

29th PAN AMERICAN SANITARY CONFERENCE

69th SESSION OF THE REGIONAL COMMITTEE OF WHO FOR THE AMERICAS

Washington, D.C., USA, 25-29 September 2017

Provisional Agenda Item 5.3

CSP29/13
4 August 2017
Original: English

APPOINTMENT OF THE EXTERNAL AUDITOR OF PAHO FOR 2018–2021

1. The audit of an organization by an external entity is one of the key instruments ensuring transparency and oversight in its operations. The appointment of the current External Auditor of the Pan American Health Organization will expire at the completion of the audit of the 2017 financial period. The current External Auditor, the Spanish Court of Audit, has held the appointment for the past three biennia.
 2. In accordance with Regulation 14.1 of the Financial Regulations, the Pan American Sanitary Conference or the Directing Council shall appoint an External Auditor of international repute to audit the accounts of the Organization. The duration of the appointment is at the discretion of the Conference or Council. However, previous practice has been to appoint the External Auditor for two biennia.
 3. A *note verbale* was sent to all Member States, Participating States, and Associate Members in August 2016. The *note verbale* described in detail the process the Member States needed to follow in order to nominate an Auditor for the 2018-2019 and 2020-2021 biennia. The deadline for the receipt of submissions from the Member States was 31 January 2017. In order to provide the Member States additional time to fully participate in the process, the Director extended the deadline for the receipt of nominations by the Pan American Sanitary Bureau (PASB) to 19 June 2017.
 4. PASB received one nomination from the Government of the United Kingdom of Great Britain and Northern Ireland nominating its National Audit Office (NAO). The nomination provided the corresponding full proposal, as required in the above mentioned *note verbale*.
 5. All the documentation available for the nomination has been forwarded to PAHO's Audit Committee for review and comment. The Committee's comments will be provided to the Member States, Participating States, and Associate Members as a separate document.
-

Action by the Pan American Sanitary Conference

6. The Pan American Sanitary Conference, to assist in the selection process, will invite the representatives of the nominated audit entity to make a summary presentation of its proposal and to take questions from the Member States.
7. The Conference will then elect the External Auditor, in accordance with the Rules of Procedure. Once the election has been completed, the Pan American Sanitary Conference is invited to consider the resolution as contained in Annex A.

Annexes:

- Annex A: Proposed Resolution
- Annex B: *Note Verbale* and enclosures, including: *Extract from PAHO Financial Regulations, Additional Terms of Reference, and Background Information*
- Annex C: Proposal received from the United Kingdom of Great Britain and Northern Ireland



Pan American
Health
Organization



World Health
Organization
REGIONAL OFFICE FOR THE
Americas

29th PAN AMERICAN SANITARY CONFERENCE

69th SESSION OF THE REGIONAL COMMITTEE OF WHO FOR THE AMERICAS

Washington, D.C., USA, 25-29 September 2017

CSP29/13
Annex A
Original: English

PROPOSED RESOLUTION

APPOINTMENT OF THE EXTERNAL AUDITOR OF PAHO FOR 2018-2021

THE 29th PAN AMERICAN SANITARY CONFERENCE,

(PP1) Having considered the report of the Director of the Pan American Sanitary Bureau (PASB) on the Appointment of the External Auditor (Document CSP29/13);

(PP2) Noting the regulations, rules and practices of the Pan American Health Organization,

RESOLVES:

(OP)1. To appoint _____ as External Auditor of the accounts of the Pan American Health Organization for the period 2018-2021, in accordance with the principles and requirements stipulated in Financial Regulation XIV.

(OP)2. To request the Director:

- a) to establish contractual terms and conditions between the Organization and the appointed External Auditor to cover the modalities of the External Auditor's work in fulfilling its mandate as per Annex B of Document CSP29/13 which provides further background information on the appointment of the External Auditor;
 - b) to express its appreciation to the President of the Spanish Court of Audit for the excellent service provided to the Pan American Health Organization for the 2012 through 2017 financial periods, especially with respect to the commitment to its mandate and the quality of recommendations provided, which have contributed to increased efficiency and effectiveness of the Organization's operations.
-

Annex B

Note Verbale

Appointment of the External Auditor of the Pan American Health Organization for the biennia 2018-2019 and 2020-2021

1. The Director presents her compliments to Member States, Participating States, and Associate Members and has the honor to recall that, in September 2015 the 54th Directing Council, by Resolution CD54.R14, appointed the holder of the Office of President of the Court of Audit of Spain to be the External Auditor of the Pan American Health Organization (PAHO) for the 2016-2017 biennium. Accordingly, and with reference to Regulation 14.1 of PAHO's Financial Regulations, it will be necessary for the 29th Pan American Sanitary Conference in September 2017 to appoint an External Auditor of international repute for the 2018-2019 and 2020-2021 biennia. The purpose of this note verbale is to start the process for the appointment of the External Auditor by inviting nominations from Member States, Participating States, and Associate Members.
 2. The Director of the Pan American Sanitary Bureau has the honor, therefore, to invite Members to nominate a candidate fulfilling the conditions of Regulation 14.1 of PAHO's Financial Regulations, whom they may wish the Pan American Sanitary Conference to consider for appointment as the External Auditor of PAHO for the 2018-2019 and 2020-2021 biennia. The full text of Financial Regulation XIV, the Additional Terms of Reference governing the External Audit of PAHO, and background including information on the scope of PAHO's financial operations are enclosed herewith.
 3. Should a Member State, Participating State, or Associate Member wish to propose a candidate, the name of the candidate, along with the candidate's supporting proposal should reach the Organization no later than 31 January 2017 to allow time for the preparation of the submission to the 29th Pan American Sanitary Conference in September 2017. The nominee's proposal should include in respect of the proposed External Auditor:
 - a) a curriculum vitae and details of the national and international activities of the nominee noting the range of audit specialties that can be of benefit to the Organization;
 - b) a description of the audit approach, procedures and standards that the nominee would apply, having regard to the Organization's accounting principles and practices, its Financial Regulations and Financial Rules, and the International Public Sector Accounting Standards (IPSAS);
 - c) estimates of the overall number of auditor-work-months which would be devoted to carrying out the audit for each of the four financial periods comprised in the two biennia, 2018-2019 and 2020-2021;
-

- d) for each financial period (2018, 2019, 2020, and 2021), a proposed audit fee expressed in United States dollars. This fee should cover the international audit of PAHO regular program activities, as well as extra-budgetary and other activities, and should be summarized on a single page. In estimating the cost of the audit, all secretarial and other ancillary costs, including all travel costs and living expenses of the External Audit staff, should be included in the audit fee proposed. Travel costs should include travel from the country of residence to Washington, D.C. and to the other offices of the Organization, as required by the External Auditor for the purposes of the audit;
- e) an indication of the nature, extent and timing of requests for information, including access to audit working papers of the outgoing auditor, in accordance with recognized auditing standards, and an assurance of the nominees cooperation, on completion of appointment, in responding to similar requests for information by the incoming auditor;
- f) any other information which may assist the Conference in finalizing the appointment such as: letters of reference, evidence of membership with professional audit or accounting associations such as the International Organization of Supreme Audit Institutions (INTOSAI), accreditation from the World Bank or other international or governmental agency, publications, among others.

4. Since nominations will be submitted to the Pan American Sanitary Conference, they must be prepared and submitted in one of the four working languages of the Conference (English, French, Portuguese and Spanish). The Organization will undertake to translate the tenders. For this reason, the nomination should not exceed 6,000 words and should be formatted in letter-size pages (8.5” x 11”) with margins no less than 1” on each side and top and bottom, in print-ready PDF format.

5. The Organization would like to take this opportunity to express its appreciation for the support of the Member States, Participating States, and Associate Members in this very important endeavor.

**Extract from the Financial Regulations of the
Pan American Health Organization**

Regulation XIV – External Audit

- 14.1 The Conference or the Directing Council shall appoint an External Auditor of international repute to audit the accounts of the Organization. The Auditor appointed may be removed only by the Conference or the Directing Council.
- 14.2 Subject to any special direction of the Conference or the Directing Council, each audit which the External Auditor performs shall be conducted in conformity with generally accepted common auditing standards and in accordance with the Additional Terms of Reference set forth in the Appendix to these Regulations.
- 14.3 The External Auditor, in addition to rendering an opinion on the financial statements, may make such observations as deemed necessary with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls, and in general, the administration and management of the Organization.
- 14.4 The External Auditor shall be completely independent and solely responsible for the conduct of the audit.
- 14.5 The Conference or the Directing Council may request the External Auditor to perform certain specific examinations and issue separate reports on the results.
- 14.6 The Director shall provide the External Auditor with the facilities required for the performance of the audit.
- 14.7 For the purpose of making a local or special examination or for effecting economies of audit cost, the External Auditor may engage the services of any national Auditor-General (or equivalent title) or commercial public auditors of known repute or any other person or firm that, in the opinion of the External Auditor is technically qualified.
- 14.8 The External Auditor shall issue a report including its opinion, on the audit of the financial statements prepared by the Director pursuant to Regulation XIII. The report shall include such information as deemed necessary in regard to Regulation 14.3 and the Additional Terms of Reference.
- 14.9 The report(s) of the External Auditor shall be completed and provided to the Director together with the audited financial statements no later than 15 April following the end of the financial reporting period to which they relate. The Director will provide the report to the Executive Committee which shall examine the financial statements and the audit report(s) and shall forward them to the Conference or the Directing Council with such comments as deemed necessary.

Appendix I

Additional Terms of Reference Governing the External Audit of the Pan American Health Organization

1. The External Auditor shall perform such audit of the accounts of the Pan American Health Organization, including all Trust Funds, Special Funds and Special Accounts, as deemed necessary to support the opinion:
 - a) that the financial statements are in accord with the books and records of the Organization;
 - b) that the financial transactions reflected in the statements have been in accordance with the rules and regulations, the budgetary provisions, and other applicable directives of the Organization;
 - c) that the financial resources have been verified by the certificates received direct from the Organization's depositaries or by actual count;
 - d) that the internal controls, including the internal audit, are adequate in view of the extent of reliance placed thereon;
 - e) that the procedures applied to the recording of all assets, liabilities, surpluses and deficits conform with industry best practices.
2. The External Auditor shall be the sole judge as to the acceptance in whole or in part of certifications and representations by members of the staff of the Organization and may proceed to such detailed examination and verification as needed.
3. The External Auditor shall have free access at all convenient times to all books, records and other documentation which are, in the opinion of the External Auditor necessary for the performance of the audit. Information classified as privileged and which the Director agrees is required by the External Auditor for the purposes of the audit, and information classified as confidential, shall be made available upon request. The External Auditor shall respect the privileged and confidential nature of any information so classified which has been made available and shall not make use of it except in direct connection with the performance of the audit. The External Auditor may bring to the attention of the Conference or the Directing Council any denial of information classified as privileged which, in their opinion, was required for the purpose of the audit.
4. The External Auditor shall have no power to disallow items in the accounts but shall bring to the attention of the Director for appropriate action any transaction that creates doubt as to legality or propriety. Audit objections, to these or any other transactions, arising during the examination of the accounts shall be immediately communicated to the Director.

5. The External Auditor shall express an opinion on the financial statements of the Organization. The opinion shall include the following basic elements:

- a) identification of the financial statements audited;
- b) a reference to the responsibility of the entity's management and responsibility of the External Auditor;
- c) a reference to the audit standards followed;
- d) a description of the work performed;
- e) an expression of opinion on the financial statements as to whether:
 - i. the financial statements present fairly the financial position as at the end of the financial reporting period and the results of the operations for such period;
 - ii. the financial statements were prepared in accordance with the stated accounting policies;
 - iii. the accounting policies were applied on a basis consistent with that of the preceding financial reporting period unless disclosed in the financial statements.
- f) an expression of opinion on the compliance of transactions with the Financial Regulations and legislative authority;
- g) the date of the opinion and the signature of the External Auditor;
- h) the External Auditor's name and position;
- i) the place where the report has been signed;
- j) a reference to the report of the External Auditor on the financial statements, should one be provided.

6. The report of the External Auditor to the Conference or Directing Council on the financial operations of the financial reporting period should mention:

- a) the type and scope of examination;
- b) matters affecting the completeness or accuracy of the accounts, including, where appropriate:
 - i. information necessary to the correct interpretation of the accounts;
 - ii. any amounts that ought to have been received but which have not been brought to account;
 - iii. any amounts for which a legal or contingent liability exists and which have not been recorded or reflected in the financial statements;
 - iv. expenses not properly substantiated;

- v. whether proper books of accounts have been kept; where in the presentation of statements there are deviations of a material nature from a consistent application of generally accepted accounting principles, these should be disclosed.
- c) other matters that should be brought to the notice of the Conference or the Directing Council such as:
- i. cases of fraud or presumptive fraud;
 - ii. wasteful or improper expense of the Organization's money or other assets (notwithstanding that the accounting for the transaction may be correct);
 - iii. expense likely to commit the Organization to further outlay on a large scale;
 - iv. any defect in the general system or detailed regulations governing the control of receipts and disbursements, or of supplies and equipment;
 - v. expense not in accordance with the intention of the Conference or the Directing Council, after making allowance for duly authorized transfers within the Program Budget;
 - vi. expense in excess of Regular Budget appropriations as amended by duly authorized transfers within the Program Budget;
 - vii. expense not in conformity with the authority that governs it.
- d) the accuracy of the inventory and fixed assets as determined by a physical count and examination of the records.
- e) transactions accounted for in a previous financial reporting period, about which further information has been obtained, or transactions in a later financial reporting period about which the Conference or the Directing Council should have early knowledge.

7. The External Auditor may make such observations with respect to findings resulting from the audit and such comments on the financial report as deemed appropriate to the Conference or the Directing Council, or to the Director.

8. Whenever the External Auditor's scope of audit is restricted, or insufficient evidence is available, the External Auditor's opinion shall refer to this matter, making clear in the report the reasons for the comments and the effect on the financial position and the financial transactions as recorded.

9. In no case shall the External Auditor include criticism in any report without first affording the Director an adequate opportunity of explanation on the matter under observation.

10. The External Auditor is not required to discuss or report any matter which is considered immaterial.

Appendix II

Background Information

Appointment of the PAHO External Auditor

1. General Requirements and Objectives

1.1 The Pan American Health Organization (PAHO) seeks to obtain an effective audit carried out to a high technical standard. The audit should be directed at important questions of financial policy and practice, with appropriate importance being given to efficiency (value-for-money) audits.

1.2 The External Auditor must be experienced in the provision of professional auditing services under the *International Public Sector Accounting Standards*, which were officially adopted by the 27th Pan American Sanitary Conference on 5 October 2007 in resolution CSP27.R18 and were officially implemented on 1 January 2010.

1.3 The External Auditor must be experienced working in a multicultural and a multilingual environment. The External Auditor, therefore, must be able to provide audit staff that can function effectively in such an environment, specifically with both Spanish and English language capabilities. However, the External Auditor must be able to deliver all reports in English.

1.4 The External Auditor may be contracted from time to time to perform separate project audits in accordance with project agreements concluded with donors. Such contracts will be negotiated separately from the main biennial financial audit of the Organization.

2. Nature of Audit Assignment

2.1 An appreciation of the magnitude and diversity of the financial operations of the Pan American Health Organization, and thus of the nature of the audit, may be obtained from the detailed financial report titled *Financial Report of the Director and Report of the External Auditor 1 January 2015–31 December 2015*, which is available on the Pan American Health Organization's website at:

http://www.paho.org/hq/index.php?option=com_content&view=article&id=11981&Itemid=41975&lang=en

2.2 The main center of financial activity is the Pan American Health Organization headquarters in Washington, D.C., United States of America. The Pan American Health Organization also has a presence in 28 countries through representative offices and technical centers. Additional information regarding the Pan American Health Organization is available on its website at:

http://www.paho.org/hq/index.php?option=com_content&view=article&id=91&Itemid=220&lang=en

3. The World Health Organization (WHO)

PAHO also serves as the Regional Office for the World Health Organization in the Americas (AMRO). AMRO activities funded by WHO form part of the consolidated financial statements of PAHO. The World Health Organization, whose headquarters is located in Geneva, Switzerland, appoints its own External Auditor who might not be the same as that appointed by PAHO, in which case close collaboration is required between the two auditors. Additional information regarding WHO is available on its website at: <http://www.who.int/en/>

4. Office of Internal Oversight and Evaluation Services (IES)

The Pan American Health Organization maintains an office of internal audit and oversight. The main responsibility of the office as stated in Regulation 12.1 of the PAHO Financial Regulations is to provide an effective review, evaluation and monitoring of the adequacy and effectiveness of the Organization's overall systems for internal control. Various other types of reviews are carried out. The internal and external auditors are expected to coordinate their work to avoid duplication and promote efficiency in audit.

5. External Audit Fee

The external audit fee for 2016-2017, including all travel and other costs associated with the audit of the entities as noted above, was US\$ 552,000. Audit fees should be expressed in US dollars.

ANNEX C

**PROPOSAL RECEIVED FROM THE UNITED KINGDOM OF
GREAT BRITAIN AND NORTHERN IRELAND**



Department
of Health

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Director General, Finance and Group Operations
Chief Operating Officer
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Dr C Etienne,
Director
Pan American Health Organization
525 23rd St., NW
Washington, DC 20037-2895

Dear Dr Etienne,

Thank you for your letters FRM/FS/A/077/16 and FRM/FS/A/021/17 calling Member States to nominate external auditors of international repute to become the Pan American Health Organization (PAHO) External Auditor for the 2018-2019 and 2020-2021 biennia.

The UK would like to nominate the National Audit Office (NAO), the United Kingdom's Supreme Audit Institution, to be considered to undertake the role. The UK confirms that the NAO complies with the requirements as set out in CD55/20 and we fully support them to undertake this function.

Please find attached the application from the NAO which includes; their proposal, approach and CVs. We request that this be considered by the 29th Pan American Sanitary Conference in September 2017.

Yours sincerely,

David Williams

Director General, Finance and Group Operations and Chief Operating Officer

Copy: Mr Xavier Puente



National Audit Office

June 2017

PAN AMERICAN HEALTH ORGANIZATION

**Proposal of the UK Comptroller and Auditor
General for the provision of external audit
services**

We promote the highest standards in financial management and reporting, the proper conduct of public business and beneficial change in the provision of public services.

The Comptroller and Auditor General is the head of the National Audit Office (NAO), the United Kingdom's Supreme Audit Institution. The Comptroller and Auditor General and the NAO are independent of the United Kingdom Government and ensure the proper and efficient spending of public funds and accountability to the United Kingdom's Parliament. We audit the accounts of all UK central public sector bodies as well as a number of international organizations. The NAO has provided external audit services to international organizations, including the United Nations, working independently of its role as the Supreme Audit Institution of the United Kingdom. The NAO has a dedicated team of professionally qualified staff with wide experience of the audit of international organizations.

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Key Points of the UK Proposal to the Pan American Health Organization (PAHO)

1 I am very pleased to submit this proposal for the provision of external audit services to the Pan American Health Organization (PAHO) for the 2018-2019 and 2020-2021 biennia.

2 This document provides the information requested in the Note Verbale on the "Appointment of the External Auditor of the Pan American Health Organization for the 2018-2019 and 2020-2021 biennia". I commit to provide a modern, high quality, professional and highly cost-effective external audit service. The fee quoted seeks only to recover the costs of the audit, in line with the principles of the International Organization of Supreme Audit Institutions (INTOSAI). This provides greater assurance over the independence of the audit as our work is not dependent on funding from national government.

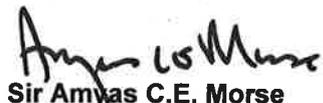
3 Our record shows we have unmatched expertise in auditing international organizations; have supported good governance and improved risk management in international organizations; have extensive expertise in auditing International Public Sector Accounting Standards (IPSAS) based financial statements; and are experts in the audit of capital projects, information technology and the use of data analytics. Our focus is in supporting our clients to improve the quality and efficiency of the services they deliver and we achieve this by risk based performance audit work. These skills enable us to deliver high quality audits in a cost-effective manner, which is constructive and supportive of the Organization's aims and objectives.

4 We seek to add value through external audit and are at the forefront in helping international clients improve the quality and reliability of their financial management and reporting, by: helping clients fully realise the benefits of IPSAS reporting; improving their understanding of the costs of activities; and making better use of data to inform decision making.

5 The audit process will be a transparent one in which we communicate our findings to management throughout the audit, avoiding unwelcome surprises. Our audit will be an inclusive and constructive process, working closely with management and Member States from the independent and objective position of the external auditor. We value open dialogue with management and governing bodies to ensure that they are kept informed of our work and that we respond appropriately to their concerns and the key issues and challenges facing the organization. We ensure the audit is well managed to minimise the impact of the process on the organisation and to meet the deadlines of the governing bodies.

6 We will complete the audit for a fee of USD 295,000 per year during the course of our mandate. Our fees have been calculated by taking account of the full range of audit requirements. We do not envisage changes to these fees unless the nature and extent of the Organization's operations change significantly.

I commend this proposal to the Sanitary Committee.


Sir Amyas C.E. Morse
Comptroller and Auditor General
United Kingdom
15 June 2017

Resources, experience and independence

Sir Amyas Morse, Comptroller and Auditor General

1.1 The Comptroller and Auditor General (C&AG) is the head of the National Audit Office (NAO) and an Officer of the House of Commons appointed on a 10 year non-renewable term of office in 2009. The C&AG reports directly to the UK Parliament and his domestic reports are considered and scrutinised by the Public Accounts Committee, a cross-party committee of the House of Commons.

National audit office

1.2 Under the leadership of the C&AG, the NAO scrutinises UK central government spending on behalf of Parliament. The audit and inspection rights are enshrined in legislation and vested in the C&AG. The C&AG appoints the NAO's staff who are totally independent of government, are not civil servants, and do not report to any Government Minister.

1.3 The NAO can trace its roots as far back as the "Auditor of the Exchequer" in 1314 and has existed in its present form since 1983. In addition to our UK audit responsibilities we have a tradition of auditing international and UN organizations which extends over the past 60 years and have amassed considerable experience and expertise in the conduct of international audits. Similarly we support the development of audit practice internationally and participate in a variety of technical co-operation programmes with national governments and other Supreme Audit Institutions.

1.4 Our work has two main components.

- Our **financial audit** practice provides assurance on the fair presentation of entities financial statements, reviews the adequacy of the internal control environment and confirms that transactions have been processed in conformity with the relevant regulations. Our work helps governing bodies and other key stakeholders hold management to account for how they use the funds provided to them.
- Our **value-for-money** work for UK Parliament evaluates whether organizations use funds efficiently, effectively and with economy. We provide a range of such reports, as well as briefings and analysis, to support inquiries into the value for money of public spending. We conduct similar examinations in international bodies to identify opportunities for improvements and to ensure areas of inefficiency, waste or extravagance are identified and tackled. Our experience enables us to draw upon good practice and make relevant recommendations to our clients to make service delivery more effective and efficient.

1.5 Our other work includes in depth and forensic investigations of potential wrongdoing, focused reports on good practice in core business functions such as procurement and Human Resources, and support to Parliamentary Select Committees and equivalent international governance and oversight mechanisms.

Experience

1.6 Our long association with the audit of international organizations, and with the international development and technical co-operation programmes of both the UK and the UN, has given our staff valuable experience of working in multi-cultural, multi-national and geographically dispersed organizations. This has assisted us over the years in broadening our approach, practice and perceptions as well as providing insight into specificities of UN operations such as results based management, budgetary processes and the management of programmes.

1.7 One of NAO's strategic aims for its international activities is to help promote better governance and accountability in financial management through our capacity building capability. Our programme of externally funded technical co-operation work is mainly with Supreme Audit Institutions but also embraces work with national Parliaments, in particular Public Accounts Committees.

1.8 Within the UN family, we have extensive experience of providing external audit to the United Nations and its Specialized Agencies and Programmes. On 30 June 2016, we concluded a six-year term on the United Nations Board of Auditors (previously serving a nine year term until 30 June 2001). Within the past 10 years, the Comptroller and Auditor General was the appointed External Auditor of the International Labour Organization; the World Food Programme; Comprehensive Nuclear Test Ban Treaty Organisation; the World Meteorological Office and were previously PAHO's external auditor.

1.9 Our audit assignments and leading role with the UN Panel of External Auditors and INTOSAI has kept us in the vanguard of wider developments affecting UN bodies such as implementing and driving benefits from IPSAS, supporting business transformation and organizational reform, improving governance, internal control and accountability, enterprise risk management, information technology, results based budgeting and performance reporting, in all of which we have particular expertise and can draw on specialist internal teams.

1.10 The NAO has a fairly diverse portfolio of **other international bodies**. Within the past five years, the Comptroller and Auditor General has been the external auditor of such organisations as the: Organisation for the Prohibition of Chemical Weapons; the Special Tribunal for the Lebanon; the Advisory Centre for World Trade Law; the International Oil Pollution Compensation Funds; and the Wassenaar Arrangement.

1.11 The Comptroller and Auditor General is the Statutory External Auditor for all UK Government Departments, which includes the Department of Health and many of its associated entities. Where appropriate we can draw on our colleagues experiences in the health sector on our performance audit work.

1.12 As well as a wide involvement in the UK accountancy profession, the C&AG is also:

- A member of the of the International Organization of Supreme Audit Institutions (INTOSAI) and of the Board of the INTOSAI Development Initiative (IDI); also a Member of the European Organization of Supreme Audit Institutions (EUROSAI); and
- Represented by NAO technical experts who serve as members on a range of INTOSAI and EUROSAI Committees and Working Groups including those on Professional Standards, Capacity Building, Environmental Auditing and Financial Modernization and Regulatory Reform.

Available resources

1.13 We employ over 800 full time equivalent staff. Most of our staff are qualified or trainee accountants and over 60 per cent – the vast majority of our financial audit practice – are members of, or trainees with, the main accountancy institutes. We are a registered trainer with the Institute of Chartered Accountants England and Wales (ICAEW) which provides the main route for our graduate and school leaver intakes. This expertise is supported by other specialist staff in areas such as: commercial and contracting; corporate finance; digital transformation; operations and process management; project delivery; and regulation.

1.14 We will provide a strong, highly qualified and experienced team to audit PAHO. Curriculum vitae for senior members of the proposed audit team are included at Appendix A.

Language capability

1.15 All NAO staff are fluent in English. The NAO has an extensive language pool and, where appropriate, we will include a qualified team member with Spanish. If necessary, detailed documents or information requiring translation can be shared with our back office. The techniques we use are well developed and have worked in the extensive number of overseas locations we have audited and operated in.

NAO's commitment to diversity

1.16 The NAO is committed to promoting equality and diversity. Under our diversity strategy we have been successful in recruiting a more diverse workforce and in encouraging a genuine and widespread recognition of the positive difference diversity

can bring. The NAO received a gold rating in the "Opportunity Now and Race for Opportunity" benchmarking surveys for gender and ethnicity equality respectively.

Audit approach and quality

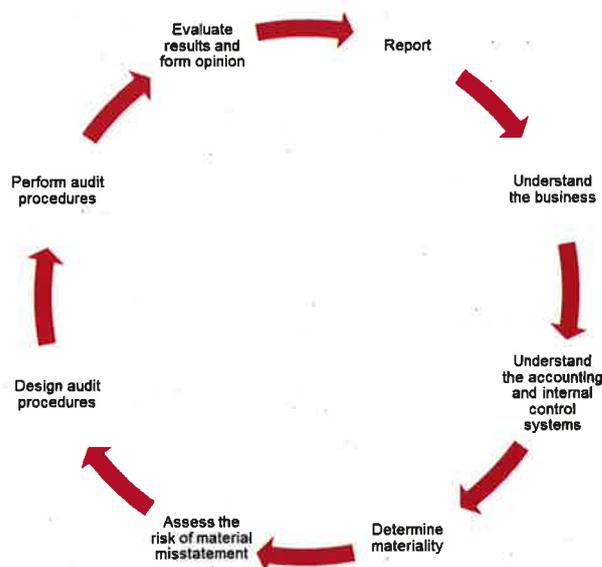
Financial audit

3.1 Our financial audit will be conducted in accordance with International Standards on Auditing. Our overall objective is to plan and perform our audit to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement and that in all material respects the expenses and revenues have been applied in accordance with the Member States' intentions.

3.2 Our audit is designed to provide an opinion on the fair presentation of the financial statements in compliance with International Public Sector Accounting Standards and that transactions comply with the Financial Regulations and Financial Rules. The timing of our audit will recognise the importance of completing the audit by 15 April following the end of the financial period. The key stages of our financial audit approach are depicted in the figure below:

Figure 1

Key stages of financial audit



3.3 These stages are performed in three main phases of work: planning, fieldwork and completion which are summarised at Appendix B. Throughout the audit we adopt a risk-based approach, and seek to take assurance where possible from the internal controls in place. We adopt a practical and supportive approach to our work and will maintain an open and regular dialogue with the Secretariat to facilitate discussions on issues as they arise.

3.4 Where possible we aim to rely on the work carried out by the office of internal audit and oversight and to do this we need to ensure that it is of the appropriate standard, covers relevant areas and is completed in accordance with our audit timetable. We will therefore liaise closely with your internal auditors at an early stage of the audit planning process to secure maximum audit efficiency.

3.5 All audit working papers, evidence and other documentation will be stored, reviewed and managed electronically using our corporate audit software. This software contains detailed work programmes, audit checklists, reporting templates and toolkits to support a modern and comprehensive financial audit and to evidence a thorough two stage review of audit results. The work programmes provide assurance that our audits cover all the requirements of International Standards on Auditing and improves the confidence of our clients that our audits are both efficient, compliant and documented to a consistently high standard.

Quality in our financial statements audits

3.6 The NAO delivers a high-quality financial audit service, with quality embedded at all levels of our work. Our quality procedures include the same external monitoring regime which is applied to the UK audit firms.

3.7 Quality is fundamental to our approach and to our ability to help improve public services. Our stakeholders have high expectations of us, and maintaining quality is crucial to providing credible and authoritative commentary on how public bodies use their resources. Our commitment to quality is reflected in our reputation as financial audit experts.

3.8 The key elements of quality at the NAO - which apply to our audit work, our approach to ethical matters, and the service standards our clients can expect of us - are summarised in the diagram below. Further detail is provided at Appendix C.

Figure 2

Key elements of audit quality



Performance or value for money audit

3.9 As we increase our understanding of PAHO's operating environment we will develop a plan for the period of our mandate to cover what we assess as the key performance risks. Our programme will focus on the key operational and strategic matters of interest to member states. We ensure that we cover the areas that matter, and where we can add value and insight. We also use our experience to identify areas we have encountered where we feel we can share best practice and secure beneficial improvement.

3.10 We aim to be at the leading edge in assessing public service performance, and we adopt innovative approaches and techniques. We work to standards that draw on best practice in performance audit, and we are recognised leaders in this field. Our work follows a clear process methodology that ensures the topics we select will add value and that the scope of our work uses our best experts. The work is underpinned by regular review to ensure the evidence for our findings is sound and that we are making the best added value recommendations. We make good use of our extensive back catalogue of UK and international reports.

3.11 Our team has extensive experience of undertaking performance audit in the UN system, we supplement this by using dedicated performance audit staff with a wide range of professional expertise in specific subject matters.

Handover arrangements

3.12 We will liaise with your current auditors and consider their audit reports, management letters and any other findings that may have an impact on the 2018

audit. In accordance with International Standards on Auditing, and agreed UN Panel of External Auditors protocols, we will request access to relevant working papers to ensure that we are fully aware of issues from the previous audit that may have a bearing on our work. On completion of the appointment we will also ensure effective handover to the incoming external auditor.

Audit reporting

3.13 After our initial planning work we would agree our letter of engagement and prepare our audit strategy. We feel it is important to engage management early on the key audit risks identified to ensure the audit is focused on the risks and challenges relevant to PAHO and its governing bodies. Our strategy will outline:

- our overall approach to carrying out the audit, including the performance audit work;
- our view of the key audit risks faced by the PAHO and our planned audit approach;
- the detailed timetable for completion of the assignment;
- our liaison with internal audit; and
- relative responsibilities of the PAHO and the NAO to ensure a comprehensive and successful audit.

3.14 At the conclusion of our audit work, in accordance with International Standard on Auditing 260, we will issue an Audit Completion Report which includes key internal control observations and our recommendations to enhance PAHO's control environment. Our Audit Completion Report will outline:

- our proposed audit opinions on the financial statements;
- any significant issues that we, as independent auditors, consider should be brought to the attention of the Secretariat and/or the governing bodies including any misstatements identified and adjustments made; and
- any recommendations to management for improvements to the Organization's operations, governance or controls.

3.15 We will also present the draft External Auditor's report containing the major findings and recommendations arising from our work, to senior management (those charged with governance) in good time for the Director to offer comments for us to take into account in finalising the report. Following the certification of the financial statements, the external auditor's report will be presented to the governing bodies. The audit team will be available throughout our appointment to assist PAHO

management and will be happy to provide our audit view on any technical accounting or other issues that they may face.

Communication with Member States

3.16 We would attend governing body meetings as required. In addition to these meetings. Our aim in this is to keep the Member States informed throughout the audit and to discuss any issues at the earliest opportunity. The Director and Audit Manager will be available to meet and discuss concerns that members may have on an ad hoc basis as required.

Audit resources and fees

Fees

4.1 Our fees are calculated on the basis of the time we spend on the client's affairs, and on the levels of skill and responsibility of the staff involved. We have estimated that our audit of PAHO will require 13 auditor-work-months, including planning (July), interim audit (November) and final audit visits (February) to headquarters and two field visits to representative offices and technical centres. We will complete the audit for a fee of USD 295,000 per year over the course of our tenure. A more detailed breakdown is at Appendix D.

4.2 Our fee seeks to recover our costs; this provides you with additional assurance of our independence, as we will not require the resources of national government to perform our audit.

4.3 This proposal has been submitted on the basis that the NAO will be solely responsible for the delivery of the External Audit requirements. The NAO works closely with other Supreme Audit Institutions (SAI) and where appropriate, and with the agreement of the client, we may involve auditors from other SAI's where this is beneficial.

Assumptions

4.4 In preparing this fee quotation, we have made the following assumptions.

- The nature and extent of the PAHO activities will not change significantly from that disclosed in the 2015 financial statements.
- PAHO will provide fully IPSAS compliant financial statements, and the supporting documentation, to agreed target dates. Our expectation is that PAHO will provide a high-quality, management-reviewed draft financial statements, by the start of each final audit visit.
- PAHO will provide transaction data to the audit team in one of the widely used electronic formats suitable for use in our audit work. We will discuss and agree the appropriate format at the start of the planning process.
- The independence of the external auditor's reporting to the governing bodies and be consistent with the terms of reference governing the external audit.

4.5 We would be happy to consider separate project audits, or additional work beyond that necessary to support the audit opinions. Terms of reference and fees for such work would be negotiated separately.

Appendix A: senior team curriculum vitae



Sir Amyas Morse: Comptroller and Auditor General

Amyas was born in Edinburgh, and is a member of the Institute of Chartered Accountants of Scotland. He led the Coopers and Lybrand practice in Scotland, before moving to London to manage the London City Office. He subsequently became the Executive Partner of the Coopers and Lybrand UK firm. When PricewaterhouseCoopers was formed, he took on global responsibilities, and served as Global Leader of Assurance practice (audit and related services), and then as Global Managing Partner (Operations).

Amyas joined the Ministry of Defence in July 2006 as the Defence Commercial Director. During his time as Defence Commercial Director, he was responsible for shaping the Department's relationship with industry, and he played a key role in the agreement of strategic commercial arrangements. More widely across government, he served as a member of the Major Projects Review Group, the Public Sector Board of the Chartered Institute of Purchasing and Supply, and on a National Health Service Project Board. Amyas was appointed Comptroller & Auditor General in 2009.

Amyas has just completed a six year appointment to the United Nations Board of Auditors, he was Chairman of the Board in 2013 and 2014 and was the Vice-Chair of the UN Panel of External Auditors during 2015 and 2015.



John Thorpe: Executive Leader

John is the Executive Leader who oversees the NAO's work on international engagements. He is also responsible for our work across a range of other portfolios including transport, energy, environment and rural affairs, welfare and tax. John qualified as an accountant with the NAO. He has extensive experience across a range of NAO's financial audit practice, including spells in the Office's technical team and supporting the UK Auditing Practices Board. John has worked on a wide range of audit engagements, including a four year period on UN assignments, where he led the teams on the audit of the World Health Organization and the International Labour Organization.



Damian Brewitt: Engagement Director

Damian has had a career in external audit for more than 23 years, and is a qualified chartered accountant. The first 10 years of his professional career was auditing local government and the health service with the Audit Commission.

In 2003 Damian joined the NAO with responsibility for the audit of UN Specialized Agencies and other international organizations, which at the time included the audit of the International Atomic Energy Agency; Organization for Security and Co-Operation in Europe; the World Food Programme; World Meteorological Organization and the International Labour Organization.

More recently he has had a number of significant and high profile Director portfolios including Culture, Media and Sport (including the 2012 London Olympics) and the Ministry of Defence. Damian was responsible for the European based UN Board of Auditor's portfolio, including UN High Commission for Refugees and UN Office of Drugs and Crime. Damian remains responsible for the UK's residual international work and the audit of the UK Parliament.



Simon Irwin: Engagement Manager

Simon has had a 27 year career in the NAO and is a qualified accountant. He has extensive experience with our UN and other international clients. Simon also leads our office's work on data analytics bringing a different dimension to our financial statements audit.

Simon is an experienced manager with a breadth of knowledge across the NAO's client portfolio. He has strong experience in both IPSAS and IFRS and has recently been working with the UN Secretariat managing the audit of Volume I and overseeing their transition to IPSAS and their implementation of Umoja and has previously worked with many of the UN agencies, funds and programmes. He represents the UK at the UN Panel of External Auditor's Technical Group.

Appendix B: financial audit methodology

Key elements of our financial audit methodology

Developing the audit plan

We develop our audit plan in consultation with management, those charged with governance, internal audit and key stakeholders. Our objectives are:

- understanding internal and external developments;
- understanding the risks facing the organization; and
- understanding the key processes, the controls in place and the assurance we intend to gain from those controls.

The Audit Planning Report incorporates our planned responses to identified significant risks of material misstatement.



Performing the audit

We test controls and substantively test transactions and disclosures with the objectives of:

- obtaining assurance over the significant risks identified as part of the audit planning stage;
- gaining assurance that account balances, transactions and disclosures are not materially misstated;
- gaining assurance that transactions are regular and in accordance with Member States' intentions; and
- gaining assurance that the financial statements are prepared in accordance with the relevant financial reporting framework.

Our substantive procedures will involve a mixture of tests of detail, analytical procedures and the use of data analytics.



Concluding and reporting

The results of our audit work lead to:

- proposing the audit opinion(s) to the C&AG;
- confirming that the audit team has remained independent and objective throughout the engagement;
- reporting matters of governance interest and other findings from our audit.

We prepare our Audit Completion Report, the audit opinion and the long-form audit report to the Member States.

Risk-based approach

1 We plan our audit to respond to the risks of material misstatement to transactions and balances in the financial statements, and report to those charged with governance on how our assessment of risk has influenced the nature and extent of our work.

Materiality

2 The concept of materiality recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement.

3 During the planning process, we determine a level of materiality which provides a basis for our detailed risk assessment procedures, and for determining the nature, timing and extent of further audit procedures. This level is a matter of professional judgement and based on our judgement about the sensitivity to error of the users of the account. The ranges we typically apply in the NAO are 0.5 per cent to 2 per cent of gross expenditure/turnover or gross assets.

Reliance on others

4 We liaise closely with the **office of internal oversight** throughout the audit and seek to take assurance from their work where appropriate. We also share risk assessments, take steps to avoid duplication and consider the results of internal audit's work in our own planning.

5 Where appropriate we may seek to place reliance on the work of experts engaged by management such as the valuation of employee benefits.

Reliance on controls

6 We rely on controls wherever it is possible to do so and positive for the quality and/or efficiency of the audit. In many cases, relying on controls will allow us to substantially reduce the amount of our other testing.

7 We may rely on automated system controls to streamline our audit approach still further, and draw on the expertise of specialist IT auditors where necessary in this regard.

Audit coordination

8 Our "client liaison schedule" will set out the agreed deliverables and key information requirements to support the audit. We will also agree with the protocols for the communication of audit queries. Our preferred process is to maintain an ongoing issues log in a shared work environment; this includes a dashboard highlighting key issues and audit progress for senior management. This provides full

visibility of the audit and provides a basis for management to respond to issues arising and to highlight early potential areas for audit recommendations.

9 At the end of each scheduled audit visit, emerging findings and conclusions arising from the work will be presented to management. All findings will be discussed with management and the Director will be afforded the opportunity to comment on the draft report prior to its finalisation.

Fraud

10 We comply with the requirements of ISA 240 *The auditor's responsibility to consider fraud in an audit of financial statements*. While our audit cannot be relied upon to identify all misstatements, we plan our audit of the financial statements so that we have a reasonable expectation of identifying material misstatements (including those resulting from fraud).

11 We incorporate an element of unpredictability as part of our approach, and report to those charged with governance on our approach to fraud risk; where we have identified fraud; or where we obtain information that indicates the possibility of fraud.

Information systems

12 We make extensive use of computer assisted audit techniques including the application of interrogation software to analyse transactions processed. In doing so, we are able to identify trends and patterns in the movement of significant account balances which help us to identify potential risks for further detailed investigation, such as unusual journal entries, and leads to greater efficiency in our audit approach.

13 We also use more sophisticated data analytics in support of our audit work to gain a greater insight in to client operations by examining complete populations of transactions to identify trends and outliers and to demonstrate to clients how to make better use of their existing data. For example, we can perform detailed analysis of costs and business processes in key areas such as purchase to pay (procurement), travel expenses, payroll and other staff costs, and budgets.

Appendix C: audit quality, ethics and client service

How we promote quality in our audit work

Leadership

1 The C&AG, with the leadership team, takes overall responsibility for quality and for the strategic direction of our work. The audit practice and quality committee oversees our policy on technical quality on their behalf. Operational leadership on quality is provided by the Director Quality Control. In turn, the Director is supported by both technical and compliance teams, as well as director-level quality leads.

Engagement with the wider profession

2 The NAO is represented at several levels in the profession including on the ICAEW Council and financial reporting committee, on UK Treasury's Financial Reporting Advisory Board, and on a number of international public audit bodies. Along with our collaboration with private sector partnership firms, these interactions help us to share good practice, learn from others and benchmark our audit methodology against comparable organizations. The NAO is an active member of the UN Panel of External Auditors and has been a leading member in developing the approach to how these audits are undertaken. We are also active participants in INTOSAI and EUROSAI, developing policies and adopting good practice.

Compliance with professional standards and training

3 We comply with International Standards on Auditing (ISAs) in all our financial audits. Compliance is supported by the NAO's Financial Audit Manual, which provides detailed guidance on how the NAO's audit methodology interprets and implements the ISAs.

4 These policies are underpinned by extensive in-house training regimes designed to develop staff in training; maintain the competence of qualified staff as accounting and auditing standards develop and further develop staff. All professional staff employed by the NAO are expected to meet a minimum annual target of 40 hours continuing professional development across the range of professional, management and personal effectiveness training and development.

Expertise in industry-standard financial reporting frameworks

5 The NAO was a key enabler of the UK government's transition to International Financial Reporting Standards (IFRS) and around 90 per cent of our clients use IFRS. The NAO has been a leading force in advocating and supporting the transition to International Public Sector Accounting Standards (IPSAS) in the UN and specialised agency environment. We have staff expert in IPSAS, IFRS and UK GAAP.

Quality control and focus on risk

- 6** Quality procedures are built in at every stage of our financial audits through:
- matching the resources we deploy to the level of complexity and risk posed by the audit;
 - a two-stage review of all audit files; and
 - consultation with our technical team and/or a specially convened 'audit panel' with senior membership on any matters of significant audit judgment.
- 7** For the highest risk audits and new audit engagements such as this, we also require an engagement quality control review by an independent NAO director. Finally, we conduct regular retrospective 'cold reviews' of our audit work.

External monitoring

- 8** Each year, the UK's Financial Reporting Council's (FRC¹) audit quality review team inspect a sample of our audits. The same team also inspects the largest private sector audit firms.
- 9** The results of both our cold reviews and the annual FRC inspection provide valuable indicators of areas of our methodology or practice which may benefit from specific focus. These areas arise both from the results of individual inspections performed on a sample basis, and areas chosen annually by the FRC for thematic focus.
- 10** We communicate the results of FRC inspections (and our cold reviews), and the actions we have taken in response to them, to all staff.

Protecting our independence and objectivity

- 11** For our work to have the impact and influence required, we must uphold high standards of ethics and probity, and work within a framework of values that preserve audit independence. Independence is one of the four NAO values which underpin all of our work.

Ethical Standards

- 12** In addition to complying with the ISAs, we require staff to follow the Ethical Standards for Auditors published by the FRC and International Standards on Quality Control for audits (ISQC 1). The Director of Quality Control is responsible for ensuring compliance with these and for creating a culture of professionalism, rigour and openness to challenge. Key features of our framework for promoting the highest ethical standards include:

¹ The Financial Reporting Council sets the standards for audit and monitors and enforces auditing standards

- specific training courses and an annual code of conduct declaration;
- procedures to identify threats and implement necessary safeguards on individual audits; and
- the rotation of senior staff every five years – beyond what is required by the standards.

Providing a quality service to our audit clients

13 We are committed to developing and maintaining positive client relationships and have a strong track record of doing so with the bodies we audit. Our clients welcome our active engagement and the technical support, advice and experience which our teams offer.

Adding value through our financial audits

14 Our intention is to add value through our audit by:

- sharing insights arising from wider NAO work;
- providing clients with practical tools such as resources designed to support audit committees², disclosure checklists for financial statements and guidance and briefing notes on accounting matters; and
- making risk-based recommendations following findings in our audit work, primarily designed to improve PAHO's financial management, governance or financial reporting.

Our approach to the audit relationship

15 Our commitment to our audit clients includes:

- being available at the right level to respond to our clients' needs, especially to significant issues raised by management or the governing bodies;
- considering the specific circumstances and concerns of our clients;
- taking a structured approach to client engagement involving planned regular communication throughout the audit;
- consulting early on our plans and the issues as we understand them;
- actively and transparently tracking outstanding issues; and
- communicating major issues as they are identified to promote a 'no surprises' ethos, maximise the chance of positive resolution, and to increase the impact of our findings or recommendations.

² <http://www.nao.org.uk/performance-improvement/support-to-audit-committees/>

Seeking continuous improvement

16 We actively seek to develop our relationships with clients throughout the audit process and to seek feedback on how we are performing, particularly following the completion of key milestones. This helps us maximise the audit efficiency and the value we add, as well as improving the audit experience for our clients.

Information security

17 We take the security of our clients' data seriously. Our specific commitments to the proper management of sensitive data are set out in the NAO's Statement on the Management of Personal Data³. Our key commitments are to only request personal data where necessary; to agree with you in advance how we use, secure, destroy and account for that data; and for all requests to be authorised by a senior employee.

18 Our IT systems are accredited to a high business impact level which allow us to store highly sensitive data where it becomes necessary for audit purposes. Our protection measures include several layers of access control on which we are externally accredited. These measures allow us to hold sensitive data securely within encrypted files, and to communicate at the conclusion of our audit on its destruction or secure retention.

³ <http://www.nao.org.uk/freedom-of-information/wp-content/uploads/sites/13/2013/03/Statement-on-the-Management-of-Personal-Data-at-the-NAO.pdf>

Appendix D: work plan and proposed fee

Work days and annual cost of PAHO audit (US dollars)				
	Work days ⁶	Cost	Travel and subsistence	Total Cost
Planning	45	33,000	15,200	48,200
Interim audit	50	45,000	20,900	65,900
Final audit	75	67,500	31,300	98,800
Field visits (2 visit/year)	30	36,000	16,600	52,600
Completion and reporting	70	26,000	3,500	29,500
Total	280	\$207,500	\$87,500	\$295,000

⁶ A work month constitutes 22 days