REPORT OF THE AUDIT COMMITTEE OF PAHO

CONTENTS

I.   THE PAHO AUDIT COMMITTEE

Role and Function of the Audit Committee

1.   The 49th Directing Council of the Pan American Health Organization (PAHO) established the Audit Committee in 2009 under Resolution CD49.R2, Establishment of the Audit Committee of PAHO. The Committee held its first meeting in November 2010. Members of the Audit Committee are appointed in their personal capacity to serve no more than two full terms of three years each. Current members of the Audit Committee are Claus Andreasen, appointed in 2016; Kumiko Matsuura-Mueller, appointed in 2017; and Martin Guozden, appointed in 2018. Chairmanship of the Committee rotates on an annual basis among the three members. Ms. Matsuura-Mueller is the current Chair.

2.   The concept of an audit committee is a normal and internationally accepted best practice in both the private and public sectors that is now well established throughout the United Nations (UN) system. It contributes to strengthening an organization's governance, accountability, transparency, and stewardship and to assisting the Director and Executive Committee in fulfilling their oversight responsibilities. To ensure effectiveness, Audit Committee members are experts of the highest integrity who are both impartial and fully independent of the organization they serve. The three current members of the Committee collectively provide, inter alia, expertise in the processes of governance and accountability, external audit, internal audit, internal control, risk management, financial management and reporting, accounting, monitoring and evaluation, planning and budgeting, and ethics and integrity. All three members have extensive senior level experience in the UN system and/or other international and national public sector bodies. Their only relationship to PAHO is through the Audit Committee and they receive no remuneration for their work beyond travel expenses.

3.   In accordance with its Terms of Reference (TOR), the Audit Committee provides advice to the Director of the Pan American Sanitary Bureau (PASB, or the Bureau) and also to PAHO Member States through the Executive Committee. The work of the Committee is conducted in accordance with internationally accepted standards and best practices. It normally comes together twice a year for a two-day meeting, at which it meets with the Director, senior management, and other staff members, as well as the Auditor General and the External Auditor. In addition, the Committee reviews documents and policies provided to it at its meetings and receives briefings and presentations. It may, if needed, visit PAHO/WHO Representative Offices (PWRs) and Centers. No such visits were made during the period of this report.

4.   An important aspect of the Audit Committee is that it is only advisory and does not conduct investigations or perform external or internal audits. It is not responsible for the operation or effectiveness of internal controls, financial or risk management, or any of the other areas of operation that it reviews. The Committee is not a substitute for the functions of the Director or the Executive Committee or its Subcommittee on Program, Budget, and Administration.

5.   The Committee regularly reviews its TOR to ensure they are up to date and in line with the best standards and practices for audit or oversight committees of similar organizations within the United Nations system. In April 2018, the Committee shared its most recent review with PASB and proposed some modifications to the current TOR, including changes related to the Committee's role in reviewing the financial statements, in particular the level of depth of the review. In April 2019, the Director advised the Committee to submit the proposed revisions directly to the Governing Bodies through the Executive Committee. The Committee decided to further discuss the matter internally before taking this course of action.

Reporting Period

6.   This annual report covers the Audit Committee's work at its 17th meeting in December 2018 (fall session) and 18th meeting in April 2019 (spring session). For each meeting, an agenda is agreed upon and a schedule is decided on for open and closed sessions (to discuss confidential and sensitive matters). After each meeting, the Audit Committee prepares a summary record with comments and recommendations for the Director. An annual report is prepared for submission to the Executive Committee for its June meeting each year. It is a short synopsis of the main topics and issues that have been discussed, and contains what the Audit Committee considers are its most important findings and recommendations.

II.   THE *MAIS MÉDICOS* PROJECT

7.   At its 17th Session, the Committee was advised by the Director on the developments occurring in the *Mais Médicos* project. Pursuant to the statements made by the then president-elect of Brazil, the Cuban government had informed PAHO of their decision to terminate their participation in the project and consequently, withdraw the Cuban doctors from Brazil.

8.   The Committee was concerned to learn that a small group of Cuban doctors who had participated in the *Mais Médicos* project filed a lawsuit against PAHO in the Federal District Court in Florida, claiming among other things, that the Organization had withheld their payments, and requested the Director to keep it informed of further developments.

9.   Until its 17th meeting, the Committee continued to follow the development and implementation of the *Mais Médicos* project since its initiation in 2013, with reports from PASB, the Auditor General, and the External Auditor.

10.   As reported in its previous annual report, the Committee had recommended that the Bureau "design and undertake a comprehensive evaluation of the added value resulting from the *Mais Médicos* project". However, in light of the new developments, the Committee decided to rescind the recommendation at its 18th meeting, in order to accommodate other priority topics of evaluation.

III.   PASB MANAGEMENT INFORMATION SYSTEM (PMIS)

11.   The Committee was updated on the status of the PMIS development roadmap as well as the major developments that had been implemented since the previous session. The Bureau reviewed the methodology and findings of the Administrative Services and Workday Assessment performed by *Accenture*, which included an assessment of the current state, a Workday system review, administrative activity analysis, future state operating model, and business case and implementation roadmap. The assessment identified 13 strategies and opportunities for systems optimization, organizational realignment, and process improvements, which served as the basis for a PMIS 2019 roadmap with specific projects in each area.

12.   The Committee was pleased to note that the minutes of the Contracts Review Committee, including the approval or rejection of a contract, and additional approvals are now configured within PMIS in the requisition process for all contracts, including those of high-value.

13.   In terms of the PMIS assessment, the Committee inquired whether, in retrospect, there had been any issue of configuration that could have been done differently or adapted to better suit PAHO. In this regard, the Bureau acknowledged that the full advantages of the system had not yet been implemented, but the assessment and roadmap would facilitate the Bureau taking greater advantage of Workday capabilities. In terms of milestones and future implementation, the Bureau clarified that PMIS would continue evolving with constant upgrades, and a timeline extending further into the future and with the main milestones was pending approval by Executive Management (EXM).

Recommendation 1. Concerning the PMIS development, the Committee requests the management to submit a roadmap beyond 2019 with milestones and additional information on progress made.

IV.   INVESTIGATIONS MATTERS

14.   At its spring session, the Committee had the opportunity to meet the newly appointed Chief Investigator. The Chief Investigator had reviewed the Terms of Reference of the Investigation Office, which included many of the proposed revisions from the Audit Committee, and informed the Committee of the minor changes made to the Terms of Reference, including a new paragraph to discuss situations where the Investigations Office or the Chief Investigator might have a potential conflict of interest.

15.   The Committee had further comments and questions regarding *a)* the procedures for the intake for allegations; *b)* the reporting lines of the Investigations Office; and *c)* follow-up on action taken as a result of investigations findings. The Committee was concerned about the effectiveness and integrity of the investigation function and how management was following up on investigation findings to ensure the information in the investigation reports was acted upon. Additionally, the Committee believed that the

language regarding investigations into allegations limited the work of the office to internal matters only.

16.   Regarding the system for intake, the Chief Investigator informed the Committee that the Investigations Office was in the process of establishing a transparent, codified system of consistent assessment of allegations that would be documented in the Investigation Protocol and include a list of criteria. The Bureau explained that investigations reports that involve staff misconduct were normally submitted to Human Resources Management (HRM). Further information regarding the reporting lines and action taken on an investigation report, which is a subsequent step that does not involve the Investigation Office, could be found in the Investigation Protocol. The Committee was informed that the Chief Investigator will revise the Investigation Protocol after having the opportunity to understand the sensitivities within PAHO.

17.   The Chief Investigator agreed that the Terms of Reference should be further revised to reflect the scope of the Investigations Office's mandate (e.g. to be more explicit about its mandate over outside entities that have contractual relations with PAHO).

Recommendation 2. The Committee recommends that the Terms of Reference of the Investigations Office be revised taking into account its comments including the details of *a)* the procedures for the intake for allegations; *b)* the reporting lines of the Investigations Office; and *c)* follow-up on action taken as a result of investigations findings and submit the revised Terms of Reference for its review.

V.   ETHICS MATTERS/FRAUD PREVENTION POLICY

18.   At the outset, the Committee sought clarification regarding the separation of the investigative function and prevention activities previously undertaken by the Ethics Office. In light of the creation of the Investigations Office in 2018, it was noted that the two functions had already been separated. As a result of the separation, the Investigations Office dedicates its time to investigations, while the Ethics Office focuses on preventative activities and the provision of advice on ethical matters to personnel. The Ethics Program Manager noted that the new role of the Ethics Office is to expand training outreach, focus on prevention, and serve as experts in identifying tools to help recognize fraud and corruption. The Committee was also interested in the action taken to integrate fraud prevention and detection functionality into an automated system. The Bureau noted that the functionalities of PMIS would need to be further explored in order to better address fraud detection and prevention, largely in relation to procurement.

19.   During the reporting year, the Committee has reviewed the Anti-Fraud Policy in its draft form. The draft Anti-Fraud Policy was presented to the Committee at its 2019 spring session. The Committee noted that the policy was mainly addressed to management rather than staff, whose awareness would be required for proper implementation, and contained legal language in many areas. Along those lines, the

Committee stressed the importance of training and communication to staff in creating an anti-fraud culture. Additionally, the Committee had queries and suggestions concerning *a)* the use of multilateral development bank definitions; *b)* the inclusion of the notion of Article 100 of the UN charter; *c)* adding cross-references to clarify concepts and procedures outside of the policy; and *d)* the use of consistent terminology across the Organization.

20.   The Committee noted that the draft policy had not yet benefitted from the recently arrived Chief Investigator's input. The Committee looks forward to reviewing future revisions taking into account its comments and the inputs from the Chief Investigator.

VI.   ENTERPRISE RISK MANAGEMENT (ERM)

21.   During the reporting period, the Committee continued to follow the development of ERM. It was updated on *a)* the operationalization of risk management through specific outcomes and outcome indicators in the new Strategic Plan of the Pan American Health Organization 2020-2025, which was in the development process; *b)* advances with regard to program management; *c)* the status of the risk register; and *d)* activities that had been conducted to increase engagement in the ERM program.

22.   The Committee observed that 50% of the risks were categorized as strategic or external, thus not at operational level and difficult for cost centers to prepare a mitigation plan. To counteract this issue, the Bureau had requested that cost center managers not include a series of risks that could be applied to every cost center. Additionally, due to the high number of risks originally in the risk register, the most significant risks to the Organization had been collated and no action would be necessary at the cost center level. The Director of Administration agreed that more work was needed in terms of the institutionalization of risk management and noted that it could be included in the performance monitoring and assessment process.

VII.   INFORMATION SECURITY

23.   In response to the previous recommendation, the Bureau presented the Committee with the progress made in closing the gaps found in an information security controls assessment completed in 2017. Based on the gaps identified in the assessment, the Bureau created an information security roadmap to address these gaps through the implementation of controls, procedures, and processes that would not only correct the gaps, but also enhance the overall cybersecurity position of the Organization. The Committee was informed that concrete action had been taken to close the gaps identified in information security incident management, cryptography, information security policies, and compliance. These actions included implementing single-entry point for all corporate applications; a cybersecurity incident response plan defining the roles and responsibilities when a cybersecurity incident is detected; and an information security awareness program, among others.

24.   The Committee had inquiries regarding the use of systems and applications outside of the core system managed by the Bureau's Information Technology Services (ITS) department and their vulnerability. It expressed concern for the residual applications used outside the core system and asked what action had been taken to ensure the cybersecurity and protection for the small remainder that were not under ITS management. The Committee noted that it was very important to develop metrics for each compliance issue detected in the assessment and to determine the level of risk exposure based on the metrics established, with periodic monitoring and reporting to EXM. The Committee agreed that the information security awareness program should be mandatory, and suggested establishing metrics to detect the effectiveness of the program.

25.   In response to the above queries, ITS informed the Committee that it managed the firewall protecting all country systems, but that some country level systems are not part of the single-entry point of access. Furthermore, the Bureau has been gradually reducing the number of applications in the country offices that operate outside core systems, and that those which remained performed functions not yet available in the core system. The Committee was assured that potential cyberattacks did not threaten corporate data.

26.   The Committee believes that generally the Bureau is progressing well on cybersecurity and advised that it be fully integrated into business continuity.

27.   The Internal Audit of Information Technology Security (09/18) was discussed. The report had six recommendations, two of which were considered priority and related to *a)* the comprehensiveness of coverage of IT security, and *b)* user awareness programs and raising personnel consciousness about IT issues. The Committee was pleased to be informed that progress had been made in every recommendation, to the point that some were almost implemented.

Recommendation 3. The Committee recommends that the Bureau fully integrate the cybersecurity actions into the business continuity and that the ITS department of PASB develop metrics for each compliance issue detected in the assessment, determining the level of risk exposure based on the metrics established, with periodic monitoring and reporting to EXM. These metrics should be reflected in the revised IT Security Policy and Procedure framework.

VIII.   INTERNAL CONTROL AND COMPLIANCE

28.   In 2018 fall session, the Committee was provided with an update on the implementation of previous recommendation, which requested a report on the compliance of the internal control standard operating procedure with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) model internal control framework. The Bureau presented the results of the exercise, which measured PAHO's compliance with each component of the five COSO elements. Overall, the internal controls complied with the COSO standards and the Bureau considered the exercise useful. The Bureau noted that many reporting and monitoring mechanisms were still being implemented and

developed, but with the increasing maturity of PMIS, the focus would be on improving analytics and monitoring.

29. The Committee clarified that a report was expected rather than a summary of the Bureau's degree of compliance and requested that the details of the methodology used to complete the exercise should accompany the table of internal control mapping. The Committee noted that many components were rated as "approaching" compliance with the COSO methodology, however commenting on the information presented was difficult without the full report. The Bureau would include a description of the methodology used for the exercise in the document Mapping of PAHO's Internal Controls in Place with COSO Internal Control Framework, which was shared during the meeting.

30. At its 2019 spring session, the Committee received from the Bureau a report on the compliance of the internal control standard operating procedure with the COSO model internal control framework, as well as the progress made in the compliance program in conformity with the previous recommendation on the subject. The External Auditor noted that the developments in the compliance initiative were impressive and believed the Bureau was moving in the right direction. The Committee was satisfied with the report and requested information on next steps planned in the program. In response, the Bureau described the new procedure for monthly monitoring of contingent worker contracts that had recently been implemented.

IX.   INTERNAL OVERSIGHT AND EVALUATION SERVICES (IES)

Internal Audit

31. In response to the previous recommendation, the Committee was provided with the criteria used to determine the selection of country offices to be audited from the Auditor General. The discussion revolved around the methodology used to determine the four PWRs that would be included in the work plan, two of which were chosen on a cyclical basis. The Committee's view was that the table format of the country office assessment without explanatory narratives of the considerations noted for each country and the rationale for the final decisions made by IES needed improvement. The Auditor General confirmed that IES could document more narrative explanations of how conclusions are reached in the office and would consider a weighted or mathematical approach if it added value to the process.

32. The Committee affirmed that PAHO should develop an institutionalized methodology, either by giving weight or providing a profile of each country. The Auditor General welcomed the Committee's suggestions and pointed out that the audit planning methodology needs to match the resources available in the audit unit.

Recommendation 4. The Committee recommends that IES further develop its methodology for the selection of country offices to be audited, and submit to the Committee an explanatory paper detailing the methodology. In doing in so, IES should consider using a weighted and data driven approach in the risk analysis, including also explanatory narratives of how the conclusions are reached in the table format presentation.

33.   Regarding the IES work plan, the Committee was presented with the Internal Audit work plan for 2018 and 2019. The Auditor General noted the smaller amount of planned internal audits in the 2019 work plan – largely due to the closure of the *Mais Médicos* project.

34.   The Committee requested that the risk profiles for each thematic assignment and country office, as well as the rationale for each one, be presented in the next session. The Committee remarked that the internal audit findings in PWRs were similar to those of previous years, referencing the 2018 work plan. The Committee expressed in its annual report of June 2018 concern that many of the IES audit recommendations related to recurrent issues at the country level. The Committee suggested that it might be useful to report on cross-cutting issue rather than by country or to consider a solution at the level of the second line of defense. The case of administrative procurement in each country and the hiring of contingent workers were cited as examples of the similar pattern of findings among countries.

35.   The Bureau recognized that there were patterns of similar issues across country offices and emphasized the importance of site visits for proper verification in these cases. The Committee suggested that the next planning cycle incorporate an internal audit on fixed asset management.

36.   During the reporting period, the Committee reviewed four internal audit reports. For the internal audit report on cybersecurity please refer to above section VII, Information Security. Highlights of the remaining three internal audit report are shown below.

37.   One report reviewed was the Review of Compliance Mechanisms and the "Second Line of Defense" in the PASB. The report had three recommendations regarding *a)* a formal link between the Compliance Advisor post in Headquarters and the Compliance Specialist post at the PWR Brazil; *b)* the Financial Resources Management (FRM) country accounting services activities and linkages with the Compliance Advisor position; and *c)* the coordination of second line activities reaching beyond the Office of Administration to eliminate potential gaps or duplications. The Director of Administration informed the Committee that action had been taken on all three recommendations, including a designated compliance officer in the Procurement and Supply Management department. The Committee appreciated the swift action by management on the recommendations in the internal audit report.

38.   The second report reviewed was the Internal Audit of the Implementation of Funds for Voluntary Contribution Grants. The Bureau provided the Committee with a presentation of the progress made on implementing the four recommendations in the report, which included an updated policy framework, improvements in the organizational capacity to manage voluntary contributions, improved automated mechanisms to monitor voluntary contributions, and training for project management and resource mobilization.

39.   The Committee sought clarification regarding the functions of a grant coordinator and inquired what had been done regarding fixing the system to address the weaknesses highlighted in the report. The Committee was informed that the system had been improved to provide the grant coordinators and the External Relations, Partnerships, and Resource Mobilization team with useful information regarding the implementation of grants. For example, the system had alerts to highlight to grant coordinators when awards and projects were close to or had come to an end. The Committee was pleased to see that recommendations were promptly implemented.

40.   The third report on the Office of the PAHO/WHO Representative, Mexico City, was discussed. The Auditor General noted that Mexico was chosen due to both its size and the recent personnel changes and ten recommendations were issued, nine of which were addressed to the PWR Mexico. The Committee was informed that all recommendations had been categorized as closed in the system as the PWR had provided adequate evidence of progress and follow-up on the IES recommendations.

41.   The Committee raised a question regarding the scope of the audit, observing that the focus was on controls and non-compliance rather than governance and risk process. Some examples of these process included matters such as the organization of the country office, the roles and responsibilities, guidelines, monitoring and reporting functions, and how office managers assure that the risk management process is being properly executed. IES informed the Committee that the audit plan was based on a risk assessment and the audit focused on the areas that emerged in that assessment.

42.   It was agreed by the Committee and the Bureau that more rigorous training be made available in the future in order to improve and enhance the quality of information related to the management of fixed assets. Overall, the Committee recognized the proactive response being taken by the representative and recommended that monitoring be enhanced.

43.   The Committee reviews the status of recommendations issued by IES at every meeting. The Committee noted with satisfaction that IES performs follow-up on audit recommendations at four-month intervals, when each recommendation is discussed in detail, leading to occasional changes in the wording or allocation to a different unit within the Organization.

Evaluation

44.   During its 2018 fall session, the Committee was informed of the status of Evaluation Activity in PASB, which is given to the Director every six months and summarized the advisory work of the evaluation function of IES. IES also reported on the status of drafting the Evaluation policy. The Committee sought clarification on IES's role in the Terms of Reference of evaluations, which are only reviewed and advised on by IES and do not require its approval.

45.   At its 2019 spring session, the Committee reviewed the draft PAHO Evaluation Policy. IES cooperates and collaborates with the centralized World Health Organization (WHO) evaluation function and acts as a region that reviews decentralized evaluations and collaborates in WHO evaluations.

46.   The discussion regarding the draft PAHO Evaluation Policy focused on *a)* the policy's compliance with the United Nations Evaluation Group (UNEG) standards; *b)* the difference between corporate and programmatic evaluations in PAHO; and *c)* the role of the IES evaluation function in the development and process of an evaluation. The Committee noted that the Evaluation Policy deviated from the UNEG standards for evaluations, particularly in relation to the independence of the evaluation function, and wanted to understand the rationale.

47.   IES informed the Committee that the UNEG standards are used as a guide and hoped to progress toward full compliance. It was clarified that the evaluation function of IES is an advisory service within PAHO that acts as the regional decentralized advisory function for WHO. The Director sought to emphasize the establishment of a robust evaluation culture in PAHO that would enable the incorporation of evaluation into the planning process of program areas. Monitoring and evaluation are part of the planning process and serve to enable the necessary changes to the program. For this reason, the Bureau was still at the level of programmatic evaluations, rather than corporate evaluations.

48.   The Committee agreed with the Director regarding the importance of programmatic evaluations and promoting a culture of evaluation. Notwithstanding, the Committee was concerned that the draft policy was not in line with some of the key UNEG standards and norms as follows: *a)* the process for developing and deciding on the evaluation plan; *b)* the approval of the plan (by the Director/Governing body); *c)* approval of the Terms of Reference/methodology of the evaluation to be conducted; and *d)* quality assurance of the reports. After the discussion concerning the role of evaluations within PAHO, the Director decided to withdraw the draft PAHO Evaluation Policy to be resubmitted in the fall session of the Committee.

Recommendation 5. In revising the evaluation policy, the Committee strongly recommends to align the policy with the UNEG standards and norms in particular with respect to *a)* the process for developing and deciding on the evaluation plan; *b)* the approval of the plan (by the Director/Governing body); *c)* approval of the

Terms of Reference/methodology of the evaluation to be conducted; and *d)* quality assurance of the reports, bearing in mind that PAHO is a member this group. Furthermore, the Committee recommends that PAHO submit the draft evaluation policy for a peer review (UNEG) before resubmitting the policy to the Committee.

X.   EXTERNAL AUDIT

49.   The newly appointed External Auditor, the National Audit Office of the United Kingdom and Northern Ireland (NAO), presented the Audit Planning Report on the 2018 Financial Statement Audit. The NAO considered the report important to share with both management and the Audit Committee due to the assessment of risk and to aid in the understanding of the audit approach. The External Auditor shared with the Committee the significant risks and areas of audit focus, the response to significant risks, performance audit topics, and the timing of the audit.

50.   The ensuing discussion focused on the functionalities of PMIS, on the improvements that had been achieved as a result of the enhanced system, and on clarifying the nature of the manual interventions. The Bureau provided the Committee with an update on the automation of reports and statements in the system, noting two limitations that had been encountered: *a)* PMIS was not able to provide a statement from one date to another; and *b)* reports to support the financial statements were not created with a flexible approach allowing an automated update to changes in the ledgers, and the reports' configuration was hardcoded and required significant maintenance. The approach taken in 2018 ensured that any change made in the system was automatically included in the report and no longer need to be maintained in separate reports. In discussing property, plant, and equipment (PPE), the Committee noted the continued use of manual processes. The Bureau described improvement in the amount of manual processes and the External Auditor noted that they did not see the context of the amount of improvement made, only the situation as it was at the time.

51.   The External Auditor informed the Committee that the work done in the interim audit contained satisfactory results that gave assurance about the final audit process and noted no significant material issues or causes for concern. The External Auditor inquired whether the Committee believed there were any significant control weaknesses or risks that should be addressed that were not contained in the audit planning report. The Committee suggested that NAO should consider giving emphasis to performance auditing in light of the limited capacity of IES. The area of procurement, particularly in respect to fraud prevention, could be one area of focus. The External Auditor agreed that procurement would be a focus for the coming year and would ensure the transactions tested had gone through all expected processes.

52.   During the 2019 spring session of the Audit Committee, the External Auditor provided the Committee with a review of the draft audit completion report on the 2018 Financial Statement Audit. It was indicated that no significant issues had been identified at that point in time that could impact the audit opinion.

53.   However, several areas of concern were highlighted by the External Auditor, relating to: the After-Service Health Insurance (ASHI) liability, the policy for potential impairment of receivable assets and the *Mais Médicos* accrual position, as well as their findings on presumed risks. In addition, the Committee was informed that in order to reflect the most up-to-date actuarial valuation, FRM has posted an addition of $30 million to the disclosed ASHI liability. The Committee was provided clarification by NAO on this course of action, with which it fully agrees.

54.   The External Auditor also discussed the high volume of manual processes required to prepare the financial statements and the potential risk of error. However, no errors had been found in the manual processes. The Committee was informed that the Bureau had been asked to seek opportunities to reduce the level of manually-driven journal entries. Regarding the budget implementation monitoring process, the NAO considered that the semi-annual reporting process undertaken by the Bureau was insufficient and that more regular monitoring would enhance the accuracy of financial information provided to management.

55.   The Committee stressed that is of great importance to provide managers with a tool to ensure that the implementation of the budget is in line with the Organization's program budget. This was essential to ensure accuracy in the reporting of budget expenses/implementation to the stakeholders, in particular the governing bodies.

Recommendation 6. The Committee recommends that management synchronize the chart of accounts with the program budget and planning cost structure or create a system that can process both.

XI.   PAHO FINANCIAL REPORT AND FINANCIAL STATEMENTS

56.   At its 2019 spring session, the Committee was provided with an overview on the PAHO's Financial Statements by the Bureau. This included general comments on the budget, data regarding revenue, and the Bureau's expenses in 2018 compared to 2017. The Committee raised questions in relation to the *Mais Médicos* project; PPE; the PAHO Revolving Fund for Vaccine Procurement (Revolving Fund); and other assets declared by the Bureau. The Bureau informed the Committee that PAHO's total revenue in 2018 slightly decreased as compared to total revenue in 2017 due to *a)* a reduction in the activity from Program and Budget in 2018, which was to be expected as it was the first year of the biennium; *b)* a 1% reduction in procurement funds compared to 2017 due to unprecedentedly high activity in 2017; and *c)* a decrease in National Voluntary Contributions (NVCs) – in part due to the currency exchange rate decline of the Brazilian real compared with the US dollar.

57.   Regarding the program and budget, the Bureau highlighted the exceeding of the budget figure for Miscellaneous Revenue for 2018 and noted that a replication of this pattern in 2019 would result in a revenue surplus. Regarding procurement funds, it was noted that in 2018, the Revolving Fund was used by 40 Member States and territories and

the Regional Revolving Fund for Strategic Public Health Supplies (Strategic Fund) was used by 23 Member States. In 2018, there was an increase in activity with regard to the reimbursable procurement, which is used by some Member States not included in the other agreements. In terms of NVCs, the reduction of the value in the Brazilian real had a significant impact on funds – though increases had been noted in other areas. The Bureau also cited the cancellation of an agreement with Canada and the termination of the Cuban involvement in the *Mais Médicos* program as an explanation for the status of voluntary contributions and NVCs.

58. Furthermore, the Bureau gave an overview of total expenses during which the reduction in staff and other personnel costs from 2017 to 2018 was illustrated. The Committee took note of the figures presented and requested clarification on the treatment of PPE. The Bureau explained the current process for reconciliation of the PPE and intangible assets. The presentation of this topic in the Financial Report will be reformulated in 2019 to ensure a more transparent display of depreciation and amortization.

XII.   CONCLUSION

59. The Committee welcomed the cooperation it received from the Director and management. The Director's effective leadership has been crucial for the progress achieved across the broad range of issues considered and recommended by the Committee.

60. Priorities for the Committee in the coming year will be: establishment of PAHO's Evaluation Policy in line with UNEG standards; review of the PMIS road map beyond 2019; risk criteria for selection and prioritization for internal audits of field offices; examination of the program planning and budgeting process; cybersecurity matters; and reviewing the Terms of Reference of the Investigations Office in line with best standards within the UN system.

61. Finally, the Committee would like to express its gratitude and appreciation for the excellent contributions provided by Mr. Claus Andreasen who was appointed to the Committee in 2016. During his tenure, Mr. Andreasen has provided valuable contributions to the work of the Committee with his solid experience as Chief Auditor in a number of UN system organizations and vast expertise in audit and related matters. He took lead in many complex issues, enabling the Committee to contribute with significantly more relevant advices for the organization's work. It has been a great pleasure to work with Mr. Andreasen on the Committee.

XIII.   LIST OF MAIN AUDIT COMMITTEE RECOMMENDATIONS

Recommendation 1. Concerning the PMIS development, the Committee requests the management to submit a roadmap beyond 2019 with milestones and additional information on progress made.

Recommendation 2. The Committee recommends that the Terms of Reference of the Investigations Office be revised taking into account its comments including the details of *a)* the procedures for the intake for allegations; *b)* the reporting lines of the Investigations Office; and *c)* follow-up on action taken as a result of investigations findings and submit the revised Terms of Reference for its review.

Recommendation 3. The Committee recommends that the Bureau fully integrate the cybersecurity actions into the business continuity and that the ITS department of PASB develop metrics for each compliance issue detected in the assessment, determining the level of risk exposure based on the metrics established, with periodic monitoring and reporting to EXM. These metrics should be reflected in the revised IT Security Policy and Procedure framework.

Recommendation 4. The Committee recommends that IES further develop its methodology for the selection of country offices to be audited, and submit to the Committee an explanatory paper detailing the methodology. In doing in so, IES should consider using a weighted and data driven approach in the risk analysis, including also explanatory narratives of how the conclusions are reached in the table format presentation.

Recommendation 5. In revising the evaluation policy, the Committee strongly recommends to align the policy with the UNEG standards and norms in particular with respect to *a)* the process for developing and deciding on the evaluation plan; *b)* the approval of the plan (by the Director/Governing body); *c)* approval of the Terms of Reference/methodology of the evaluation to be conducted; and *d)* quality assurance of the reports, bearing in mind that PAHO is a member this group. Furthermore, the Committee recommends that PAHO submit the draft evaluation policy for a peer review (UNEG) before resubmitting the policy to the Committee.

Recommendation 6. The Committee recommends that management synchronize the chart of accounts with the program budget and planning cost structure or create a system that can process both.

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