

**10th SESSION OF THE SUBCOMMITTEE
ON PROGRAM, BUDGET, AND ADMINISTRATION
OF THE EXECUTIVE COMMITTEE**

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**UPDATE ON THE APPOINTMENT OF THE
EXTERNAL AUDITOR OF PAHO FOR 2018-2019 AND 2020-2021**

Background

1. The term of the current External Auditor of the Pan American Health Organization will expire at the completion of the audit of the 2017 financial period. Therefore, in accordance with the procedure approved by the 50th Directing Council, the Pan American Sanitary Bureau (PASB) will issue a note verbale (see the Annex) which will be sent to Member States, Participating States, and Associate Members in August 2016 requesting nominations to be submitted.
2. PASB will prepare a document for submission to the 29th Pan American Sanitary Conference in September 2017 including all valid nominations. Member States will appoint the External Auditor for the financial periods encompassed within the 2018-2019 and 2020-2021 biennia at the 29th Pan American Sanitary Conference pursuant to the Rules of Procedure of the Conference.
3. Annex A to this document contains the note verbale which will be sent to all Member States, Participating States, and Associate Members. The note verbale describes in detail the process the Member States must follow in order to nominate an auditor of international repute. Included with the note verbale are excerpts from the Organization's Financial Regulations, as well as additional detailed information and references concerning the scope of the Organization's financial operations.

Action by the Subcommittee on Program, Budget, and Administration

4. The Subcommittee is invited to review the note verbale and provide any comments to the 158th Session of the Executive Committee.

Annex

Annex

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;
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- 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 Directing Council, 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

**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.

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: _____.

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=20&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.

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