

# 162nd SESSION OF THE EXECUTIVE COMMITTEE

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*Provisional Agenda Item 5.6*

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## REPORT OF THE OFFICE OF INTERNAL OVERSIGHT AND EVALUATION SERVICES FOR 2017

### Introduction

1. The Office of Internal Oversight and Evaluation Services (IES) provides this annual summary report for calendar year 2017. The report provides an overview of the work undertaken by IES in 2017 and it gives IES's perspective on internal controls, risk management, and related matters in the Pan American Sanitary Bureau (PASB).
  2. Financial Regulation 12.1(d) states that the Director of PASB shall "maintain an internal oversight function reporting to the Director." IES performs the role of internal oversight function, undertaking independent and objective assurance and advisory activities that are designed to provide information and recommendations to assist the Organization in achieving its objectives, by improving the effectiveness and efficiency of risk management and internal controls. IES carries out its activities using a risk-based approach. Its main activities are the undertaking of internal audit assignments, the provision of ad hoc advice to the Director of PASB and to management, and the provision of advisory services for evaluation assignments.
  3. IES establishes precise objectives, through an assessment of the relevant risks, for individual internal audit assignments. For each assignment, IES prepares a report addressed to the Director of PASB and copied to appropriate personnel in PASB. The reports contain recommendations to assist management in addressing risks and in maintaining or enhancing internal controls. Important findings and recommendations from individual internal audit assignments in 2017 are discussed in paragraphs 16 to 31 below.
  4. IES also contributes to the preservation and enhancement of the Organization's risk management and internal controls through its participation in a number of internal committees. For example, IES has advised management on specific matters through the Asset Protection and Loss Prevention Committee, the Enterprise Risk Management Steering Committee, the Integrity and Conflict Management Standing Committee and the Property Survey Board. IES also directly provides the Director of PASB with ad hoc advice
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on emerging risks and related matters, including the progress of PASB Management Information System (PMIS) modernization project. Through these activities, IES seeks to contribute to topics of institutional significance by providing forward-looking advice and by encouraging knowledge-sharing and the identification of emerging risks.

## **The “Lines of Defense” and the Role of the Office of Internal Oversight and Evaluation Services**

### ***The “Lines of Defense”, Independence and Resources***

5. The Institute of Internal Auditors defines internal auditing as the third “line of defense” in terms of risk management and related internal controls. Both the first and second lines of defense are the responsibility of management: the first line relates to day-to-day, risk-mitigating internal controls, and the second line consists of managerial monitoring. The third line is the independent advice provided by internal audit. To put this in another way, the first line refers to managerial functions that own risks; the second to managerial activities that oversee risks; and the third to the independent function that reviews and advises on risk. (IES undertook an internal audit of the “second line of defense” in PASB, the major findings of which are summarized in paragraphs 21 to 23 below, and the concept of lines of defense is discussed in relation to IES’s overall opinion on the Organization’s internal control environment in paragraphs 45 and 46.)

6. The “three lines of defense” model clearly indicates the separation of internal auditing from managerial responsibilities. PASB management is responsible for designing and maintaining effective risk management and internal controls, while IES provides assurance and an opinion on the adequacy and effectiveness of risk management and internal controls. IES’s work is therefore independent from the activities it reviews and is purely advisory in nature. IES refrains from decision-making in relation to the management of PASB, in order to avoid conflicts of interest with its advisory role and thereby to safeguard IES’s independence. IES’s audits and advisory services do not in any way relieve PASB of its responsibility or replace it in the discharge of its operational and management functions.

7. IES’s reporting line to the Director of PASB and the sharing of its findings with the Executive Committee ensure that IES’s activities are carried out free from managerial interference in determining the scope of its work, performing the work, and reporting the results. In the performance of its duties in 2017, IES confirms that it did not encounter any interference with its independence, nor did it meet any obstacles in terms of the scope of its work and its access to records and information.

8. To ensure IES’s operational independence, the Auditor General has managerial responsibility and control over the human and financial resources of IES, which are administered in accordance with the Organization’s rules and regulations. In 2017, IES’s personnel resources consisted of five professional and two general service positions. The professional posts included one post specifically for internal audits of the *Mais Médicos* project in Brazil. IES incurred expenditure in areas like travel and operating

supplies. IES's personnel and other resources were sufficient to implement its 2017 work plan, and no aspects of IES's planned work were either curtailed or deferred for reasons of resource constraints.

9. To guide its work and to assist in maintaining the independent character of its activities, IES follows the International Professional Practices Framework of the Institute of Internal Auditors (IIA) for the undertaking of internal audits and the Norms and Standards for Evaluation of the United Nations Evaluation Group for its evaluation advisory services.

10. To ensure the maintenance of the highest professional standards for internal auditing, the Institute of Internal Auditors requires an external quality assessment every five years of the extent to which an internal audit function conforms to its professional standards. There is a scale of three ratings: "generally conforms," "partially conforms," and "does not conform." IES underwent an external validation in 2017. The Institute of Internal Auditors was of the opinion that IES "partially conformed" with its standards. What prevented IES from achieving a "generally conforming" rating was the need to update the internal audit charter and to embed it in the Organization's Financial Rules. By the end of 2017, the internal audit charter had been revised, and its inclusion in the Financial Rules was pending. Once the Financial Rules have been updated in this way, IES will be in a position to attain the highest possible rating of "generally conforming" to the Institute's professional standards. The proposed amendments to the Financial Rules of PAHO will be presented to the Executive Committee in its 162nd Session under a separate item.

#### ***Development and Implementation of the Internal Audit Work Plan***

11. In consultation with the Director of PASB, the Auditor General establishes a risk-based internal audit work plan that seeks to balance a level of annual auditing activity that is appropriate to PASB's size and complexity with an appropriate level of resources. The Director of PASB approves the internal audit work plan and all amendments to it. The work plan is intentionally flexible so that it can respond to emerging risks. In 2017, IES undertook 12 internal audit assignments covering a diversity of operations and activities: three audits had a thematic focus, five were focused on individual PAHO/WHO Representative (PWR) Offices, and four covered the *Mais Médicos* project. Annex A summarizes the internal audits undertaken in 2017.

12. PASB management has continued to develop an Enterprise Risk Management (ERM) process to identify risks to the achievement of PAHO's objectives and related risk mitigation mechanisms, including internal controls. IES uses information in the ERM register to guide its work, alongside IES's own assessments of risk.

#### ***IES's Coordination with other Sources of Assurance***

13. In addition to its ongoing cooperation with PASB's first and second "lines of defense", as defined in paragraph 5, IES continued in 2017 to coordinate its activities with PAHO's External Auditor (the Spanish Court of Audit) and with the Geneva-based Office

of Internal Oversight Services (IOS) of WHO. This coordination maximized the efficiency and effectiveness of all sources of audit in PASB and helped to avoid both duplications and gaps in audit coverage, thereby contributing to the protection of the Single Audit Principle of the United Nations system. In 2017, the WHO's IOS continued to rely on IES's work and did not perform internal audit assignments in the Region of the Americas.

14. IES continued in 2017 to receive advice from PAHO's Audit Committee, and it participated in the network of Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions to identify emerging trends and to assimilate best practices from other international organizations.

### **Principal Internal Oversight Findings and Recommendations in 2017**

15. Paragraphs 16 to 31 below summarize findings and recommendations from IES's internal audit assignments in 2017, a full list of which is set out at Annex A. IES also provides more general observations on internal controls in PASB in paragraphs 44 to 48 below.

#### ***Internal Audits: Thematic***

16. In the “**Internal Audit of Dependents’ Allowances**”(IES report 05/17), IES reviewed internal controls over the allowances paid to staff members for their recognized dependents. IES found internal controls in this area to be unsatisfactory, with widespread policy non-compliance.

17. Every year, PASB requests all staff members to verify the status of their dependents to whom allowances are paid. The annual verification exercise takes place in the first semester following the year in which allowances are disbursed. (However, the annual verification exercises for 2014 and 2015 had been delayed, with requests sent to staff members in August 2016 and October 2016, respectively.) The verification requests clearly indicated that failure to submit the annual verification forms with supporting documentation by the due dates would result in the discontinuation of allowances and the recovery of any overpaid amounts. However, IES found that, by June 2017, PASB had not discontinued the allowances of any staff members with pending annual verifications for 2015, the submission of which had been due on 15 November 2016. IES recommended, as a priority action, that PASB more actively follow up staff members' pending verifications of dependents' status, and discontinue the payment of allowances to staff members who failed to submit annual verifications.

18. IES made a priority recommendation relating to the need for close monitoring of the expiration dates of entitlements to dependents' allowances, as the Office found a number of instances in which PASB had paid dependents' allowances far beyond the valid time periods, leading to time-consuming remedial work to calculate and recover overpaid allowances. (For staff members who have separated from PAHO, there may be little chance of recovering overpayments.)

19. In addition, IES found weaknesses and policy non-compliance in the financial information required to support the recognition of secondary dependents. In April 2017, 66 staff members were receiving secondary dependent allowances. The policy required that requests for “secondary dependents (father, mother, brother, or sister) must be demonstrated by submission of documentary evidence that the staff member provides more than 50% of the total support and that such contribution is at least twice the amount of the allowance claimed” (PAHO/WHO E-Manual, section III.3.4, paragraph 120). In its testing, IES did not find evidence of any policy compliance in this area. PASB seems to have adopted an approach of trust without verification. IES recommended strict policy compliance with all requirements for supporting documentation.

20. Based on the extent of policy non-compliance found in this audit, IES recommended that PASB perform a comprehensive review of all current allowances for dependents, in order to ensure the correct application of policies regarding supporting documentation. IES understood that management planned to complete this exercise by March 2018.

21. In the **“Review of Compliance Mechanisms and the ‘Second Line of Defense’ in PASB” (IES report 10/17)**, IES found that PASB had made considerable progress in establishing the key elements of the monitoring and control procedures that underpin a reliable “second line of defense” (as defined above in paragraph 5). The “second line” has historically been rather weak in PASB, but in the last two bienniums a number of administrative initiatives have gradually strengthened processes in this area. The creation of a Compliance Advisor post at Headquarters and a Compliance Specialist post at the largest country office, in Brazil, had occurred in parallel with the increasing maturity of Enterprise Risk Management processes, the publication of a formally defined internal control framework for PASB (within a wider PAHO administrative compliance initiative), and the continuing development of the country accounting services (CAS) function within the Financial Resources Management department.

22. Other recent initiatives have included the introduction, at Headquarters, of posts whose duties include monitoring the security of information systems and the status of contingent worker contracts across PASB. In addition, the PMIS project has opened up significant possibilities for analysis of PASB’s financial and operational information.

23. Overall, IES found that the activities of the individual “second line” activities were individually valuable, but needed more coherent inter-relationships in order to deliver a more robust second line of defense. A strengthening of the links between compliance, risk management and managerial monitoring would assist in the timely identification of any non-compliance with regulations, rules and policies and in a fuller exploitation of the analytical tools offered by the PMIS project. Management agreed with IES that a greater coordination of the “second line” functions was needed, both to eliminate possible duplication of activities and to fill any gaps. In 2017 management continued to implement measures within its PAHO administrative compliance initiative to strengthen the “second line.”

24. In the “**Internal Audit of the Implementation of Funds for Voluntary Contribution Grants**” (IES report 12/17), IES found that the operation of internal controls in this area was partially satisfactory. IES identified the persistence of risks previously identified in earlier internal audit assignments, above all the pending implementation of a formal project management framework. Such a framework will be necessary to inform and update PASB’s policies and procedures that address voluntary contributions. (Please see also paragraph 43 below in terms of the follow-up to this pending internal audit recommendation.)

25. IES found inadequate risk management of voluntary contribution grants across the Organization and a widespread perception of weaknesses in the financial implementation reports available through the PMIS project. As a consequence of the latter concerns, IES identified a range of alternative, informal recording, and control mechanisms across PASB (including the use of electronic worksheets) to supplement or replace PMIS reports. At the end of 2017 management was working to improve the quality of reporting in this area. (At the time of this writing, the audit report number 12/17 was still under discussion with management.)

***Internal Audits: PAHO/WHO Representative (PWR) Offices***

26. In 2017, in addition to four internal audits in Brazil focusing on the *Mais Médicos* project, IES undertook five internal audits at the PAHO country offices in Belize, Colombia, Costa Rica, El Salvador, and Haiti, with the principal objective of reviewing the internal controls that mitigate administrative and financial risks.

27. For each internal audit assignment IES provided an overall rating for the operation of internal controls, on a threefold scale—satisfactory, partially satisfactory, and unsatisfactory. IES rated the Belize and Colombia country offices as satisfactory and the Costa Rica, El Salvador, and Haiti country offices as partially satisfactory. For none of the country office audits did IES give a rating of “unsatisfactory”; this was in contrast to previous years, and it appeared to be an indication of steady improvement in internal controls across the country offices.

28. IES made recommendations to management to address recurring internal control issues at the country level in areas such as policy compliance for letters of agreement, the processing of local procurement transactions, document filing arrangements, the completeness of local enterprise risk management exercises, and the safeguarding of institutional memory. In the Haiti country office audit, IES found that the *Programme de Médicaments Essentiels* (PROMESS) faced significant operational challenges and suffered from weak inventory management processes, and IES identified this topic as one that required priority attention from management.

29. IES’s audits of the *Mais Médicos* project covered the accuracy of the database of Cuban medical personnel, the field supervision of participants, the accommodation and subsistence arrangements for participants, and the safeguarding of institutional memory and knowledge transfer processes for the project.

30. IES rated all the *Mais Médicos* assignments either satisfactory or partially satisfactory. The Office found that the accuracy of the database of Cuban medical personnel continued to provide a reliable basis for the operational and financial information required by the project. In terms of field supervision, IES found that the ratio of 29 PAHO international consultant field supervisors to more than 9,500 participants (at the date of the audit) sometimes put significant pressure on the supervisors. Some supervisors at times continued to feel compelled by circumstances to act on their own initiative and, in IES's view, they frequently went far beyond the call of duty to address urgent matters, both to ensure the smooth running of the project and to assist the project's participants who encountered difficulties. In order for PASB to avoid overreliance on the goodwill and self-sacrifices of its field supervisors, IES again recommended that PASB might provide additional administrative and transportation support to the field supervisors to mitigate some of the pressures. For the participants' accommodation and subsistence arrangements, IES found that the payment allowance levels had not been updated to compensate fully for inflation in the previous three years, and their purchasing power had therefore been eroded. IES recommended that PASB bring the inflation question to the attention of Brazilian authorities, to be reflected in any revisions to related agreements. To improve and safeguard the preservation of institutional memory, IES recommended that PASB ensure a stricter control over the completeness and quality of end-of-service reports for important participants in the project, such as the field supervisors, in order to improve knowledge-transfer processes.

31. Local and Headquarters management personnel were actively addressing all of IES's recommendations relating to country office and *Mais Médicos* audits in 2017.

### ***Evaluations***

32. In 2017, IES continued to focus on the development and implementation of the PAHO Evaluations Policy, which is an adaptation of the equivalent WHO policy. The latter, in turn, is consistent with the Norms and Standards for Evaluation of the United Nations Evaluation Group (UNEG). Under the policy, IES registers, monitors, and provides advisory services for evaluation assignments undertaken across PASB. Assignments for which IES provided advice included evaluations of the Regional Immunization Program; the Regional Program Budget Policy; the Revolving Fund for Vaccine Procurement; the Latin American Center for Perinatology, Women and Reproductive Health (CLAP/WR); the Pan American Foot-and-Mouth Disease Center (PANAFTOSA); the *Mais Médicos* project; and the subregional level of technical cooperation and program coordination in the Caribbean.

33. PASB's approach to evaluations continued to undergo a transformation in 2017. PASB has identified a greater number of internally commissioned evaluations, including assignments identified during PASB's semiannual performance monitoring and assessment (PMA) meetings, at which the implementation status of biennial work plans is discussed. Issues arising from the PMA discussions are considered as possible topics for evaluations, and the Director of PASB approves any assignments that arise from this source.

34. IES's evaluative activity in recent years has focused on advising on the quality of evaluation assignments, from the planning stages and the development of terms of reference through the execution of assignments to their reporting. IES has developed a quality-scoring tool to ensure that only assignments of sufficient quality are included in the PAHO Register of Evaluations. A particular emphasis has been on the importance of the independence of evaluators from PASB personnel, and IES has assisted management in sourcing evaluators on an arm's-length basis. Such arm's-length relationships between evaluators and PASB is crucial to the integrity and objectivity of the evaluation process. (The internal Evaluation Interest Group in PASB has also provided guidance and suggestions for enhancing the PASB's evaluation culture.)

35. Having established a solid foundation for the quality of evaluation reports, IES will continue to monitor this area closely, while simultaneously emphasizing, from 2018 onward, the need to enhance the use of evaluative work as an opportunity for organizational learning and decision-making. Evaluation findings in the past have been used for learning purposes, but in a rather haphazard manner. IES will develop reporting formats that will assist PASB in using the findings of evaluations to facilitate institutional learning. Abstracts of individual evaluation reports will be shared with PASB personnel via publication on the PASB intranet, and staff members responsible for evaluated topics will be provided with support for follow-up and implementation of lessons learned from evaluations in a more formal manner. In this way, the enhancement of information flows arising from evaluative activity will be more firmly embedded in the Organization's decision-making processes.

36. A significant evaluative activity currently in progress relates to the *Mais Médicos* project in Brazil. There has been significant, high-quality monitoring of project-related indicators and extensive academic research into the project. IES continues to advise management on how best to develop a UNEG-compliant meta-evaluation of this information, so as to evaluate the contribution of the *Mais Médicos* project to the universality and quality of primary health care in Brazil, in addition to any lessons to be learned by PASB with regard to the administration of such projects.

37. In 2017 IES continued to collaborate on evaluation-related matters with WHO's Evaluation Office. IES provided a participant to WHO's Global Network on Evaluation and, on a case-by-case basis, IES advised the Director of PASB on PAHO's participation in evaluation assignments commissioned or overseen by WHO's Evaluation Office.

#### ***Other Areas of Activity***

38. IES did not undertake any investigations in 2017. Investigative activities continued to be performed by PASB's Ethics Office.

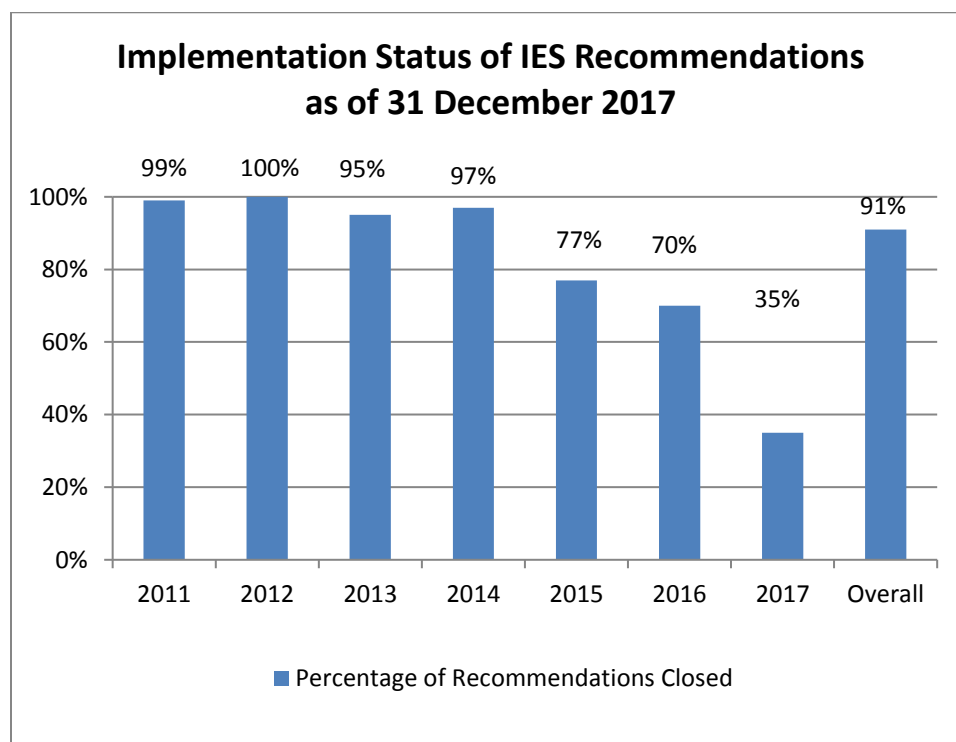
#### **Implementation Status of IES's Recommendations**

39. Three times annually IES follows up with PASB management on the implementation status of the recommendations published in internal audit reports. The objective of the follow-up exercise is to support management in improving risk-



mitigating internal controls. IES's recommendations are included in the formal follow-up process only after the Director of PASB has accepted the individual internal audit reports that contain the recommendations. (The acceptance of a report by the Director of PASB usually takes place two months following the report's issuance.)

40. In the follow-up process, IES pays special attention to the longest-pending recommendations. IES also takes into account the gravity of the problems that underpin the recommendations and classifies some of the recommendations as requiring priority attention from management. The following graph shows the implementation rates for all the years from which recommendations remained pending at 31 December 2017. The relatively low implementation rate for the 2017 recommendations reflects the time lag between the issuance of internal audit reports, their acceptance by the Director of PASB, and their subsequent follow-up. IES found that the statistics in the table are comparable to those in international organizations of similar size and complexity.



41. In 2017, the Director of PASB continued her practice of chairing an annual meeting to discuss with Executive Management and departmental directors the status of pending IES recommendations in their areas of work. These meetings have always stimulated the implementation of many recommendations, and they illustrate the tone prevailing at the top management level of the Organization, namely that IES's recommendations are to be taken seriously.

42. At the country level, recurring issues covered by the pending recommendations include the need for annual procurement planning and the completeness of documentation for local procurement transactions, the administration of fixed assets, the administration of

training and capacity-building events, policy compliance for letters of agreement, and the safeguarding of institutional memory.

43. The oldest, pending internal audit recommendation dates from 2011 and addresses the development of a rigorous project management framework for voluntary contributions. PASB management has made progress with regard to this recommendation, but at the end of 2017 the framework remained in draft status.

### **IES's Overall Opinion of PASB's Internal Control Environment**

44. Internal controls are procedures and activities that mitigate risks and thereby increase the likelihood of the achievement of organizational objectives. Examples of internal controls include the secure custody of physical assets and the safeguarding of institutional memory through formal mechanisms that transmit institutional knowledge. The rationale for every internal control is the risk(s) to institutional objectives that the internal control purports to address. The overall internal control framework aggregates internal controls within the Organization's overall operating style, its operating policies and practices, and its assignment of authority and accountability to personnel.

45. As discussed above in paragraphs 5 and 6, the concept of the "three lines of defense" sets out institutional responsibilities for the implementation and monitoring of risks and internal controls. The first and second "lines of defense" are provided by management, the first line consisting of day-to-day, risk-mitigating internal controls, and the second comprising managerial monitoring. The "third line of defense", which operates behind management's defenses, is the assurance provided by internal auditors.

46. From a "third line of defense" perspective, IES has observed steady improvements in PASB's first and second lines of defense in recent years. In 2016, however, IES found a temporary deterioration in the effectiveness of both lines. This was a consequence of a transitional period in which the implementation of the PMIS modernization project had redefined and disrupted many internal controls, most notably in terms of budgetary processes. In 2017, IES found a recovery and improvement in internal controls as the PMIS project improved information flows in PASB and delivered more robust, automated internal controls. In 2017, therefore, some of the expected enhancements to internal controls arising from the PMIS project started to materialize, reinforcing the longer-term trend of improving internal controls.

47. Based on the internal oversight work performed in 2017, IES did not identify any significant weaknesses in internal controls that would seriously compromise the achievement of PAHO's strategic and operational objectives. More broadly, IES's overall opinion on PASB's internal control environment in 2017 is that it continued to provide reasonable assurance of the accuracy and timely recording of transactions, assets, and liabilities and of the safeguarding of assets. IES believes that the work it has conducted provides a reasonable basis for its opinion.

48. As in previous years, IES continues to advise management that both the linking of internal controls to risks and the linking of risks to organizational objectives needs to be

clearer. A more rigorous articulation of the connections between the Organization's objectives, risks, and risk-mitigating internal controls is an ongoing process that is essential to the further strengthening of PASB's internal control environment.

Annexes

## Annex A

## INTERNAL AUDIT WORK PLAN, 2017

Thematic Internal Audits	Reference Number of IES Report
Internal Audit of Dependents' Allowances	05/17
Review of Compliance Mechanisms and the "Second Line of Defense" in the PASB	10/17
Internal Audit of the Implementation of Funds for Voluntary Contribution Grants	12/17
<b>Country-Specific Internal Audits</b>	
Internal Audit of the Office of the PWR Belize	02/17
Internal Audit of the Office of the PWR Colombia	09/17
Internal Audit of the Office of the PWR Costa Rica	03/17
Internal Audit of the Office of the PWR El Salvador	11/17
Internal Audit of the Office of the PWR Haiti	06/17
Internal Audit of the Office of the PWR Brazil: Internal Audit of the COLPADI Database in the <i>Mais Médicos</i> Project	01/17
Internal Audit of the Office of the PWR Brazil: Internal Audit of Field Supervision in the <i>Mais Médicos</i> Project	04/17
Internal Audit of the Office of the PWR Brazil: Internal audit of Accommodation and Subsistence Arrangements for Participants in the <i>Mais Médicos</i> Project	07/17
Internal Audit of the Office of the PWR Brazil: Internal Audit of Institutional Memory and Knowledge Transfer in the <i>Mais Médicos</i> Project	08/17



## ANALYTICAL FORM TO LINK AGENDA ITEM WITH ORGANIZATIONAL MANDATES

1. **Agenda item:** 5.6 - Report of the Office of Internal Oversight and Evaluation Services.

2. **Responsible unit:** Internal Oversight and Evaluation Services (IES).

3. **Preparing officer:** David O'Regan, Auditor General.

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

There is no explicit link, but IES's activities touch on the general institutional mechanisms that underpin the role of PASB in the Health Agenda.

5. **Link between Agenda item and the amended PAHO Strategic Plan 2014-2019:**

This document links principally to Category 6, *Corporate Services/Enabling Functions* and in particular to:

6.2 *Transparency, Accountability, and Risk Management* ("PAHO operates in an accountable and transparent manner and has well-functioning risk management and evaluation frameworks").

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

None.

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

None.

8. **Financial implications of this Agenda item:**

IES's recommendations address issues of risk-mitigation, and organizational efficiency and effectiveness, and many imply financial consequences, albeit difficult to quantify.