) **Total estimated cost for implementation over the lifecycle of the resolution (estimated to the nearest US\$ 10,000, including staff and activities):** See 3(b). This is a permanent activity that is estimated to cost \$100,000 per Biennium. This should be reflected in the Regular Budget as a line item.
- (b) **Estimated cost for the biennium 2008-2009 (estimated to the nearest US\$ 10,000, including staff and activities):** None. Projected costs for 2010-2011 and subsequent Biennia:

The administrative and secretariat support function of the Audit Committee, including the preparation and maintenance of minutes of the meetings, shall be carried out by independent staff hired on an as needed basis for that purpose. In addition, the three members of the Audit Committee normally shall meet in regular sessions twice a year. The Organization will need to cover the cost of travel and per diem for this purpose. The Members shall serve without remuneration from PAHO.

Cost estimated for the Biennium:

1. Administrative and Secretarial support – One secretary, estimated cost per Biennium, plus related administrative support costs.
Estimated: \$10,000

2.	Travel and Per Diem of Members, estimated cost per Biennium:	\$90,000
	Total:	\$100,000
(c) Of the estimated cost noted in (b), what can be subsumed under existing programmed activities? None.		
4. Administrative implications		
(a) Indicate the levels of the Organization at which the work will be undertaken: Director of PAHO and Governing Bodies.		
(b) Additional staffing requirements (indicate additional required staff full-time equivalents, noting necessary skills profile): None – See 3(b).		
(c) Time frames (indicate broad time frames for the implementation and evaluation): If the resolution is adopted in the 2009 Directing Council, the specific proposal for the Audit Committee Members can be considered at the March 2010 SPBA and approved at the June 2010 Executive Committee.		