



Pan American  
Health  
Organization



World Health  
Organization  
REGIONAL OFFICE FOR THE Americas

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### **FINANCIAL REPORT OF THE DIRECTOR AND REPORT OF THE EXTERNAL AUDITOR**

**1 JANUARY 2018 – 31 DECEMBER 2018**

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PAHO

FINANCIAL  
REPORT OF THE  
DIRECTOR  
and  
REPORT OF  
THE EXTERNAL  
AUDITOR

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**PAHO**



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Americas



**FINANCIAL  
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**and**

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THE EXTERNAL  
AUDITOR**

**1 January 2018 – 31 December 2018**

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## CONTENTS

<b>DIRECTOR'S COMMENTS</b>	<b>1</b>
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### **FINANCIAL REPORT AND AUDITED FINANCIAL STATEMENTS**

Certification of the Financial Statements for the year ended 31 December 2018	8
Statement on Internal Control	9
Opinion of the External Auditor	15

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### **FINANCIAL STATEMENTS**

Statement of Financial Position	17
Statement of Financial Performance	18
Statement of Changes in Net Assets	19
Cash Flow Statement	20
Statement of Comparison of Budget and Actual Amounts	21
Notes to the Financial Statements	22

---

<b>REPORT OF THE EXTERNAL AUDITOR</b>	<b>61</b>
---------------------------------------	-----------

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### **UNAUDITED ANNEX**

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Segmented Information of the Financial Performance	1
Assessed Contributions	6
Procurement Mechanisms	7
Voluntary Contributions	12
Regional Office of the Americas (AMRO) World Health Organization	34
Other Centers	35

---

The Annex with Unaudited Information for the year ended 31 December 2018 is available on the Governing Bodies web portal at:

<https://www.paho.org/od357/FR-unaudited-annex>



## **DIRECTOR'S COMMENTS**



In accordance with Financial Regulation 14.9 of the Pan American Health Organization (PAHO), I have the honor to present the Financial Report of the Pan American Health Organization for the financial reporting period 1 January 2018 through 31 December 2018.

The Financial Statements and Notes to the Financial Statements have been prepared in compliance with International Public Sector Accounting Standards (IPSAS) and PAHO's Financial Regulations and Financial Rules.

Although PAHO has adopted an annual financial reporting period as stipulated in Financial Regulation 2.2, the budgetary period remains a biennium (Financial Regulation 2.1). Therefore, for the purposes of actual vs. budget comparisons in the Director's Comments, the annual budget figures represent one half of the Biennial Program and Budget as an approximation of annual budgetary figures.

### **1. Main technical achievements from 2018**

During 2018, PAHO exercised its leadership, convening a catalyst role to improve the health of the peoples of the Americas in collaboration with Member States and partners. The Organization continued to provide direct technical cooperation, mobilize resources, strengthen partnerships and networks, build capacity, generate and provide evidence, and advocate for the necessary actions to continue to make progress on the priorities of the PAHO Strategic Plan 2014-2019 and the 2030 Agenda for Sustainable Development.

Highlights of the progress and achievements in technical cooperation during 2018 included:

1. A high-level commission was convened by the Director of the Pan American Health Organization (PAHO) in 2018 to examine the future needs of health systems as they transform towards universal access to health and universal health coverage, with a specific lens on primary health care and social participation in health in the Americas. The commission is chaired by the former President of Chile, Dr. Michelle Bachelet and OAS Assistant Secretary General Nestor Mendez. The Commission actively participated in the process for the Astana Declaration, and has delivered high level advocacy in support of core principles and values relating to primary health care to countries, WHO and participants at the Conference.
2. Extensive country engagement and consultation was carried out in the lead-up to the 40th Anniversary of the Declaration of Alma-Ata Global Conference on Primary Health Care: Towards Health for All, Astana, Kazakhstan, October 2018, the Bureau providing multiple briefings to Member States on the conference, coordinating a formal country consultation on the declaration and organizing several break-out sessions at the Conference.



3. Countries received support to address the issue of health and migration, and the challenges that the issue poses to health systems in close coordination with country offices on the support framework being implemented at the national level, as well as support to meetings of INCOSAMI, Mesoamerica Network, and the Regional Coordination Mechanism. The Bureau is currently elaborating a plan of action to address this important issue with Member States.
4. Paraguay was certified as a malaria-free country during the Global Meeting of 2020 Countries held in Costa Rica in June and was highlighted as an example to follow for other countries. Honduras and Nicaragua were certified for interruption of Chagas disease by the main vector (*R. prolixus*) and elimination of this same vector as a public health problem.
5. On the legislation front, Uruguay passed a presidential decree on front-of-package labeling of food and drink products high in critical nutrients, and Peru has approved a regulation to put their healthy eating law into effect.
6. Timely and appropriate responses were mounted for all emergencies with potential health impacts, in 14 countries and territories. This includes the response to the Venezuelan socio-political crisis and associated health effects such as outbreaks of measles, diphtheria, and malaria; and the associated migrant crisis and health effects in Colombia, Brazil, Guyana, Ecuador, Peru, Suriname and Trinidad and Tobago.
7. PAHO collaborated with 21 countries to review and update their adolescent health strategies (including pregnancy prevention plans), establish standards for adolescent health services, and build capacity to implement the Global Accelerated Action for the Health of Adolescents (AA-HA!) through technical support to countries as well as sub-regional and country-level workshops, such as those held in Barbados, Brazil, Guyana, Haiti, St. Vincent and the Grenadines, and Suriname.
8. During this period, the implementation of the flagship initiative "zero maternal deaths from hemorrhage" was accelerated, aimed at reducing the equity gap in maternal mortality throughout the Americas, with an emphasis on ten priority countries with high maternal mortality. Four of the participating countries (Bolivia, Guatemala, Peru and the Dominican Republic) reported that since this initiative was implemented, there have been no maternal deaths from bleeding in the areas of intervention. Furthermore, Brazil, a high-impact country due to its population size, has shown a decrease in maternal mortality in the state of Maranhão, related to the implementation of this strategy.
9. PAHO has continued its technical support to countries in the process of adoption and/or ratification of the Inter-American Convention on Protecting the Human Rights of Older Persons. Approximately 470 Cities and communities in twelve countries of the Americas are part of the "Age-Friendly Cities and Communities" initiative, which integrates multi-sectoral efforts at the local level to increase the health and well-being of older people.

## 2. Total Revenue

Main components of PAHO Revenue	(\$million)	
	2018	2017
Program Budget	266.8	282.1
Procurement Funds	678.3	684.8
National Voluntary Contributions	439.4	532.4
Other Special Funds <sup>1</sup>	8.5	9.5
<b>TOTAL</b>	<b>1 393.0</b>	<b>1 508.8</b>

<sup>1</sup> Other Special Funds include the Tax Equalization Fund (\$6.1 million) and PALTEX (\$2.5 million).

Program and Budget	(\$million)	
	2018	2017
Assessed Contributions <sup>1</sup>	97.1	96.4
PAHO Voluntary Contributions	52.1	50.4
WHO Voluntary Contributions	21.2	22.6
Other WHO Funds <sup>2</sup>	48.1	53.2
Program Support Cost	34.5	41.9
Miscellaneous Revenue <sup>4</sup>	9.5	14.5
Other <sup>3</sup>	4.3	3.1
<b>TOTAL REVENUE</b>	<b>266.8</b>	<b>282.1</b>

<sup>1</sup> Net of Tax Equalization of \$6.1 million.

<sup>2</sup> In 2018 Other WHO Funds include WHO Assessed Contributions (\$42.5 million) and WHO Special Account for Servicing Costs (\$5.6 million).

<sup>3</sup> In 2018 Other Funds include PANAFOTSA sales (\$1.4 million), Master Capital Investment Fund (\$1.2 million), and PROMESS (\$1.7 million).

<sup>4</sup> Includes unrealized loss of \$0.9 million in 2018 and \$1.0 million in 2017.

### 3. PAHO Assessed Contributions and Budgeted Miscellaneous Revenue

The PAHO Assessed Contributions were \$97.1 million, net of the Tax Equalization Fund (\$6.1 million) for fiscal year 2018. Revenue from Assessed Contributions was recorded in full on 1 January 2018, the date it became due and payable. The cash receipts of current and prior years' Assessed Contributions in 2018 totaled \$62.9 million and \$42.0 million, respectively. In 2018, the rate of collection of current year Assessed Contributions was 61%, compared with 57% for 2017. During 2018, PAHO received payments towards current and prior years' Assessed Contributions from thirty-six Member States. Twenty-four Member States paid their 2018 assessments in full, six Member States made partial payments toward their 2018 assessments, and twelve Member States made no payment toward their 2018 assessments.

Total Assessed Contributions outstanding, including amounts due for previous financial periods, decreased from \$44.4 million on 31 December 2017 to \$42.7 million on 31 December 2018. Each year the Delegates to the Directing Council or the Pan American Sanitary Conference review at length the financial circumstances of those Member States who are in arrears in their Assessed Contributions and subject to Article 6.B of the PAHO Constitution. As of 31 December 2018, there was one Associate Member subject to Article 6.B.

Miscellaneous Revenue includes a portion of investment revenue earned on the funds administered by the Organization, investment fees associated with the portfolios, net currency exchange gains and losses, savings on prior period obligations, and other miscellaneous revenue. Total Miscellaneous Revenue to the PAHO Program and Budget for 2018 was \$9.5 million and is comprised of \$18.4 million in investment revenue, investment management fees of \$0.4 million, and \$8.9 million of currency exchange losses, and \$0.4 million in other miscellaneous revenue.

### 4. Biennial Surpluses

At the end of each budgetary period, PAHO defines its Revenue Surplus and Budgetary Surplus according to the Financial Regulations. Revenue Surplus is the excess of revenue over the Budgeted Miscellaneous Revenue.

PAHO Assessed Contributions and Miscellaneous Revenue: Financial Highlights (\$million)	Actual	Budgeted <sup>2</sup>
	2018	2018
Revenue:		
2018 Assessed Contributions	103.2	103.2
Less: Tax Equalization	(6.1)	(6.1)
Other Revenue	-	-
Miscellaneous Revenue <sup>1</sup>	10.4	10.0
<b>Total Revenue</b>	<b>107.6</b>	<b>107.2</b>
Expenses:		
2018 Operating Expenses <sup>1</sup>	(106.1)	(107.2)
<b>Financial Net Surplus/(Deficit) from Operations for 2018</b>	<b>1.5</b>	<b>-</b>

<sup>1</sup> Non-budgetary items are excluded, mainly depreciation and unrealized gains and losses.

<sup>2</sup> For the purposes of actual vs. budget comparisons in this narrative, the budget figures represent one half of the Biennial Program and Budget to approximate annual budgetary figures.

## 5. Working Capital Fund

As of 31 December 2018, the Organization's Working Capital Fund was \$21.7 million. The maximum authorized level of the Working Capital Fund is \$25.0 million.

## 6. WHO Assessed Contributions and Other WHO Funds

The Pan American Health Organization implemented \$63.7 million from the WHO Funding Allocation in support of the international health programs established by the World Health Assembly for the Region of the Americas. In addition, the Organization implemented \$5.6 million in Other Sources Funds from WHO. Therefore, total implementation of WHO funds during 2018 reached \$69.3 million. In comparison, during 2017, the Organization implemented \$63.7 million from the WHO Funding Allocation and \$12.1 million in Other Sources Funds from WHO for a total of \$75.8 million.

## 7. PAHO Voluntary Contributions

PAHO Voluntary Contributions are comprised of (1) the Voluntary Contributions (VC) Fund and (2) the Voluntary Contributions-Emergency Preparedness and Disaster Relief Fund.

During 2018, PAHO's total (implemented) revenue from Voluntary Contributions net of Program Support Costs reached \$52.1 million as compared to \$50.4 million in 2017. Deferred (not implemented) revenue totaled \$80.9 million in 2018 as compared to \$83.9 million in 2017, which is a decrease of \$3.0 million.

In 2018, the largest donors of implemented Voluntary Contributions were: the United States of America (\$19.3 million), the United Kingdom (\$6.3 million), Canada (\$5.4 million), Gavi-the Vaccine Alliance (\$4.7 million), and Brazil (\$3.8 million). The largest donors for Emergency Preparedness and Disaster Relief were the United Kingdom (\$2.0 million) and the European Commission (\$1.9 million).

## 8. National Voluntary Contributions

National Voluntary Contributions (NVC) are financial resources provided by governments exclusively for projects benefiting their countries. During 2018, PAHO implemented \$439.4 million (2017: \$532.4 million) in NVC. The decrease in NVC revenue in 2018 is primarily due to the 13 % average decrease of the Brazilian Real vs. the U.S. dollar.

Revenue: National Voluntary Contributions			(\$million)
	2018	2017	2016
Mais Medicos Program	364.0	466.1	442.8
Other Brazil Programs	63.5	59.8	51.4
Other NVC	11.9	6.5	17.7
<b>TOTAL NVC</b>	<b>439.4</b>	<b>532.4</b>	<b>511.9</b>

## 9. Procurement on Behalf of Member States

During 2018, the total financial activity realized for procurement services on behalf of Member States decreased to \$678.3 million, compared with \$684.8 million in 2017. Through extensive international bidding, PAHO is able to purchase vaccines, public health supplies and equipment on behalf of Member States and international institutions at affordable prices.

Revenue: Procurement Activities On Behalf of Member States			(\$million)
	2018	2017	2016
Revolving Fund for Vaccine Procurement	605.3	612.0	582.3
Revolving Fund for Strategic Public Health Supplies	68.3	69.0	92.2
Reimbursable Procurement	4.7	3.8	4.0
<b>TOTAL</b>	<b>678.3</b>	<b>684.8</b>	<b>678.5</b>

**The Revolving Fund for Vaccine Procurement** was established as a purchasing mechanism to guarantee the quality and timely mobilization of vaccines at lower prices, as part of the regional immunization program. The revenue decreased from \$612.0 million in 2017 to \$605.3 million in 2018.

This was mainly due to several orders placed at the end of the year that are to be invoiced in 2019. It is important to stress that there was additional demand from some countries such as Argentina (MMR and Varicella vaccines), and advanced purchases for delivery in first quarter 2019 for countries such as Colombia, Honduras and Peru. In 2018, 41 countries and territories participated in the Fund. The Member States with the largest volume of procurement purchases were Argentina, Bolivia, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Panama, Peru, Paraguay, Uruguay and Venezuela. The Revolving Fund continues its efforts to support countries in improving demand planning, increasing operational efficiencies, and promoting supply availability of vaccines under global constrained conditions such as yellow fever and IPV.

**The Regional Revolving Fund for Strategic Public Health Supplies** was created in 1999 in order to facilitate the procurement and improve access to strategic public health supplies at affordable, stable prices, and to enhance planning capacity at the national and regional levels for these products. As of December 2018, 33 countries in Latin American and the Caribbean have signed participation agreements with the PAHO Strategic Fund.

The Strategic Fund has historically focused on assisting Member States in increasing access to public health products to treat and prevent communicable diseases (HIV/AIDS, Malaria, Tuberculosis, Neglected Tropical Diseases and Hepatitis). Additionally, the Fund has also extended availability to the list of in vitro diagnostic products currently prequalified by WHO. The Secretariat has targeted access to quality, essential medicines for Non-Communicable Diseases (NCDs), as a priority for the Strategic Fund and its participating countries, particularly for Hypertension, Diabetes, Cancer, Renal disease. Countries are progressively increasing the utilization of the Strategic Fund to access such products.

The total value of products purchased by Member States in 2018 was \$68.3 million, a slight decrease from 2017. The number of countries actively using the Strategic Fund, the number of transactions, and the volume of products being purchased continues to increase through the Strategic Fund.

The overall monthly average use by Member States of the Revolving Funds' Lines of Credit decreased by \$3.9 million in 2018 as compared to 2017, decreasing from \$50.6 million to \$46.0 million for the Revolving Fund for Vaccine Procurement, and increasing from \$2.2 million to \$2.9 million for the Regional Revolving Fund for Strategic Public Health Supplies.

Funding for the purchase of medical supplies, medical equipment, and literature processed through [the Reimbursable Procurement on Behalf of Member States Fund](#), was \$4.7 million. In 2018, 11 Member States used this Fund.

## 10. Expenses by Category

PAHO's total expenses, reflecting disbursements and accrued liabilities, decreased to \$1 368.8 million in 2018 from \$1 510.9 million in 2017.

The primary PAHO expense categories are shown below in millions of United States dollars:

PAHO Expense Categories (Net of Eliminations)	(\$million)	
	2018	2017
Staff and Other Personnel Costs <sup>1</sup>	123.4	147.9
Supplies, Commodities, Materials <sup>2</sup>	692.7	697.2
Depreciation and Amortization	1.4	0.9
Contractual Services	112.5	137.8
Travel <sup>3</sup>	49.1	54.2
Transfers and Grants to Counterparts <sup>4</sup>	365.8	455.0
General Operating and Other Direct Costs	23.9	17.9
<b>Total PAHO Expenses</b>	<b>1 368.8</b>	<b>1 510.9</b>

<sup>1</sup> Includes reduction in liabilities for After-Service Health Insurance Fund.

<sup>2</sup> The Supplies, Commodities, Materials category represents mainly the procurement of vaccines, strategic public health medications, syringes, and medical supplies for Member States through the Procurement Funds.

<sup>3</sup> Includes Technical Cooperation activities, Transportation and Per Diem.

<sup>4</sup> The Transfers and Grants to Counterparts category is primarily comprised of expenses linked to the National Voluntary Contributions.

## 11. Liquidity and Investments

The PAHO Investment Committee establishes and implements appropriate investment policies, reflecting best practices and prudent financial management. The Investment Committee regularly reviews the investment portfolio's performance, keeping in mind the primary objective of preserving the capital value of resources and maintaining adequate liquidity, while maximizing the yield on the portfolio.

Investment revenue totaled \$18.5 million in 2018 and \$19.3 million in 2017. Total cash and investments for the Organization at 31 December 2018 were \$872.9 million, an increase of \$63.0 million over the cash and investment balance as of 31 December 2017.

## **12. Accounting Policies and Basis of Preparation**

The Financial Statements of the Pan American Health Organization (the Organization) have been prepared on the accrual basis of accounting in accordance with International Public Sector Accounting Standards (IPSAS), using the fair value valuation convention. Where an IPSAS does not address a particular issue, the appropriate International Financial Reporting Standard (IFRS) has been applied.

These Financial Statements were prepared under the assumption that the Organization is a going concern and will continue in operation and will meet its mandate for the foreseeable future. The Governing Bodies of the Organization have not communicated through any means that there is an intention to terminate the Organization or to cease its operations. Furthermore, at the time of the preparation of these Financial Statements, the Executive Management of the Organization was not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the ability of the Organization to continue as a going concern.

The Financial Statements of the Organization were authorized for issue by the Director of the Organization under the authority vested in her by the Pan American Sanitary Conference as stated in the Resolution CSP29.R7 in September 2012. The issuance approval is the date of the External Auditor's Report. No other authority has the power to amend the Financial Statements after issuance.



**Carissa F. Etienne**

**Director**

**Pan American Health Organization**

**Certification of the Financial Statements for the year ended 31 December 2018**

In accordance with the provisions of Regulation XIII of the Financial Regulations, attached are the Financial Statements for the year ended 31 December 2018. The financial statements, accounting policies and notes to the financial statements have been prepared in compliance with International Public Sector Accounting Standards (IPSAS). The Financial Statements and notes have been audited by the Organization’s External Auditor, the National Audit Office whose opinion is included in this report.

The Financial Statements for the year ended 31 December 2018, together with the supporting notes to the statements have been reviewed and approved.



**Xavier Puente Chaudé**  
**Director**  
**Financial Resources Management**



**Carissa F. Etienne**  
**Director**  
**Pan American Health Organization**

## PAHO'S 2018 STATEMENT ON INTERNAL CONTROL

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### Scope of responsibility

As the Director of the Pan American Sanitary Bureau (PASB), I am responsible for maintaining a sound system of internal control that supports the fulfillment of PAHO's mandate and objectives while safeguarding the funds and assets administered by PASB, in keeping with the responsibilities entrusted to me by the PAHO Constitution, the Governing Bodies, and the Financial Regulations of the Organization.

In the context of Financial Regulation 12.1 which states that *"the Director shall establish and maintain an effective internal control structure with operating policies and procedures based on best industry practice, in order to: a) ensure efficient and effective financial administration, b) safeguard assets, c) accomplish the strategic objectives and goals in line with the mission of the Organization, and d) maintain an internal oversight function reporting to the Director"*, a specific standard operating procedure (SOP) was established in 2017 related to compliance with internal controls. In 2018, a Compliance Team was established at the corporate level to monitor compliance with administrative policies and procedures.

The purpose of the SOP is to strengthen the Organization's internal control system. The SOP delineates roles and responsibilities for all levels and functional areas of the Organization, especially in the areas of compliance and risk management. In addition, I granted delegation of authority and accountability to the members of the Executive Management, Heads of Country Offices, and other relevant staff.

### Purpose of internal control

The SOP defines internal control as *"A process, designed to provide reasonable assurance to management regarding the achievement of objectives relating to operations, reporting, and compliance"*. Our current guidelines are based on the COSO model<sup>1</sup>, which considers **five elements** during any stage of the internal control process. The elements are:

- **Control Environment**- The control environment is the foundation for the entire internal control system. It provides the discipline and structure, as well as the climate which influences the overall quality of internal control.
- **Risk Assessment**- The risk assessment process identifies and analyzes relevant risks that may negatively impact the achievement of organizational objectives. The major strategy for mitigating risk is through internal control activities.
- **Control Activities**- These comprise actions established, through policies and procedures, to mitigate risks. Control activities are performed at all levels of the Organization, at various stages within the business process and across the technology environment.
- **Information and Communication**- These elements involve the identification, gathering or generation and use of relevant and quality data to monitor internal control compliance, as well as any relevant trends or breaches, and to share these findings with the relevant internal stakeholders, using strategies and mechanisms appropriate to the audiences.
- **Monitoring and Compliance**- These systematic accountability processes observe and check the progress and the quality of the process over a period, and to ensure that internal control remains aligned with any changes in objectives, environment, resources, and risks.

Additionally, the implementation of internal control is designed using the "lines of defense model"<sup>2</sup>, which is summarized as follows:

<sup>1</sup> Based on the definition provided by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control - Integrated Framework, May 2013

<sup>2</sup> The Three Lines of Defense Model gained prominence a decade ago as the preferred model for managing operational risk. More details at <http://www.inconsult.com.au/understanding-the-three-lines-of-defence/>



- The first line of defense is provided by front line staff and operational management.
- The second line of defense is provided by the risk management and compliance functions.
- The third line of defense is provided by the internal audit function.

During 2018, the PASB validated the consistency of the internal control standard operating procedure with the COSO model internal control framework. The Bureau noted that many reporting and monitoring mechanisms are in place, with further planned improvements under development. With the increasing maturity of PMIS, PASB will focus on improving analytics and monitoring.

### **PAHO's operating environment**

Under the leadership of its 42 Member States, PAHO sets regional health priorities and mobilizes action to address health issues that affect the countries in the Region of the Americas, and that—in many cases—jeopardize the sustainability of national health systems. The Organization operates through its Washington, D.C. headquarters, 27 country offices, and three specialized centers in the region. The strategic policy instruments that provide direction and political vision for sustainable and equitable health development in the Region are the Sustainable Health Agenda for the Americas 2018-2030 (SHAA2030) and the Strategic Plan of the Pan American Health Organization 2014-2019, which is made operational through the Biennial Program and Budget.

While continuing to improve managerial and administrative systems for greater transparency, efficiency, and effectiveness, PAHO closely aligns with ongoing WHO reform and strategic planning, given that the Organization also functions as the WHO Regional Office for the Americas. However, PAHO's status as an independent international organization is widely recognized and respected, and the Director is therefore directly accountable to its Member States in the Americas.

2018 presented a mixed socioeconomic picture across the Region of the Americas. Most countries experienced gradual economic growth and placed increasing emphasis on equity and solidarity within the context of an evolving social sector. Notwithstanding, sustainable funding for health remains a challenge in nearly all countries, in a scenario of major ongoing public health challenges at the national and international levels and a resource-constrained environment with slow or negative economic growth in some countries<sup>3</sup>. These situations are characterized by inherent risks, potentially impacting the security of personnel and the Organization's ability to maintain acceptable standards of internal control.

In general, PAHO operations are closely monitored for programmatic and financial purposes. The Departments of Financial Resources Management (FRM), Planning and Budget (PBU), and External Relations, Partnerships, and Resource Mobilization (ERP) submit monthly reports to Executive Management covering the Organization's current financial position, the likelihood that financial and budgetary plans will be successfully implemented, and the risks associated. ITS submits a quarterly report to Executive Management on the status of the PMIS and the associated risks. These reports are discussed in detail to ensure that the members of Executive Management have appropriate and comprehensive information necessary to the decision-making process. Finally, a corporate Performance Monitoring Assessment process is conducted semiannually, which involves Executive Management, entity managers, and technical staff to assess progress in the implementation of the Program of Work and Strategic Plan.

There are scheduled oversight activities and strategic decisions are taken whenever it becomes necessary to adapt the Organization's operations to better manage and mitigate risk exposure. The Auditor General also provides the Director with an overall opinion on PAHO's internal control environment. For the financial reporting period 1 January 2018 through 31 December 2018, the Auditor General has concluded that there are no significant weaknesses in internal controls that would seriously compromise achievement of PAHO's strategic and operational objectives. The internal control environment in 2018 provides reasonable assurance of the accuracy and timely recording of transactions, assets, and liabilities and of the safeguarding of assets.

<sup>3</sup> PAHO Program and Budget 2018-2019. OD 354. September 2017.

Risks at the cost center level are captured in a formal risk register, which is subject to regular review by the Regional Advisor on Risk Management, the Standing Committee for Enterprise Risk Management and Compliance, and the Executive Management Team.

### The Internal Control Framework and Risk Management

The Enterprise Risk Management (ERM) program in PASB has continued to mature and demonstrate its usefulness<sup>4</sup>. PASB's risk management policy provides for the identification and mitigation of risks that might negatively impact PAHO's implementation of its programs.

The corporate risk management policy is implemented through tools and guidelines available at cost center level; the corporate risk register; the governance functions of the Standing Committee, which provides oversight of ERM and Compliance; integration of risk as part of the corporate planning and operations processes; and, the development and use of training materials to build staff capacity.

The ERM program worked closely with the Departments of Planning and Budget, External Relations, Partnership and Resource Mobilization, and Administration to integrate risk assessment, analysis, and mitigation into PAHO's operations. ERM and Compliance initiatives also established specialized networks with the designation of focal points at cost center level to support those functions.

The Report of the Audit Committee presented to the 162nd Session of the Executive Committee in June 2018 noted that there has been good development and improvement in the institutional structure and review of risk. At the same time, the report of the Auditor General on the second line of defense also made specific reference to the advances in risk management and provided recommendations to further strengthen the link between internal controls and risk management.

The Internal Control Framework operationalized through the respective SOPs, the risk management program in place, the monthly closure procedures, the development of compliance dashboards to monitor various administrative processes, and the constant training in the use of the PMIS, all demonstrate the fulfillment of PASB's commitment to its Member States to provide high quality financial stewardship aligned with both international accounting standards and PAHO's own Financial Regulations and Rules.

The same commitment has been demonstrated for many years at the programmatic level by the implementation of a results-based management approach and the accountability framework. In that regard, we continually update the public web portal showing financial and programmatic implementation at country, subregional, and regional levels. PASB also provides information on the results of the joint monitoring and assessment of the Program and Budget (PB) outputs, done in collaboration with Member States, and routinely reports on progress to PAHO's governing bodies.

### Review of Effectiveness

As Director of the PASB, I am responsible for reviewing the effectiveness of the system of internal control. My review is informed by the work of the Office of Internal Oversight and Evaluation Services, senior managers in the Organization with responsibility for developing and maintaining the Internal Control Framework, the Ethics Office which leads the Internal Conflict Management System, and the comments of the External Auditors in their management letters and audit reports.

Throughout the fiscal period, cost center managers are required to periodically provide assurances with regard to their compliance with policies and procedures through the Administrative Compliance Program, culminating in an annual letter of certification regarding the administration of resources under their responsibility.

The PAHO Audit Committee, established pursuant to Resolution CD49.R2 meets twice a year and serves in an independent expert advisory capacity to assist me and the PAHO Member States through the provision of independent assessment and advice on the operation of the Organization's financial control and reporting

<sup>4</sup> Annual Report of the Director, 2018.

structures, risk management processes, compliance, and the adequacy of the Organization's systems of internal and external controls.

### Significant risk issues noted

As part of the Program and Budget 2018-2019, an exercise to identify risks was carried out with the understanding that risks also provide opportunities to the Organization to address potential threats. The process of identifying, assessing, prioritizing and mitigating risks is a corporate function and part of the core decision-making process for the management of the PASB. The following risks were identified as corporate risks and discussed with the Standing Committee on Risk and Compliance and the Executive Management Team. The corporate risks also form part of the risk register and monitoring process for planning purposes.

Risk	Risk Description	Examples of ongoing and planned risk responses actions
Limited availability and flexibility of financial resources	This limitation including availability or access to voluntary funding may affect the implementation of the PAHO Strategic Plan (SP) and current mandates.	<ul style="list-style-type: none"> <li>- Advocacy at the national level for financing for health,</li> <li>- Mobilization of national voluntary contributions and alignment with PAHO's Strategic Plan priorities.</li> <li>- Generate efficiencies in budgetary implementation.</li> <li>- Monitoring to ensure that donor agreements are fully timely implemented in a timely manner.</li> <li>- Managing local currency bank balances to minimize exchange rate impact.</li> </ul>
Limited ability to adapt to emerging skills and competencies requirements	An aging workforce, imbalance between existing and needed skillsets to support programmatic commitments; need to achieve diversity and gender representation, and resource limitations on succession planning and staff development.	Implementation of the People Strategy, including biennial human resource planning, succession planning, leadership and management skills development, under regular review by the Learning Board.
Limited ability to react to and plan for shifts in health priorities	If PAHO does not respond to and plan for shifts in health priorities at the global, regional, or national level, political and financial support may diminish for specific programs to advance PAHO's core mandate to reduce health inequities.	<ul style="list-style-type: none"> <li>- Advocate for health as a pillar of social and economic development, in line with the 2030 Agenda for Sustainable Development and the Health Agenda for the Americas, among others.</li> <li>- Implement new modalities for technical cooperation such as South-South cooperation, Cooperation among Countries for Health Development (CCHD), and triangular cooperation, to better respond to country priorities and needs at all levels of the Organization.</li> <li>- Promote and adopt intersectoral and multisectoral approaches to address health conditions that are beyond the influence of the health sector.</li> <li>- Increase inter-programmatic work and common approaches, to improve performance for results</li> </ul>

Cyber Risk	Breach of security of PAHO's information system may impact confidentiality, integrity or availability of information for a significant period of time.	PAHO's information security function is implementing behavior-based security among staff and management and a proactive approach that involves monitoring end-user devices, networks, and servers in order to flag or block suspicious activity.
Potential for Fraud and Conflict of Interest	<ul style="list-style-type: none"> <li>- Potential conflicts of interest in projects involving non state actors;</li> <li>- Damage to PAHO's credibility from real or perceived fraud or corruption;</li> <li>- Gaps in policy and internal controls.</li> </ul>	<p>Training by the Ethic Office for all staff on the code of ethics.</p> <p>Strict enforcement of policies related to engagements with non-state actors, procurement, and whistle-blower protection policy.</p> <p>Enhancement of investigation capacity.</p> <p>Rapid action in case of fraud/corruption/misconduct.</p>
Delay in response to Public Health Emergencies	Imbalance in investment between risk preparedness activities and risk response activities creates the potential for delays in mobilizing human and financial resources for risk response. This risk continues to be relevant for Member States and for PAHO's operations and personnel security.	Advocate to continuously strengthen the health sector for efficiently monitoring, anticipating, and mitigating the health consequences of emergencies and disasters. PASB standard operating procedure is in place to organize support teams in cases of outbreaks and disasters.
Weak and fragmented Health Information Systems	Inconsistent health information systems among and within countries affects the Organization's capacity to monitor progress and make informed decisions for progress toward agreed health outcomes.	Significant resources have been allocated to improve information systems for health and strengthen data generation and analysis to improve health system management and support evidence-based decision-making. At the same time at the beginning of the biennium 2018-2019 PASB established the Department of Evidence and Intelligence for Action in Health (EIH) to better focus PAHO's technical cooperation in this area.

**Statement**

My Executive Management Team and I have performed systematic follow-up on all internal and external audit recommendations, the recommendations of the Audit Committee, reported ethical issues, and identified corporate risks through the risk management process.

I am confident that the Organization's system of internal control was effective throughout the financial reporting period 1 January 2018 through 31 December 2018 and remains so on the date I sign this statement.

A handwritten signature in blue ink, appearing to read 'C. Etienne', with a long horizontal stroke extending to the right.

**Carissa F. Etienne**

**Director**

**Pan American Health Organization**

## **INDEPENDENT AUDITOR'S REPORT TO THE PAN AMERICAN SANITARY CONFERENCE**

### **Opinion on financial statements**

I have audited the financial statements of the Pan American Health Organization for the year ended 31 December 2018, which comprise the Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets, Cash Flow Statement, Statement of Comparison of Budget and Actual Amounts for the year then ended, and the related notes.

In my opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Pan American Health Organization as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

### **Opinion on regularity**

In my opinion, in all material respects, the revenue and expenses have been applied to the purposes intended by the Pan American Sanitary Conference and the financial transactions conform to the Organization's Financial Regulations and Rules.

### **Basis for opinion(s)**

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Pan American Health Organization in accordance with the ethical requirements that are relevant to my audit of the financial statements in the United Kingdom. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **Responsibilities of Management and Those Charged with Governance for the financial statements**

The Director is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

My responsibilities are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a

material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

#### **Other Information**

Management is responsible for the other information. The other information comprises the Director's comments and the Statement on Internal Control. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

I have also issued a long-form audit report on the results of my audit.

Sir Amyas C E Morse  
Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London. SW1W 9SP  
United Kingdom  
15 April 2019

## Financial Statements

### Pan American Health Organization Statement of Financial Position

As at 31 December 2018  
(In thousands of US dollars)

Description	Reference	31 December 2018	31 December 2017
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	Note 3	193 712	65 740
Short Term Investments	Note 4.1	288 320	359 795
Accounts Receivable	Note 6	201 688	352 316
Inventories	Note 7	7 824	8 010
<b>Total Current Assets</b>		<b>691 544</b>	<b>785 861</b>
<b>Non-Current Assets</b>			
Long Term Investments	Note 4.2	379 245	372 974
Accounts Receivable	Note 6	79 608	140 111
Property, Plant and Equipment	Note 8	106 143	107 356
Intangible Assets	Note 9	695	931
<b>Total Non-Current Assets</b>		<b>565 691</b>	<b>621 372</b>
<b>TOTAL ASSETS</b>		<b>1 257 235</b>	<b>1 407 233</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accrued Liabilities	Note 10	25 398	22 938
Accounts Payable	Note 11	11 942	8 343
Employee Benefits	Note 12.3	2 759	2 812
Deferred Revenue	Note 13	556 170	661 221
<b>Total Current Liabilities</b>		<b>596 269</b>	<b>695 314</b>
<b>Non-Current Liabilities</b>			
Accounts Payable	Note 11	7 796	7 796
Employee Benefits	Note 12.3	200 468	235 794
Deferred Revenue	Note 13	150 501	219 549
<b>Total Non-Current Liabilities</b>		<b>358 765</b>	<b>463 139</b>
<b>TOTAL LIABILITIES</b>		<b>955 034</b>	<b>1 158 453</b>
<b>Net Assets</b>		<b>302 201</b>	<b>248 780</b>
<b>NET ASSETS / EQUITY</b>			
Fund Balances	Note 14	142 088	91 226
Reserves	Note 14	160 113	157 554
<b>TOTAL NET ASSETS / EQUITY</b>		<b>302 201</b>	<b>248 780</b>



Pan American Health Organization  
**Statement of Financial Performance**

As at 31 December 2018  
(In thousands of US dollars)

Description	Reference	31 December 2018	31 December 2017
<b>REVENUE</b>			
<b>Revenue from Non-Exchange Transactions</b>			
Assessed Contributions	Note 15	103 225	102 393
Voluntary Contributions	Note 15	518 279	614 190
WHO Allocations	Note 15	69 315	75 767
<b>Revenue from Exchange Transactions</b>			
Procurement of Public Health Supplies	Note 15	686 269	692 956
Other Revenue	Note 15	8 154	7 457
Miscellaneous Revenue	Note 15	8 193	16 057
<b>TOTAL REVENUE</b>		<b>1 393 435</b>	<b>1 508 820</b>
<b>EXPENSES</b>			
Staff and Other Personnel Costs	Note 16	123 426	147 948
Supplies, Commodities, Materials	Note 16	692 653	697 175
Equipment, Vehicles, Furniture, Intangible Assets, Depreciation and Amortization	Note 16	1 449	859
Contract Services	Note 16	112 459	137 836
Travel	Note 16	49 055	54 187
Transfers and Grants to Counterparts	Note 16	365 813	454 959
General Operating and Other Direct Costs	Note 16	23 940	17 900
<b>TOTAL EXPENSES</b>		<b>1 368 795</b>	<b>1 510 864</b>
<b>NET SURPLUS / (DEFICIT)</b>		<b>24 640</b>	<b>( 2 044)</b>

Pan American Health Organization  
**Statement of Changes in Net Assets**

As at 31 December 2018  
(In thousands of US dollars)

Description	Reference	31 December 2018	31 December 2017
<b>Net assets at the beginning of the year</b>		<b>248 780</b>	<b>282 475</b>
Actuarial gain / (losses) on employee benefits liabilities	Note 12.6	28 781	( 26 172)
Gain/(Loss) on Revaluation of Investments	Note 4.2		( 1 051)
(Recognition) / De-recognition of Liability through Reserves			( 4 478)
Prior Year Adjustment- Voluntary Contributions			50
<b>Total of items (revenue/expenses) recognized directly in Net Assets</b>		<b>28 781</b>	<b>( 31 651)</b>
<b>Surplus/(deficit) for the Financial Period</b>		<b>24 640</b>	<b>( 2 044)</b>
<b>Total recognized revenue and expenses for the year</b>		<b>53 421</b>	<b>( 33 695)</b>
<b>Net assets at the end of the year</b>		<b>302 201</b>	<b>248 780</b>

Pan American Health Organization  
**Cash Flow Statement**

As at 31 December 2018  
(In thousands of US dollars)

Description	Reference	31 December 2018	31 December 2017
<b>Cash Flows from Operating Activities:</b>			
<b>Non-Cash Movements</b>			
Surplus / (Deficit) for the period		24 640	( 2 044)
Depreciation and Amortization	Note 8/9	1 962	2 237
(Increase) / Decrease in Accounts Receivable	Note 6	211 131	6 058
(Increase) / Decrease in Inventories	Note 7	186	886
Increase / (Decrease) in Accrued Liabilities	Note 10	2 460	9 763
Increase / (Decrease) in Accounts Payable	Note 11	3 599	( 54 009)
Increase / (Decrease) in Employee Benefits	Note 12.3/12.6	( 6 598)	14 942
Increase / (Decrease) in Other Liabilities			( 4 478)
Increase / (Decrease) in Deferred Revenue	Note 13	( 174 099)	161 925
<b>Net Cash Flows from Operating Activities</b>		<b>63 281</b>	<b>135 280</b>
<b>Cash Flows from Investment and Financing Activities:</b>			
(Increase) / Decrease in Short Term Investments	Note 4.1	71 475	( 121 141)
(Increase) / Decrease in Long Term Investments	Note 4.2	( 6 271)	( 75 300)
Acquisition of Property, Plant and Equipment and Intangibles Assets	Note 8/9	( 513)	( 1 385)
<b>Net Cash Flows from Investing Activities</b>		<b>64 691</b>	<b>( 197 826)</b>
<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>		<b>127 972</b>	<b>( 62 546)</b>
<b>Cash and Cash Equivalents at the beginning of the Year</b>		<b>65 740</b>	<b>128 286</b>
<b>Cash and Cash Equivalents at the end of the Year</b>		<b>193 712</b>	<b>65 740</b>

Pan American Health Organization  
**Comparison of Budget and Actual Amounts**

As at 31 December 2018  
(In thousands of US dollars)

Category/Program Area	2018-2019 Approved Budget	2018				2019				Revised budget for 18-19	Total Expenses	Total 18-19 Expenses as % of Revised Budget
		Apportioned Budget	Revised Budget	Expenses	% Expenses Vs Revised Budget	Apportioned Budget	Revised Budget	Expenses	% Expenses Vs Revised Budget			
1. Communicable Diseases	<b>114 600</b>	57 300	57 300	49 878	87%	57 300	57 300	-	0%	<b>114 600</b>	<b>49 878</b>	<b>44%</b>
2. Non-communicable Diseases and Risk Factors	<b>59 100</b>	29 550	29 550	21 199	72%	29 550	29 550	-	0%	<b>59 100</b>	<b>21 199</b>	<b>36%</b>
3. Determinants of Health and Promoting Health throughout the Life Course	<b>81 400</b>	40 700	40 700	26 891	66%	40 700	40 700	-	0%	<b>81 400</b>	<b>26 891</b>	<b>33%</b>
4. Health Systems	<b>118 400</b>	59 200	59 200	43 983	74%	59 200	59 200	-	0%	<b>118 400</b>	<b>43 983</b>	<b>37%</b>
5. Preparedness, Surveillance, and Response	<b>56 400</b>	28 200	28 200	19 983	71%	28 200	28 200	-	0%	<b>56 400</b>	<b>19 983</b>	<b>35%</b>
6. Corporate Services/Enabling Functions	<b>189 700</b>	94 850	94 850	78 911	83%	94 850	94 850	-	0%	<b>189 700</b>	<b>78 911</b>	<b>42%</b>
<b>Sub-total for Base Programs (Categories 1-6)</b>	<b>619 600</b>	<b>309 800</b>	<b>309 800</b>	<b>240 845</b>	<b>78%</b>	<b>309 800</b>	<b>309 800</b>		<b>0%</b>	<b>619 600</b>	<b>240 845</b>	<b>39%</b>
Special Programs and Response to Emergencies	<b>56 000</b>	28 000	28 000	20 703	74%	28 000	28 000	-	0%	<b>56 000</b>	<b>20 703</b>	<b>37%</b>
<b>TOTAL</b>	<b>675 600</b>	<b>337 800</b>	<b>337 800</b>	<b>261 548</b>	<b>77%</b>	<b>337 800</b>	<b>337 800</b>		<b>0%</b>	<b>675 600</b>	<b>261 548</b>	<b>39%</b>

The PAHO Program and Budget was approved through Resolution CSP29.R6-e as an integrated budget, independent of the sources of financing. There were no budget transfers during the fiscal year 2018. The 2018 expenses represent expenditures from all funding sources that finance the Program and Budget on an accrual basis.

Although PAHO budget is approved by its Governing Bodies on a biennial (two year) basis, for reporting purposes the budget has been apportioned at 50% for each fiscal year (2018 and 2019).

<sup>2</sup> See Note 17

## **Notes to the Financial Statements**

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### **1. Mission of the Pan American Health Organization**

The mission of the Organization is “To lead strategic collaborative efforts among Member States and other partners to promote equity in health, to combat disease, and to improve the quality of, and lengthen, the lives of the peoples of the Americas.”

The Pan American Health Organization (the Organization) is an international public health agency with more than 100 years of experience in working to improve health and living standards in the countries of the Americas. It serves as the specialized organization for health of the Inter-American System. It also serves as the Regional Office for the Americas of the World Health Organization and enjoys international recognition as part of the United Nations system.

The Pan American Sanitary Bureau (PASB) is the Secretariat of the Organization. The Bureau is committed to providing technical support and leadership to the Organization’s Member States as they pursue their goal of Health for All and the values therein.

The headquarters of the Organization is located in Washington, D.C. In addition, the Organization has Representative Offices throughout the Americas, which are in charge of implementing its values, mission, and vision.

### **2. Accounting policies**

#### **2.1 Basis of Preparation**

The financial statements of the Pan American Health Organization have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS), using the historical cost convention except for land and buildings which are shown at fair value. Where an IPSAS does not address a particular issue, the appropriate International Financial Reporting Standard (IFRS) has been applied.

The Financial Statements of the Organization were certified and approved for issue by the Director of the Organization under the authority vested in her by the Pan American Sanitary Conference, as stated in Resolution CSP28.R7 in September 2012. The issuance approval is the date of the External Auditor’s Report. No other authority has the power to amend the Financial Statements after issuance. (Reference: IPSAS 14, paragraph 26).

The functional and reporting currency of the Organization is the United States Dollar (US\$). Disclosed amounts in the Financial Statements and Explanatory Notes are rounded in order to be expressed in thousands. The rounding practice may result in tables that may not sum precisely to the rounded totals.

These financial statements were prepared on the assumption that the Organization is a going concern and will continue in operation and fulfill its mandate for the foreseeable future (IPSAS 1). The Governing Bodies of the Organization have not communicated any intention to terminate the Organization or cease its operations.

In accordance with IPSAS 1, a complete set of financial statements has been prepared as follows:

- a. Statement of Financial Position
- b. Statement of Financial Performance
- c. Statement of Changes in Net Assets
- d. Cash Flow Statement
- e. Comparison of Budget and Actual Amounts
- f. Notes, comprising a summary of significant accounting policies and other relevant information.

## **2.2 Cash and Cash Equivalents**

Cash and cash equivalents, which are financial assets, comprise cash on hand, cash at banks, money markets and short-term deposits with original maturities of 90 days or less. For an investment to qualify as a cash equivalent, it must be convertible to a known amount of cash and be subject to an insignificant risk of changes in value.

Short-term deposits are stated at amortized cost using the effective interest method, with interest income recognized on an effective yield basis.

Cash and Cash Equivalents are held for purposes of meeting short-term cash commitments rather than for investment purposes.

## **2.3 Investments**

Investments are financial assets and are recognized when the Organization becomes a party to the contractual provisions of the investment. Investments are classified as either available for sale or held to maturity. Available-for-sale investments are accounted for on a purchase date basis. Held to maturity investments are recognized on settlement date.

Investments are classified as being available for sale where the Organization has not committed to hold such items to maturity. Available-for-sale items are stated at fair value (including transaction costs that are directly attributable to the acquisition of the financial asset) with value changes recognized in the Statement of Changes in Net Assets. Available-for-sale assets are actively traded on the market, and the valuation of these assets is determined by price quotes on the open market for identical financial instruments. Impairment losses are recognized when the book value of an asset exceeds the fair market value on other than a temporary basis. PAHO monitors the fair market value of its investments periodically and investigates the underlying cause of a decline in value. The investment policy specifies credit rating limitations. If the impairment is the result of a credit downgrade below investment policy guidelines, the Investment Committee will take action.

Impairment charges and interest calculated using the effective interest method is recognized in the surplus or deficit. When an available-for-sale asset is disposed of, the cumulative gain or loss previously recognized in the Statement of Changes in Net Assets is included in the surplus or deficit for the period.

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Organization has the intention and ability to hold to maturity. Held-to-maturity investments are comprised of U.S. agency paper such as that of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).

Held-to-maturity investments are stated at amortized cost using the effective interest method, with interest income recognized on an effective yield basis in the Statement of Financial Performance.

## **2.4 Loans and Receivables**

Loans and other receivables that have fixed or determinable payments and are not quoted in an active market are classified as loans and receivables. Loans and other receivables are stated at amortized cost calculated using the effective interest method, less any impairment.

Interest income is recognized on the effective interest basis, other than for short-term receivables where the recognition of interest would be immaterial.

## **2.5 Risk Management Policies**

The Organization holds funds not required for immediate operating needs as investments in order to earn revenue on surplus liquidity which, in accordance with Financial Regulations X and XI and Financial Rules X and XI of the Pan American Health Organization, funds a portion of the Program and Budget. Investments are made subject to the Organization's Investment Policy, which prescribes guidelines intended to protect invested principal, maintain adequate liquidity, and realize a return commensurate with investment risk constraints. Policy guidelines define duration, diversity and credit quality, which are consistent with limiting credit, market, and interest rate risk exposures. The Organization's credit risk is mitigated by Investment Policies that impose limits on the amount of credit exposure to any-one-counterparty, limiting investments in a single non-government issuer to no more than 25%.

In accordance with the Investment Policy requirements, internally managed investments are restricted to A1/P1 and AAA/Aaa rated financial instruments. Fixed Income Notes consist primarily of U.S. Agency Paper which carries the implicit guarantee of the U.S. Government.

Funds placed with external investment managers are restricted to instruments rated A1/P1 or BBB- credit quality or higher in accordance with their mandates. Mechanisms are in place to divest the portfolio of an investment that falls below the minimum requirements. In the event a security's rating falls below the minimum requirements for credit quality, the external manager immediately notifies PAHO.

Maximum maturity for the short-term investment of operating cash is not to exceed one year. Long-term investment of strategic funds is limited to an effective maturity of no more than five years. Long-term investments for TAREP trust are limited to an effective maturity of no more than 10 years.

Depository accounts are held at financial institutions with investment grade ratings by primary rating agencies, where such ratings exist. In instances in which no rating is available, the overall financial strength of the institution is evaluated prior to depositing funds in the institution. Non-U.S. dollar accounts are monitored daily to ensure that balances are kept at minimum operating requirements levels.

The PAHO Investment Committee approves financial instruments, as well as partner financial institutions, in accordance with the Investment Policy guidelines noted above in order to mitigate credit risk.

## **2.6 Accounts Receivable**

Accounts receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. Current receivables are for amounts due within 12 months of the reporting date, while non-current receivables are those that are due more than 12 months from the reporting date of the financial statements. Receivables are stated at amortized cost calculated using the effective interest method, less any impairment losses (which are recognized in the Statement of Financial Performance). However, for current receivables there is no material difference between the amortized costs; thus, these receivables have been recognized at cost (less any impairment losses).

Receivables from exchange transactions are recognized when the Organization is owed assets or services (usually in the form of cash) arising from a transaction that directly gives approximately equal value to another entity in exchange (IPSAS 9).

Receivables from non-exchange transactions are established when the Organization is owed assets or services (usually in the form of cash) that arise from a transaction that does not directly give approximately equal value in exchange; or the Organization has given value to another entity without directly receiving approximately equal value in exchange (IPSAS 23).

The main types of receivables are:

- **Assessed Contributions (non-exchange transactions)** are formal commitments from Member and Participating States and Associate Members for the biennial budget period. Assessed contributions are recognized as receivables when they fall due and payable on 1 January of each year. There is no provision in the Financial Regulations to write off an assessed contribution; therefore, no impairment loss has been recognized.
- **Tax Equalization Fund (non-exchange transactions) Receivables under the Tax Equalization Fund** are due from Member States that levy income tax on emoluments received from the Organization by their nationals or others liable to such taxes. The estimated amount to be levied by those Member States are used by the Organization to reimburse income tax paid by the staff concerned.
- **Voluntary Contributions (non-exchange transactions)** The Organization enters into Voluntary Contribution agreements which are comprised of (1) the Voluntary Contributions, which includes financial resources from governments, and private and public sector organizations governments (PAHO-Member States and Non-PAHO Member States); international organizations (United Nations and non-United Nations); for profit organizations; non-government organizations; foundations, and other Voluntary Contributions; (2) the National Voluntary Contributions, which was established on 1 January 2010 and includes financial resources from governments exclusively for internal projects; and (3) the Voluntary Contributions-Emergency Preparedness and Disaster Relief Fund, which includes financial resources from governments, and private and public sector organizations (PAHO-Member States and Non-PAHO Member States); international organizations (United Nations and non-United Nations); for profit organizations; non-government organizations; foundations, and other Voluntary Contributions. Upon signature by both parties and approval by the Organization's Office of Legal Counsel of the agreements, the full value of the agreement is recognized as a receivable and as deferred revenue (Note 2.13).

To determine the current portion of accounts receivable from Voluntary Contributions as of 31 December 2018, the Organization classified all the accounts receivable balances of Voluntary Contributions expiring prior to 31 December 2019, as well as those grants with an indefinite status, as current accounts receivable. In addition, accounts receivable balances of Voluntary Contributions agreements extending beyond 2019 were allocated between current and non-current accounts receivable using a straight-line calculation based on the number of years remaining. The non-current portion of accounts receivable will reflect the balance of the total accounts receivable amount for Voluntary Contributions, less the calculation of the current accounts receivable.

- **Procurement of Public Health Supplies (exchange transactions)** The Procurement of Public Health Supplies is critical to the Organization to achieve its mission of supporting Member States through technical cooperation for public health programs, including the procurement of vaccines and syringes, medical supplies, diagnostic kits, medications, and equipment.

The accounts receivable from the Member States in the Procurement of Public Health Supplies is comprised of two funds: The Revolving Fund for Vaccine Procurement and the Regional Revolving Fund for Strategic Public Health Supplies. Receivables are established for each participating Member State upon notification that goods were delivered by the supplier and payment to the supplier has been approved. This triggers the issue of an invoice addressed to the relevant Member State.



- **Inter-organization Funding Activities** The Inter-organization accounts receivable represents the amount due to the Organization from the World Health Organization as the net result of inter-agency transactions.
- **Advances to Staff** Advances are made to individuals in accordance with the Financial Regulations and Rules of the Organization for entitlements (i.e., education grants, travel, income tax settlements, insurance claims, etc.) and are recognized as receivables, until they are charged to expense upon receipt of the required claim or supporting documentation.

The Organization processes uncollectable receivables based on the delegation of authority regarding the amounts to be written off.

## 2.7 Inventories

Medications and medical supplies owned and controlled by the Organization are recorded as inventories with the intention that they be held for distribution in the ordinary course of operations. They are valued at the lower of cost or net realizable value at the end of the financial period. The Organization-owned medications and medical supplies, derived from the Organization's tracking systems, are validated by physical stock counts. These medications and medical supplies are expensed when distributed directly by the Organization or handed over to government or non-government institutions. Inventories held for distribution without charge are valued at the lower of cost or replacement cost. Inventories are held at the PROMESS warehouse in Haiti, a strategic storage facility. If the Organization receives inventories acquired through non-exchange transactions, they will be valued at fair value of acquisition. Due to the specific circumstances in Haiti, the cost formula is "First to expire, First out" for the inventories of pharmaceutical drugs and medications.

The Expanded Textbook and Instructional Materials Program (PALTEX) was established by the Pan American Health Organization (PAHO) in the mid-1960s as a technical cooperation program aimed at improving the quality of health science educational processes in Latin America. PALTEX is a publishing program that acquires, produces, and distributes quality textbooks and instructional materials in Spanish and Portuguese at affordable prices.

Inventories procured with Voluntary Contributions on behalf of a project do not form part of the Organization's inventory. The Organization is simply the implementing agent and is responsible only for the disposition of the items within the terms of the agreement. If the items are not consumed within the project period, the final disposition will be determined by the donor. At no time does the Organization retain control of these items; therefore, the correct accounting treatment is to expense these items at the time of purchase.

## 2.8 Property, Plant and Equipment

Property, plant, and equipment assets with a value greater than the \$20 000 threshold are recognized as non-current assets in the Statement of Financial Position. They are initially recognized at cost, unless acquired through a non-exchange transaction, in which case they are recognized at fair value as of the date of acquisition. The Organization applies the cost model to its plant and equipment—i.e. the items are carried at cost, less accumulated depreciation and any accumulated impairment losses. The Organization applies the revaluation model to land and buildings only.

The Organization considers all its Property, Plant and Equipment to be non-cash generating assets.

Depreciation is charged on property, plant, and equipment (except for land) to write down the cost/fair value of the asset to its residual value over the estimated useful life, using the straight-line method with a full year's depreciation charged in the year of acquisition. The estimated useful lives for fixed asset classes are as follows:

Assets Class and Description	Estimated Useful Life
Buildings	40 years
Mobile Buildings	5 years
Computer Equipment	3 years
Office Equipment	3 years
Motor Vehicle	5 years
Audio Visual Equipment	3 years
Lease-hold Improvements	3 years

Property, plant, or equipment procured with Voluntary Contributions on behalf of a project are not the Organization's assets and are meant solely for the use of the project beneficiary. The Organization is the implementing agent and is responsible simply for the disposition of the items within the terms of the agreement. The Organization does not retain ownership of these items; therefore, these items are expensed at the time of purchase. If the items are not consumed within the project period, the final disposition will be determined by the donor.

The Organization will periodically revalue its land and buildings, including leased property. External experts will be utilized to determine updated market value directly by reference to observable prices in an active market or recent market transactions on arm's length terms. All improvements, renovations, etc. made to the buildings since the prior appraisal will be expensed in the year they occur and included in the future revaluation.

Leasehold improvements are recognized as assets and valued at cost and depreciated over the lesser of the remaining useful life of the improvements or the lease term.

Donated land and buildings are valued at fair market value and recognized as non-current assets.

## 2.9 Leases

The Organization is the owner and lessor of the land parcel for the building at 2121 Virginia Avenue, N.W., Washington, D.C.

The Organization is the lessee for the first two floors of the same building mentioned above under an operating lease. The Organization also leases various office premises for the Representative Offices throughout the Americas. These are all cancelable agreements. Total annual lease payments have been disclosed in Note 16 on Expenses as a footnote.

## 2.10 Intangible Assets

Intangible assets, which are above the pre-established thresholds of \$30 000 for intangible assets purchased externally and \$100 000 for intangible assets developed in-house, are stated at historical cost less accumulated amortization and any impairment losses. Amortization is determined for intangible assets over their estimated useful life using the straight-line method. Amortization is charged on Intangible Assets to write down the cost/fair value of the asset to its residual value over the estimated useful life, using the straight-line method, with a full year's amortization charged in the year of acquisition.

The estimated useful lives for intangible asset classes are as follows:

Class	Estimated useful life (years)
Software acquired externally	7
Internally developed software	5
Licenses and rights, copyrights and other intangible assets	3

## 2.11 Accounts Payable

Accounts Payables are financial liabilities in respect of goods or services that have been received by the Organization and are recognized at amortized cost, which for payables are equal to cost. Accounts payable include the following:

- Amounts due to donors, partners, and stakeholders representing the unspent Voluntary Contributions for expired agreements.
- The inter-organization accounts payable represent the amount due from the Organization to the World Health Organization as the net result of inter-agency transactions.
- Invoices received and approved for payment but not yet paid.

## 2.12 Accrued Liabilities

Accrued liabilities are financial liabilities in respect of goods or services that have been received or provided to the Organization during the reporting period and that have not yet been invoiced, or invoices have been received but not approved for payment. They are recognized at amortized cost, which for accruals are equal to cost.

## 2.13 Deferred Revenue

Deferred revenue derives from legally binding agreements between the Organization and partners, such as governments (PAHO-Member States and Non-PAHO Member States); international organizations (United Nations and non-United Nations); for profit organizations; non-government organizations; foundations, and other Voluntary Contributions, where the partners provide funding to the Organization to support technical cooperation initiatives (voluntary contributions).

Deferred revenue is recognized when (1) a contractual agreement is confirmed in writing by both parties—i.e.; the Organization and the donors, partners, or stakeholders, and (2) the funds are conditional and determined by factors like:

- The agreement has a stated purpose.
- The agreement has a budget.
- The agreement has an effective date and an end date.
- The agreement requires technical and financial reporting.
- Funds provided under the agreement must be used for activities as required/described in the agreement or be returned to the donor.
- Upon completion, any unused funds will be returned to the donor, partner, or stakeholder.

Revenue is recognized in the Statement of Financial Performance based on the level of funds implemented during the financial period.

Funds received from governments and institutions participating in the Procurement of Public Health Supplies, in advance of the procurement of the goods, are treated as deferred revenue. Once confirmation is received that goods were delivered by the supplier and payment to the supplier has been approved, the revenue is recognized in the Statement of Financial Performance.

To determine the current portion of deferred revenue from Voluntary Contributions as of 31 December 2018, the Organization classified all the deferred revenue balances of Voluntary Contributions expiring prior to 31 December 2019, as well as those grants with an indefinite status, as current deferred revenue. In addition, deferred revenue balances of Voluntary Contributions agreements extending beyond 2019 were allocated between current and non-current deferred revenue using a straight-line calculation based on the number of years remaining. The non-current portion of deferred revenue will reflect the balance of the total deferred revenue amount for Voluntary Contributions, less the calculation of the current deferred revenue.

## 2.14 Employee Benefits

The Organization recognizes expenses and liabilities in respect of the following employee benefits:

- 1) Employee benefits earned in the current financial period are current liabilities recognized at an undiscounted cost.
- 2) Post-employment benefits— e.g., ASHI—are recognized at present value of the liability.
- 3) Other separation-related employee benefits are recognized at present value of the liability.

The Organization contracts the actuarial services of external experts to determine the appropriate level of liability for financial reporting purposes (i.e. the present value of the defined benefit obligations) as well as the service cost and interest cost for the current fiscal period. This information is also used to calculate different contribution percentages to be applied for staff costs.

In addition, the Organization uses this information for investment purposes to ensure that the Plan's investments meet the liquidity requirements of the respective liabilities.

## 2.15 Provisions and Contingent Liabilities

Provisions are made for future liabilities and expenses where the Organization has a present legal or constructive obligation as a result of past events, and it is probable that the Organization will be required to settle the obligation, and the value can be reliably measured.

Other commitments that do not meet the recognition criteria for liabilities are disclosed in the Notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of the Organization or the value cannot be reliably estimated.

## 2.16 Revenue

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the Organization during the year that represent an increase in net assets (IPSAS 23). The Organization recognizes revenue following the criteria established by IPSAS 9, "Revenue from Exchange Transactions," and IPSAS 23, "Revenue from Non-Exchange Transactions."

Exchange transactions are transactions in which the Organization receives assets or services, or has liabilities extinguished, and directly gives approximately equal value primarily in the form of cash, goods, services, or use of assets to another entity in exchange (IPSAS 9).

In a non-exchange transaction, the Organization either receives value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.

The main sources of revenue for the Organization include but are not limited to: Assessed Contributions, Voluntary Contributions, Procurement of Public Health Supplies, Other Revenue, and Miscellaneous Revenue.

- **Revenue from Assessed Contributions (non-exchange transactions).** Revenue from assessed contributions is recognized as of 1 January of each year when the Member States' assessed contribution commitment to the Organization is incurred.
- **Revenue from Voluntary Contributions (non-exchange transactions).** Voluntary Contributions, confirmed in writing by both parties, are recognized as receivables and deferred revenue (liabilities) because these funding agreements are conditional. As the Voluntary Contribution projects are implemented, the deferred revenue is then recognized as revenue. Voluntary Contributions categories are explained in Note 2.6

- **Revenue from the Procurement of Public Health Supplies (exchange transactions).** Revenue is recognized in respect of the procurement of public health supplies, because the Organization bears the risks and rewards of the purchased goods. Revenue on these transactions is recognized upon notification that goods were delivered by the supplier and payment to the supplier has been approved. The Procurement of Public Health Supplies is comprised of three funds: the Revolving Fund for Vaccine Procurement; Reimbursable Procurement; and the Regional Revolving Fund for Strategic Public Health Supplies. (See Note 2.6 Accounts Receivables, in respect of the Revolving Funds, and Note 2.13 Deferred Revenue, in respect of Reimbursable Procurement).
- **WHO Allocations (non-exchange transactions).** As the Regional Office of the Americas (AMRO) of the World Health Organization, the Organization receives funding allocations from WHO for the implementation of technical cooperation activities.

Funds received by the Organization from WHO include the following allocations:

- Allocation of WHO Assessed Contributions budget
  - Allocations of WHO voluntary contributions
  - Allocations of other WHO internal funds
- **Other Revenue (exchange transactions).** The Organization, under its specific mandates, carries out other technical cooperation activities for which revenue is separately disclosed. These activities include the following: Sales of services and program support costs.
  - **Miscellaneous Revenue (exchange transactions).** Miscellaneous revenue includes foreign currency revaluations, exchange rate gains and losses, interest earned, realized and unrealized gains and losses, and gains and losses from the sale of property, plant, and equipment.
  - **Special Activities Segment.** Special Activities are activities approved by the Organization's Governing Bodies for specific objectives and entitlements (i.e., staff entitlements, terminal entitlements, and after-service health insurance). Therefore, all employee benefits liabilities have been included in this segment.

## 2.17 Foreign Currency Transactions and Balances

The functional and reporting currency of the Organization is the United States dollar (US\$). Transactions in currencies other than US\$ are converted to US\$ at the prevailing market rate at the time of the transaction. The Organization has determined that the United Nations Operational Rates of Exchange (UNORE) are aligned closely with the prevailing market rates due to frequent analysis and adjustments and thus function as an approximation of the market rate at the time of the transaction. At the end of each reporting period, the Organization analyzes the performance of the UNORE in comparison with the prevailing market rate in order to determine the alignment and make any required adjustments. Assets and liabilities in currencies other than US\$ are converted to US\$ at the prevailing market rate at the end of the reporting period. Resulting gains or losses are accounted for in the Statement of Financial Performance within Miscellaneous Revenue.

## 2.18 Segment Reporting

A segment is a distinguishable activity or group of activities for which financial information is reported separately in order to evaluate an entity's past performance in achieving its objectives and to make decisions about the future allocation of resources. The Organization classifies all projects, operations, and fund activities into five segments: 1) Core Activities Segment; 2) Partnership Activities Segment; 3) Enterprise Activities Segment; 4) Special Activities Segment; and 5) Sub-regional Centers Activities Segments and Inter-party Transactions. The Organization reports on the transactions and balances of each segment during the financial period.

In every financial period, the Organization processes internal transactions not involving the use of cash (transfers) within any given segment and between different segments (i.e., Program Support Cost, Provision for Termination and

Repatriation Entitlements, After-Service Health Insurance Fund, Master Capital Investment Fund, etc.). The effect of these transfers is an over-statement (duplication) of both revenue and expense by the same amount, which are valued at the cost incurred at the time of the original transaction. The Inter-Party Transactions column in the Statement of Financial Performance allows for the elimination of such duplication.

The following segments were identified to provide a better understanding of the different activities of the Organization:

**Core Activities Segment**—Activities critical to the Organization’s Strategic Plan that are mandated and appropriated by the Organization’s Governing Bodies (i.e., activities funded with assessed contributions and other revenue for Program and Budget activities).

**Partnership Activities Segment**—Activities aligned with the Organization’s Strategic Plan and supported by partners, donors, and stakeholders (i.e., activities developed in partnership with external donors who provide the voluntary contributions and to whom the technical and financial reports are provided).

**Enterprise Activities Segment**—Activities performed by the Organization to strengthen technical cooperation with the ministries of health and facilitate their access to essential public health supplies (i.e., procurement activities funded by the Member States for the access to essential public health supplies).

**Special Activities Segment**—Activities approved by the Organization’s Governing Bodies for specific objectives and entitlements. (i.e., staff entitlements, terminal entitlements, health insurance).

## 2.19 Budget comparison

The Organization’s Governing Bodies approve the Biennial Program and Budget Plan, which includes assessed contributions, projected voluntary funds, and estimated miscellaneous revenue. The Biennial Program and Budget Plan may subsequently be amended by the Governing Bodies.

Beginning 1 January 2018, the Organization applied for the first time the accruals basis excluding depreciation and amortization for its budget preparation. The budget was prepared under the cash basis for all previous biennia.

Although PAHO's budget is approved by its Governing Bodies on a biennial basis, for reporting purposes the budget has been apportioned at 50% for each fiscal year.

## 2.20 In-Kind Contributions

In-kind contributions of services that support approved operations and activities, including the use of premises, utilities, personnel, transportation services, etc., are identified by categories of services under the respective Member State providing the in-kind contribution during the reporting accounting period. These are not recognized in the financial statements because the fair value of the services or assets cannot be reliably measured.

Donated land and buildings are recognized on the Statement of Financial Position at fair market value.

Donated inventories are capitalized subject to the materiality and conditions of the goods. The Organization will only accept donated goods in alignment with its core activities.

## 2.21 Potential Impact of IPSAS to be adopted in future periods

IPSAS 40 – Public Sector Combinations, effective date 1 January 2019. Currently the Organization does not participate in any kind of combinations with other entities. No impact is expected on the Organization’s financial information for the year ending 31 December 2019.

IPSAS 41 – Financial Instruments, effective date 1 January 2022. The Organization will recognize and disclose its financial instruments, assets and payables as mandated by the new standard. The potential impact has not been fully determined.

### 3. Cash and Cash Equivalents

	31 December 2018	31 December 2017
Cash on Hand, US\$	96 638	45 915
Cash on Hand, Other Currencies	45 199	18 464
Money Market Funds	53 343	2 502
Less: Plan Assets	( 1 468)	( 1 141)
<b>Total</b>	<b>193 712</b>	<b>65 740</b>

### 4. Investments

#### 4.1 Short-Term Investments

Short-term investments are those with final maturities at purchase below 365 days.

	31 December 2018	31 December 2017
Certificates of Deposit	288 320	359 795
<b>Total</b>	<b>288 320</b>	<b>359 795</b>

Accrued interest of \$1 174 017 (2017: \$815 581) is included in the balance of short-term investments in the Statement of Financial Position and recognized as Miscellaneous Revenue on the Statement of Financial Performance.

#### 4.2 Long-Term Investments

Long-term fixed income notes within the Organization's general portfolio are held to maturity and stated at amortized cost using the effective interest method. Long-term fixed income notes within the Termination and Repatriation Entitlements (TAREP) portfolio, comprising the plan assets held in an irrevocable trust, are stated at fair value with value changes recognized in the fund balance.

	31 December 2018	31 December 2017
<b>Net Increase in Long-term Investments</b>		
Increase (decrease) in Long-term Investments	6 066	75 218
Unrealized Net (Gains)/Losses	287	1 051
<b>Net Increase in Long-term Investments</b>	<b>6 353</b>	<b>76 269</b>
<b>Cash Flows from Long-term Investments</b>		
Interest Revenue	7 840	5 531
Realized Net Gains/(Losses)	( 1 690)	( 704)
<b>Cash Flows from Long-term Investments</b>	<b>6 150</b>	<b>4 826</b>

Valuation of Long-term Investments	31 December 2018		31 December 2017	
	Cost	Market	Cost	Market
Fixed Income Notes	10 347	10 132	10 347	10 271
Managed Portfolios	382 373	379 245	376 389	372 974
Less: Plan Assets	( 10 347)	( 10 132)	( 10 347)	( 10 271)
<b>Total</b>	<b>382 373</b>	<b>379 245</b>	<b>376 389</b>	<b>372 974</b>

Long-term fixed income instruments held in the TAREP portfolio are issued by U.S. Government. Accrued interest of \$36 287 has been included in the balance of long-term investments and recognized on the Statement of Financial Performance as Miscellaneous Revenue

Managed Portfolios are classified as available for sale and stated at fair value. The market value above includes accrued interest of \$1 719 759 (2017: \$1 604 399) recognized on the Statement of Financial Performance as Miscellaneous Revenue. Total gains (losses) on managed portfolios are comprised of the cumulative gain or loss and the incremental change in value at the point of sale or maturity. Total gains (losses) are on the Statement of Financial Performance as Miscellaneous Revenue.

## 5. Financial Instruments

### 5.1 Nature of Financial Instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition and de-recognition, the basis of measurement, and the basis on which gains, and losses are recognized in respect of each class of financial asset and financial liability, are set out in Note 2.3.

	2018 Amortized Cost	2018 Fair Market Value	2017 Amortized Cost	2017 Fair Market Value
<b>Cash and Cash Equivalents</b>				
Cash and Cash Equivalents	193 712		65 740	
Cash and Cash Equivalents (Plan Assets)	1 468		1 141	
<b>Short-term Investments</b>				
Certificates of Deposit (held to maturity)	288 320		359 795	
Certificates of Deposit (held to maturity) (Plan Assets)				
<b>Long-term Investments</b>				
Fixed Income Notes (Plan Assets)		10 132		10 271
Managed Portfolios (available for sale)		379 245		372 974
<b>Total</b>	<b>483 500</b>	<b>389 377</b>	<b>426 676</b>	<b>383 245</b>



## 5.2 Interest Rate Risk

The Organization is exposed to interest rate risk through both short-term and long-term investments. Principal amounts are stated at amortized cost for investments held to maturity and at fair value for investments available for sale.

	Effective Maturity	Effective Interest Rate	Fixed Interest	Floating Interest	Non-Interest Bearing
<b>Total Cash and Cash Equivalents</b>	>90 days	2.30%		53 343	141 837
<b>Short-term Investment</b>					
Certificates of Deposit	66,53 days	2.71%	288 320		
<b>Long-term Investments</b>					
Plan Assets	8,13 years	2.96%	10 132		
Managed Portfolios	1,75 years	2.86%	379 245		
<b>Total</b>			<b>677 697</b>	<b>53 343</b>	<b>141 837</b>

The Organization holds certain fixed income notes that the issuer has a right to redeem prior to the maturity date.

### Callable Instruments

Issuer	Principal	Rate	Maturity	Call Dates
Federal Home Loan Bank	1 527	2.14%	5-Dec-22	Continuous
Federal Home Loan Bank	8 568	3.10%	16-Nov-27	Continuous
<b>Total</b>	<b>10 095</b>	<b>2.96%</b>		

Changes in market interest rate impact the fair value and future cash flows of investment instruments. This impact is irrelevant for held-to-maturity investments but would affect the Statement of Financial Position for available-for-sale fixed rate investments and the Statement of Financial Performance for floating rate available-for-sale investments. The portion of PAHO's available-for-sale portfolio comprised of floating rate instruments is insignificant, and rate fluctuations would not have a material effect. However, a market rate shift for fixed rate available-for-sale investments could materially impact the Statement of Financial Position.

A fluctuation of market interest rates of 100 basis points would have the following impact on the fair market value of fixed rate available-for-sale investments:

Fair Market Value of fixed rate investments at 12-31-18	Increase of 100 basis points	Change in Fair Market Value	Decrease of 100 basis points	Change in Fair Market Value
379 245	372 657	(6 587)	385 885	6 641

## 5.3 Credit Risk

The maximum credit risk represents the carrying amount of loans and receivables. PAHO's investment guidelines stipulate limits on the amount of credit exposure to any one counterparty. However, there may be some counterparty risk associated with the concentration of financial instruments and cash deposits in the banking sector. These significant concentrations in the banking sector equal 63% of the total cash, short-term and long-term investments.

While there are no significant changes to the credit allocations within the portfolios, there is a slight increase toward higher quality fixed income investments in 2018.

Credit Rating	2018		2017	
Cash and Cash Equivalents	65 163	16.7%	60 804	15.9%
AAA	223 363	57.4%	225 619	58.9%
AA	41 072	10.6%	26 273	6.9%
A	45 235	11.6%	46 321	12.1%
BBB	14 233	3.7%	18 317	4.8%
Other	105	0.0%	5 494	1.4%
<b>Total</b>	<b>389 171</b>	<b>100%</b>	<b>382 828</b>	<b>100%</b>

The minimum credit quality requirements for all investments, as defined by the Investment Policy, falls within the investment grade range. Although the credit rating of the U.S. Government was downgraded from its historical AAA rating by one credit rating agency in 2012, there is no evidence to suggest that the borrower will default on these obligations.

PAHO's long-term investments and managed portfolios are held as follows:

Investment Type	2018	2017
Money Market Funds	3 810	3 339
Government & U.S. Agency Issues	211 918	211 089
Mortgage-backed and Asset-backed Securities	16 539	16 115
Corporate Notes	123 035	125 470
Municipal Government Bonds		998
Bank Deposits	24 145	20 323
Other Fixed Income	9 724	5 494
<b>Total Long Term Investments</b>	<b>389 171</b>	<b>382 828</b>

#### 5.4 Exchange Rate Risk

The Statement of Financial Position does not reflect significant exposure to exchange rate risk as foreign currency deposits at any given time are either immaterial or are designated for foreign currency expenditures. During the course of the year, a considerable portion of expenditures (34%) is disbursed in currencies other than the United States dollar. These disbursements are not hedged but are met by local currency receipts and the purchase of local currency as needed in the market at the time of disbursement.

Contributions may be received in foreign currency, provided the amount can be absorbed by country offices within a thirty day window. The majority of funds held in Brazilian accounts are committed to specific programs that stipulate disbursements in local currency within six months. An exception to the Cash Management Guidelines, which limit the balance of local currency maintained locally, has been approved by the Investment Committee for the Brazilian program to eliminate the need to enter the market to buy or sell local currency. It is, therefore, not anticipated that Brazilian deposits would be subject to exchange rate risk.

Local currency deposits held in Cuba and Venezuela totaling less than \$0.3 million are subject to restrictions that make it difficult to repatriate those funds to PAHO headquarters. These restrictions may increase the exchange risk for the organization. PAHO has taken the necessary steps to mitigate risk and continues to look for foreign exchange alternatives. PAHO local currency balances are minimal.

## 6. Accounts Receivable

		Total		Total	
	31 December 2018	31 December 2018	31 December 2017	31 December 2017	31 December 2017
<b>Current</b>					
Assessed Contributions		42 769			44 363
Tax Equalization Fund		5			5
<b>Voluntary Contributions</b>		<b>86 077</b>			<b>218 185</b>
Voluntary Contributions - Emergency Preparedness and Disaster Relief	9 582		1 000		
Voluntary Contributions	42 454		58 550		
Voluntary Contributions - National Voluntary Contributions	34 041		158 635		
Procurement of Public Health Supplies		55 674			70 659
Balance due from the PAHO Foundation					560
Expanded Textbook and Instructional Materials Program		44			45
Advances to Staff		6 034			5 029
Prepaid Expenses		6 500			9 616
Miscellaneous Receivables		4 585			3 854
<b>Total</b>		<b>201 688</b>			<b>352 316</b>
<b>Non-Current</b>					
<b>Voluntary Contributions</b>		<b>79 608</b>			<b>140 031</b>
Voluntary Contributions	26 025		65 863		
Voluntary Contributions - National Voluntary Contributions	53 583		74 168		
<b>Procurement of Public Health Supplies</b>					<b>80</b>
Revolving Fund for Vaccine Procurement			80		
<b>Total</b>		<b>79 608</b>			<b>140 111</b>

## 6.1 Accounts Receivable from Assessed Contributions

	Arrears	2018	Total 2018	Total 2017
Argentina		2 914	2 914	1 313
Aruba				21
Bahamas		46	46	
Brazil		12 102	12 102	6 681
Colombia		1 591	1 591	1 263
Costa Rica		53	53	37
Curaçao	21	22	43	21
El Salvador		74	74	166
France		55	55	3
Grenada				21
Mexico		459	459	
Netherlands		21	21	
Peru		543	543	165
Puerto Rico	239	24	263	320
Saint Vincent and the Grenadines		21	21	
Sint Maarten	21	22	43	59
Suriname	25	21	46	25
United Kingdom		12	12	
United States		20 472	20 472	32 177
Venezuela	2 091	1 920	4 011	2 091
<b>TOTAL</b>	<b>2 397</b>	<b>40 372</b>	<b>42 769</b>	<b>44 363</b>

### 6.1.1 Accounts Receivable from the Procurement of Public Health Supplies

	31 December 2018	31 December 2017
Revolving Fund for Vaccine Procurement	53 910	66 637
Regional Revolving Fund for Strategic Public Health Supplies	1 764	4 022
<b>Total</b>	<b>55 674</b>	<b>70 659</b>

## 7. Inventories

	31 December 2018	31 December 2017
PROMESS	1 080	705
Expanded Textbook and Instructional Materials Program	6 744	7 306
<b>Ending Balance of inventory</b>	<b>7 824</b>	<b>8 010</b>

## 8. Property, Plant and Equipment

2018	Land	Buildings	Computer Equipment	Office Equipment	Motor Vehicles	Audio Visual Equipment	Leasehold Improvements	Mobile Buildings	Total
Cost as of 1 January	64 026	44 867	657	165	2 532	317	266	27	112 857
Additions				35	478				513
Disposals			( 22)		( 105)				( 127)
<b>Cost as of 31 December</b>	<b>64 026</b>	<b>44 867</b>	<b>635</b>	<b>200</b>	<b>2 905</b>	<b>317</b>	<b>266</b>	<b>27</b>	<b>113 243</b>
Depreciation as of 1 January		2 626	657	117	1 498	317	266	19	5 500
Charged in current period		1 314		40	367			5	1 726
Disposals			( 22)		( 105)				( 127)
<b>Depreciation as of 31 December</b>		<b>3 940</b>	<b>635</b>	<b>157</b>	<b>1 761</b>	<b>317</b>	<b>266</b>	<b>24</b>	<b>7 100</b>
<b>Net book value as of 31 December 2018</b>	<b>64 026</b>	<b>40 927</b>		<b>43</b>	<b>1 144</b>			<b>3</b>	<b>106 143</b>

2017	Land	Buildings	Computer Equipment	Office Equipment	Motor Vehicles	Audio Visual Equipment	Leasehold Improvements	Mobile Buildings	Total
Cost as of 1 January	64 026	44 867	657	165	1 865	317	266	27	112 190
Additions					730				730
Disposals					( 63)				( 63)
<b>Cost as of 31 December</b>	<b>64 026</b>	<b>44 867</b>	<b>657</b>	<b>165</b>	<b>2 532</b>	<b>317</b>	<b>266</b>	<b>27</b>	<b>112 857</b>
Depreciation as of 1 January		1 313	610	73	1 236	302	266	14	3 814
Charged in current period		1 313	47	45	325	15		5	1 750
Disposals					( 63)				( 63)
<b>Depreciation as of 31 December</b>		<b>2 626</b>	<b>657</b>	<b>118</b>	<b>1 498</b>	<b>317</b>	<b>266</b>	<b>19</b>	<b>5 501</b>
<b>Net book value as of 31 December 2017</b>	<b>64 026</b>	<b>42 241</b>		<b>47</b>	<b>1 034</b>			<b>8</b>	<b>107 356</b>

## 8.1 Transferred Assets with Conditions

In accordance with the donation document filed in Public Record, the Government of Brazil Development Company for the New Capital of Brazil, Successors and Assigns granted PAHO ownership of the land on which the PAHO/WHO Representative Office buildings in Brazil are located. The document further stipulates that PAHO may not transfer, rent, or lend the donated land under penalty of revocation of the donation. In the event that the land is sold for the same purpose (i.e., establishment of a headquarters facility), PAHO must obtain written consent from the Government and pay the Government the present value of the land. This does not include the buildings and other immovable property thereon. Because of the restriction on the sale of the land and the requirement to pay the Government of Brazil the present value of the land, the Organization recognized such property in the Statement of Financial Position as both an asset and a liability (Note 11).

## 8.2 Revaluation of Land and Buildings

Following the Organization's Accounting Policies (Note 2.8), a revaluation exercise is performed on periodic basis. The last full revaluation occurred at the end of 2015.

The 2015 appraisal amounts for each property of the Organization are as follows:

Buildings	
Argentina	1 600
Barbados	2 332
Brazil	4 418
Jamaica	1 464
Guatemala	2 437
Guyana	614
Haiti	1 061
Washington DC	28 110
Paraguay	464
Peru	1 441
Venezuela	926
Sub-total Buildings	<b>44 867</b>
Land	
Brazil	7 796
Haiti	1 229
Washington DC	44 440
Peru	8 914
Venezuela	1 647
Sub-total Land	<b>64 026</b>
<b>Total</b>	<b>108 893</b>

## 9. Intangible Assets

The Organization separately discloses Intangible Assets that are:

- (a) Available for use and subject to amortization;
- (b) Under development and have not been completed. There are no intangible assets under development for 2018.

	31 December 2018	31 December 2017
<b>Intangible Assets Available for use</b>		
Cost as of 1 January	4 681	3 689
Additions		992
<b>Cost as of 31 December</b>	<b>4 681</b>	<b>4 681</b>
Amortization as of 1 January	3 750	3 263
Charged in current period	236	487
<b>Amortization as of 31 December</b>	<b>3 986</b>	<b>3 750</b>
<b>Net book value as of 31 December for Intangible Assets Available for use</b>	<b>695</b>	<b>931</b>
<b>Total Intangible Assets</b>	<b>695</b>	<b>931</b>

## 10. Accrued Liabilities

	31 December 2018	31 December 2017
Accrued Liabilities-Regular Budget Fund	780	1 866
Accrued Liabilities-Other Sources - PAHO	24 098	20 330
Accrued Liabilities-Other Sources - WHO	520	742
<b>Total</b>	<b>25 398</b>	<b>22 938</b>

## 11. Accounts Payable

	31 December 2018	31 December 2017
<b>Current</b>		
Assessed Contributions Received in Advance	9	10
Voluntary Contributions Expired Agreements	2 970	1 192
Procurement of Public Health Supplies	438	226
Balance due to the World Health Organization due to inter-office transactions	5 751	2 280
Miscellaneous	2 774	4 635
<b>Total</b>	<b>11 942</b>	<b>8 343</b>
<b>Non-Current</b>		
Liability Restricted Assets-Land in Brasilia, Brazil (Note 8.2)	7 796	7 796
<b>Total</b>	<b>7 796</b>	<b>7 796</b>

## **12. Employee Benefits**

Under the Staff Rules of the Pan American Health Organization, the Organization provides employee benefits that can be categorized as short-term liabilities and others that can be categorized as long-term liabilities. The employee benefits categorized as short-term liabilities are the education grant, education grant travel, and the assignment grant. The employee benefits that can be categorized as long-term liabilities include certain terminal payments, such as payment for annual leave, the repatriation grant, repatriation travel, or other separation indemnities, as appropriate.

In order to accrue the funds required for these short-term and long-term liabilities, the Organization has established three funds:

### **12.1 The Staff Entitlements Fund**

Established in January 2008, funds the short-term liabilities of the education grant, education grant travel, and assignment grant. This fund receives monthly apportionments from organizational contributions calculated from payroll.

### **12.2 The After-Service Health Insurance Fund**

Established in 2010, reflects the financing and liability of the Organization for current and prior staff members' health insurance for future years. This fund is part of the Staff Health Insurance Fund of the World Health Organization (WHO) administered by the Global Oversight Committee (GOC) which advises the Director General of WHO.

PAHO reports all activity related to this Fund (i.e. revenue collected from contributions of the Organization) to the Staff Health Insurance (SHI) Secretariat. The SHI Secretariat annually discloses in the SHI Report the total Defined Benefit Obligation (DBO) of the Fund and discloses the portion of the DBO attributable to the active staff and retirees of each of the participating organizations. An agreement between WHO and PAHO established in 2016 delegated authority to WHO to administer PAHO's plan assets for the SHI. PAHO and WHO are currently performing a census review and a study of criteria associated with the allocation of the SHI costs and liabilities. This analysis will be concluded in 2019 and, based on an agreement with the SHI Secretariat, will be reflected in future financial reports.

Activity related to the Defined Benefit Obligation is obtained through an annual global actuarial report prepared for the SHI Secretariat by an independent actuary. The report discloses segregated activity for each of the participating organizations of the SHI, including PAHO. The actuarial report for this year covers several mandatory disclosures in accordance with paragraphs 141 and 149 from IPSAS 39 as follows:

- 141(a) (i) The Staff Health Insurance reimburses expenses related to health care, and associated administrative costs, for eligible active and retired staff and their dependents.
- (ii) The SHI is not subject to any outside regulatory framework.
- (iii) The Global Oversight Committee (GOC) governs the overall Staff Health Insurance. The GOC generally holds two meetings per year, which include monitoring of the historical experience and analysis of potential changes to plan design and administration.
- 141(b) The principal economic financial risks faced by the plans are changes to discount rates and asset returns.
- 141(d) The discount rate is developed for each regional grouping of offices, based on the yields on high-grade corporate bonds at the measurement date and the expected cash flows and assumed currency exposure for each grouping of offices.
- 149(a) As a participating organization of the SHI, PAHO is not legally obligated to set aside funds in advance for the plan. However, GOC's current intention is to accumulate funds to approximately fully fund the accounting liability over time. The primary mechanism for achieving this goal is making steady increases to organization and participant contributions to the Staff Health Insurance Fund, with each year's surplus retained in the assets for the fund.



### 12.3 The Termination and Repatriation Entitlements Fund

Established in April 1972, reflects the financing and liability of the Organization for terminal entitlements, including annual leave, repatriation grant, repatriation travel, and household removal. The activity of the Defined Benefit Obligation is obtained through an annual actuarial report prepared by an independent actuary. The actuarial report for this year contains the following mandatory disclosures in accordance with paragraphs 141 and 149 from IPSAS 39 as follows:

- 141(a) (i) The Termination and Repatriation Entitlements Plan provides certain benefits upon separation, including: accrued leave payments; repatriation, disability, and death benefits; and termination indemnities.  
(ii) The TAREP is not subject to any outside regulatory framework.  
(iii) There is no formal governance committee for the TAREP. However, PAHO's management oversees the operations of the TAREP in accordance with the staff rules.
- 141(b) The principal economic financial risks faced by the plans are changes to discount rates and asset returns.
- 141(d) The discount rate reflects anticipated cash flows from the plan. The cash flows are discounted using a U.S. yield curve for high-grade corporate bonds as of the measurement date.
- 149(a) PAHO is not legally obligated to set aside funds in advance for the plan. However, PAHO's management current intention is to accumulate funds to approximately fully fund the accounting liability over time. The primary mechanism for achieving this goal is making contributions to the fund, with each year's surplus retained in the assets for the fund.

As of 31 December 2018, the status of the current and non-current defined benefit obligations per calculations of the actuarial consultants are as follows:

	After-Service Health Insurance Fund	Termination and Repatriation Entitlements Fund	Total 2018	Total 2017
Current Liability		2 759	2 759	2 812
Non-current Liability	198 792	1 676	200 468	235 794
<b>Total</b>	<b>198 792</b>	<b>4 435</b>	<b>203 227</b>	<b>238 606</b>

- Gain and losses (unexpected changes in surplus or deficit) are recognized immediately on the balance sheet and do not impact past or future expense.
- The expected rate of return on assets was based on the e-toll of Aon Hewitt Corporation, previously known as Aon Hewitt Associates LLC, (30-year time horizon for ASHI only) and the current portfolio.
- There is no reimbursement right.
- The expected Organization's contributions during 2019 are estimated at \$8 079 000 for After-Service Health Insurance Fund and \$2 759 352 for Termination and Repatriation Entitlements Fund.

### 12.4 Actuarial Valuations of Post-Employment and Other Separation-Related Benefits

During 2018, the rates of contribution to these two long-term funds were 5% of net base pay plus post adjustment being credited to the Termination and Repatriation Fund, and 4% of the base pay credited to the After-Service Health Insurance Fund.

The assets shown for the After-Service Health Insurance Fund includes part of the assets held in the aggregate by the Staff Health Insurance Fund (SHI) managed by the WHO Investment Committee. The Fund's assets have not been irrevocably allocated between WHO, the Organization (i.e., PAHO), and the rest of the WHO and its administered entities.

## 12.5 Actuarial Assumptions and Methods

Other long-term employee benefits consist of home leave travel, which is accrued on a monthly basis. Employees entitled to this benefit are meant to earn it and take it every two years.

Assumption	After-Service Health Insurance Fund	Termination and Repatriation Entitlements Fund
<b>Accounting Standard</b>	International Public Sector Accounting Standard 39	
<b>Measurement Date</b>	31 December 2018	
<b>Discount Rate</b>	4.5 %	4.0 %
<b>General Inflation</b>	2.2 %	
<b>Medical Costs Increases</b>	U.S.—4.9% in 2019, decreasing gradually to 3.85% in 2032 and later years.  Non-U.S. Americas—6.25% in 2018, decreasing gradually to 3.85% in 2040 and later years.	Not Applicable
<b>Future Participant Contribution Rate Changes</b>	4.0% per year through 2019, 2.0% per year from 2020 through 2049, and 0.0% per year thereafter.	Not Applicable
<b>Life Expectancy</b>	Mortality rates match those in the 31 December 2018 valuation of the United Nations Joint Staff Pension Fund.	
<b>Average Medical Costs</b>	Per adult in 2019, \$13,744 for the U.S. and \$5,431 for the non-U.S. Americas.	Not Applicable

The following tables provide additional information and analysis on employee benefits liabilities calculated by actuaries.

## 12.6 Actuarial summary for the After-Service Health Insurance Fund and the Termination and Repatriation Entitlements Fund

Description	After-Service Health Insurance Fund	Termination and Repatriation Entitlements Fund	Total 2018	Total 2017
<b>Reconciliation of Defined Benefit Obligation</b>				
Defined Benefit Obligation (beginning balance)	299 597	15 735	315 332	268 897
Service Cost	8 913	1 905	10 818	9 075
Interest on Defined Benefit Obligation	11 224	473	11 697	11 188
Actual After Service Gross Benefit Payments	( 8 773)	( 2 194)	( 10 967)	( 11 945)
Actual After Service Administrative Expenses	( 310)		( 310)	( 504)
Actual Contributions by After Service Participants	1 983		1 983	1 848
Plan Amendments Adopted	( 24 247)		( 24 247)	
Changes in Accounting Methods	6 168		6 168	
(Gain)/Loss on DBO due to Financial Assumption Changes	( 31 472)	( 670)	( 32 142)	29 182
(Gain)/Loss on DBO due to Other Assumption Changes	( 508)	786	278	7 591
<b>Defined Benefit Obligation as of 31 December 2018</b>	<b>262 574</b>	<b>16 036</b>	<b>278 610</b>	<b>315 332</b>
<b>Reconciliation of Plan Assets</b>				
Plan Assets (beginning balance)	65 311	11 412	76 723	71 406
SHI Participant Gross Benefit Payments	( 16 695)	( 2 194)	( 18 889)	( 20 978)
SHI Administrative Expenses	( 590)		( 590)	( 967)
SHI Contributions by Participants	5 435		5 435	5 921
Actual Total Organization Contributions	10 860	2 194	13 054	12 380
WHO SHI Fund Contributions to PAHO ASHI				3 643
Contributions to Increase Assets	1 988		1 988	1 495
Interest on Net Assets	2 482	377	2 859	2 965
Gain/(Loss) on Plan Assets	( 5 009)	( 189)	( 5 198)	860
<b>Plan Assets as of 31 December 2018</b>	<b>63 782</b>	<b>11 600</b>	<b>75 382</b>	<b>76 725</b>
<b>Reconciliation of Funded Status</b>				
<b>Defined Benefit Obligation</b>				
Active	79 543	16 036	95 579	114 677
Inactive	183 031		183 031	200 655
<b>Total Defined Benefit Obligation</b>	<b>262 574</b>	<b>16 036</b>	<b>278 610</b>	<b>315 332</b>
<b>Plan Assets</b>				
Gross Plan Assets	63 782	11 600	75 382	76 725
Offset for WHO 470.1 Reserve (*)				
<b>Total plan assets</b>	<b>63 782</b>	<b>11 600</b>	<b>75 382</b>	
Current		2 759	2 759	2 812
Non-current	198 792	1 676	200 468	235 795
<b>Net Liability (Asset) Recognized in Statement of Financial Position</b>	<b>198 792</b>	<b>4 435</b>	<b>203 227</b>	<b>238 607</b>
<b>Expenses for 2018</b>				
Service Cost	8 913	1 905	10 818	10 152
Interest Cost	8 742	473	9 215	8 316
Plan Amendments Adopted	( 24 247)		( 24 247)	
<b>Total Expense Recognized in Statement of Financial Performance</b>	<b>( 6 592)</b>	<b>2 378</b>	<b>( 4 214)</b>	<b>18 468</b>
<b>Expected Contributions during 2019</b>				
Contributions by / for Active Staff, Net of Claims / Admin Costs	3 717	2 759	6 476	5 297
Contributions by WHO for Inactives	4 362		4 362	4 192
Net Transfer by WHO to Cover PAHO Deficit				1 855
<b>Total expected contributions for 2019</b>	<b>8 079</b>	<b>2 759</b>	<b>10 838</b>	<b>11 344</b>

(\*) According to SHI Rule F.8.1, under the ASHI Plan Assets, WHO has internally established an "Offset for Incurred-But-Not-Paid" reserve in the amount of \$6 168 000. PAHO does not include such reserve in its ASHI Plan Assets figures.

Note: From the total annual actuarial activity totaling \$-32 994 454 (2017: \$5 909 554), \$-28 780 975 (2017: \$26 172 392) is disclosed in the Statement of Changes in Net Assets, and \$-4 213 479 (2017: \$20 262 838) is disclosed the Statement of Financial Performance.

## 12.7 Medical Sensitivity Analysis and Discount Rate Sensitivity Analysis - After-Service Health Insurance\*

Three of the principal assumptions in the valuation of the After-Service Medical Plan are: 1) the rate at which medical costs are expected to change in the future; 2) the return on the assets; and 3) the discount rate used to determine the present value of benefits that will be paid from the plan in the future. Because the medical inflation rate and the discount rate have a very significant impact on the determination of the Organization's long-term valuation, it is helpful to conduct sensitivity analysis on them. The sensitivity analysis identifies the impact that the medical inflation rate and the discount rate variables will have on the total valuation. The Aon Hewitt Corporation determined the impact of increasing or decreasing assumptions on the valuation.

	Defined Benefit Obligation as of 31 December 2018	Defined Benefit Obligation as of 31 December 2017
<b>Medical Sensitivity Analysis</b>		
Current Medical Inflation Assumption Minus 1%	223 254	255 587
Current Medical Inflation Assumption	256 406	299 597
Current Medical Inflation Assumption Plus 1%	297 781	355 403
<b>Discount Rate Sensitivity Analysis</b>		
Current Discount Rate Assumption Minus 1%	301 003	359 423
Current Discount Rate Assumption:	256 406	299 597
Current Discount Rate Assumption Plus 1%	221 362	253 616

\*The Sensitivity Analysis above do not address the Termination and Repatriation Entitlements Fund, because the benefits from this Fund are distributed upon retirement or shortly thereafter.

## 12.8 United Nations Joint Staff Pension Fund

PAHO is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified in Article 3(b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. PAHO and the UNJSPF, in line with the other participating organizations in the Fund, are not in a position to identify the PAHO's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, PAHO has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 39 Employee Benefits. PAHO's contributions to the plan during the financial period are recognized as expenses in the Statement of Financial Performance.

The Fund's Regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the Open Group Aggregate Method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

PAHO's financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9% for participants and 15.8% for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Pension Fund. Such deficiency

payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

During 2017, the Fund identified that there were anomalies in the census data utilized in the actuarial valuation performed as of 31 December 2015. As such, as an exception to the normal biennial cycle, a roll forward of the participation data as of 31 December 2013 to 31 December 2016 was used by the Fund for its 2016 financial statements.

The actuarial valuation as of 31 December 2017 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 139.2% (150.1% in the 2016 roll forward). The funded ratio was 102.7% (101.4% in the 2016 roll forward) when the current system of pension adjustments was taken into account.

After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2017, for deficiency payments under Article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the plan. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of Article 26.

Should Article 26 be invoked due to an actuarial deficiency, either during the ongoing operation or due to the termination of the UNJSPF pension plan, deficiency payments required from each member organization would be based upon the proportion of that member organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the UNJSPF during the preceding three years (2015, 2016 and 2017) amounted to \$24 161 525, \$23 550 073, and \$24 472 741, respectively, of which 67% was contributed by the Agency.

During 2018, contributions paid to UNJSPF amounted to \$17 120 012 (2017: \$16 297 962). Expected contributions due in 2019 are approximately \$17 976 000.

Membership of the Fund may be terminated by decision of the United Nations General Assembly, upon the affirmative recommendation of the Pension Board. A proportionate share of the total assets of the Fund at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Fund. The amount is determined by the United Nations Joint Staff Pension Board based on an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets which are in excess of the liabilities are included in the amount.

The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the UNJSPF Pension Board and to the United Nations General Assembly on the audit every year. The UNJSPF publishes quarterly reports on its investments and these can be viewed by visiting the UNJSPF at [www.unjspf.org](http://www.unjspf.org).

### 13. Deferred Revenue

	31 December 2018	31 December 2017
<b>Current</b>		
<b>Voluntary Contributions</b>		
Voluntary Contributions - Emergency Preparedness and Disaster Relief	10 996	4 626
Voluntary Contributions	69 872	79 267
Voluntary Contributions - National Voluntary Contributions	96 788	325 460
<b>Procurement of Public Health Supplies</b>		
Revolving Fund for Vaccine Procurement	328 096	194 102
Regional Revolving Fund for Strategic Public * Health Supplies	45 475	51 600
Reimbursable Procurement *	4 305	6 166
<b>Income from Services</b>	638	
<b>Total</b>	<b>556 170</b>	<b>661 221</b>
<b>Non-Current</b>		
<b>Voluntary Contributions</b>		
Voluntary Contributions	36 872	76 935
Voluntary Contributions - National Voluntary Contributions	113 629	142 614
<b>Total</b>	<b>150 501</b>	<b>219 549</b>

\* The amounts stated in 2017 for these two mechanisms were un-intentionally switched.

### 14. Fund Balances and Reserves

Fund balances represent the unexpended portion of contributions that are intended to be utilized in future operational requirements of the programs or projects.

Reserves are established by the Governing Bodies as facilities for funding and/or financing the Organization's programs and projects. They currently are:

- Working Capital Fund
- Tax Equalization Fund
- Master Capital Investment Fund
- Special Fund for Program Support Costs
- Voluntary Contributions – Emergency Preparedness and Disaster Relief
- Special Fund for Health Promotion
- Budgetary Surplus Fund
- Epidemic Emergency Fund
- Food Safety Five – Years Plan Fund
- PMIS Funding PAHO IPSAS Surplus Fund
- Revenue Surplus Fund
- IPSAS Surplus Fund

## Summary of Fund Balances and Reserves

	Balance as of 31 December 2017	Revenue	Expenses	Transfers	Actuarial Valuation	Balance as of 31 December 2018
<b>Fund Balances:</b>						
Strategic Public Health Supplies-Capitalization	14 985	68 280	66 461	1 600		18 404
After-Service Health Insurance	( 234 284)		( 8 789)		26 703	( 198 792)
Voluntary Contributions	35	46 192	46 191			36
Voluntary Contributions - National Voluntary Contributions		439 396	439 395			1
Income from Services	5 586	3 141	2 575	705		6 857
Provision for Staff Entitlements	2 145		( 343)			2 488
Revolving Fund for Vaccine Procurement	180 966	605 326	590 652			195 640
Reimbursable Procurement		4 655	4 655			
PAHO Assessed Contributions and Miscellaneous Revenue	93 535	106 661	107 491	( 705)		92 000
Provision for Termination and Repatriation Entitlements *	2 044	188	233		2 078	4 077
PAHO Post Occupancy Charge	12 960		3 526			9 434
Expanded Textbook and Instructional Materials Program	13 254	2 549	3 860			11 943
AMRO Regular Budget		42 560	42 560			
AMRO Voluntary Funds for Health Promotion		21 186	21 186			
AMRO Special Account for Servicing Costs		5 569	5 569			
<b>Subtotal</b>	<b>91 226</b>	<b>1 345 703</b>	<b>1 325 222</b>	<b>1 600</b>	<b>28 781</b>	<b>142 088</b>
<b>Reserves:</b>						
Working Capital Fund	21 717					21 717
Tax Equalization Fund	( 4 831)	6 075	6 815			( 5 571)
Master Capital Investment Fund	20 094	1 190	1 631	4 061		23 714
Special Fund for Program Support	108 138	34 535	28 674			113 999
Voluntary Contributions - Emergency Preparedness and Disaster Relief	2 679	5 915	5 915			2 679
Special Fund for Health Promotion	775	17	9			783
Budgetary Surplus Fund	132					132
Epidemic Emergency Fund	1 086		529			557
Food Safety Five-Years Plan Fund	1					1
PMIS Funding PAHO IPSAS Surplus Fund	2 102					2 102
Revenue Surplus Fund	5 661			( 5 661)		
<b>Subtotal</b>	<b>157 554</b>	<b>47 732</b>	<b>43 573</b>	<b>( 1 600)</b>		<b>160 113</b>
<b>Total</b>	<b>248 780</b>	<b>1 393 435</b>	<b>1 368 795</b>		<b>28 781</b>	<b>302 201</b>

\* This 2018 Fund Balance is comprised by \$-4 435 988 for the Terminal & Repatriation Entitlement Plan (see note 12.6); \$6 827 640 for the PAHO Provision for Terminal Entitlements; and \$1 685 322 for the Local Non-UN Terminal Benefits Fund (LNTBF).

## 14.1 Working Capital Fund

The Working Capital Fund was established for the primary purpose of providing funds as required to finance the Regular Budget pending receipt of contributions from Member and Participating States and Associate Members.

The 53rd Directing Council, per Resolution CD53.R10 dated 2 October 2014, approved an increase in the authorized level from \$20 000 000 to \$25 000 000.

In accordance with Financial Regulation 4.5, any deficit of revenue over expenses of the Program and Budget appropriation at the end of the current budgetary period shall be funded first by the Working Capital Fund to the extent possible, and then by borrowing or by other authorized means. Non-budgetary items, such as depreciation, amortization and contributions in-kind, do not constitute part of the Program and Budget and are therefore excluded from revenue and expense for the purposes of calculating the Program and Budget Appropriation surplus or deficit. In 2018, the first year of the biennium budgetary period, the Working Capital Fund was not impacted.

	Total as of 31 December 2018	Total as of 31 December Biennium 2016-2017
Balance as of 1 January - Biennium	21 717	20 745
2016 Surplus / (Deficit)		11 263
2017 Surplus / (Deficit)		( 7 359)
<b>Surplus / (Deficit)</b>		<b>3 904</b>
2016 Non-budgetary Items *		2 364
2017 Non-budgetary Items *		365
<b>Non-budgetary items *</b>		<b>2 729</b>
2016 Transfer to Revenue Surplus Fund		( 5 661)
<b>Transfer to Revenue Surplus Fund</b>		<b>( 5 661)</b>
<b>Regular Budget Appropriation Surplus/(Deficit)</b>		<b>972</b>
<b>Balance as of 31 December</b>	<b>21 717</b>	<b>21 717</b>

\* Non-budgetary Items are comprised, of but not limited to, depreciation, amortization and in-kind contributions.



## 14.2 Tax Equalization Fund

The Tax Equalization Fund, as established by Resolution CD18.R7 of the 18th Directing Council (1968), is credited with the revenue derived from the staff assessment plan. The credits to the Fund are recorded in the name of each Member State in proportion to its assessment for the financial period concerned and reduced by the amount needed to reimburse income taxes levied by the Member State on Organization staff. Adjustments are made in the next financial period to take account of the actual charges in respect of amounts reimbursed to staff members who are subject to national taxes.

Member States participating in the Tax Equalization Fund had the following balances at the end of the reporting period.

Member States	Balance 1 January 2018	Credits from the Tax Equalization Fund	Apportionment to Member States	Available to Cover Tax Reimbursements to Staff	Taxes Reimbursed to Staff	Balance 31 December 2018
Canada	21	801	761	40	39	22
Colombia	16	134	134			16
United States	( 4 822)	4 857	( 1 143)	6 000	6 773	( 5 595)
Venezuela	( 46)	158	123	35	3	( 14)
Other		2 220	2 220			
<b>Total</b>	<b>( 4 831)</b>	<b>8 170</b>	<b>2 095</b>	<b>6 075</b>	<b>6 815</b>	<b>( 5 571)</b>

There is no outstanding accounts receivable for the Tax Equalization Fund because the liabilities for the reimbursement of income taxes are included in the accounts receivable for assessed contributions due from the relevant Member States.

## 14.3 Master Capital Investment Fund

The Organization's Master Capital Investment Fund (MCIF) was established by Resolution CSP27. R19 of the 27th Pan American Sanitary Conference, 59th Session of the Regional Committee, in October 2007. This fund was initially created with two sub-funds, Real Estate and Equipment, and Information Technology, in lieu of the Organization's Building Fund and the Capital Equipment Fund, effective 1 January 2008. The purpose of the Fund is to finance the repairs of the Organization's office buildings and the systematic replacement of computer and telecommunications equipment software and systems to support the Organization's information technology infrastructure.

In 2012, under Resolution CSP28.R17 of the 28th Pan American Sanitary Conference, 64th Session of the Regional Committee of WHO for the Americas, the establishment of three additional sub-funds was authorized: Real State Maintenance and Improvement, Revolving Strategic Real Estate and Vehicle Replacement.

## 14.4 Special Fund for Program Support Costs

The Special Fund for Program Support Costs was established in 1976 by the Director under the authority of Financial Regulation 9.3 (originally 6.7) and subsequently reaffirmed by Resolution CSP20.R32 of the 20th Pan American Sanitary Conference (1978).

Trust Fund projects are charged a program support cost on a percentage of the direct project cost incurred, and this income is credited to the Fund. Other activities include sales of publications, support to fellowships, and others. The Fund is used to provide support for indirect costs associated with non-budget activities or projects. Reimbursable Procurement is charged a service charge based on the value of procurement, and this income is also credited to this Fund.

#### **14.5 Special Fund for Natural Disaster Relief**

In accordance with Resolution CD24.R10 of the 24th Directing Council (1976), the Special Fund for Natural Disaster Relief was created to provide funds that can be used promptly by the Organization's Emergency Preparedness and Disaster Relief team.

#### **14.6 Special Fund for Health Promotion**

At its 13th Meeting in 1961, the Directing Council established the Special Fund for Health Promotion, with the objective of strengthening the health program of the Americas.

#### **14.7 Epidemic Emergency Fund**

The Epidemic Emergency Fund was established by Resolution CSP28.R16 of the 28th Pan American Sanitary Conference, 64th Session of the Regional Committee. This fund is used as a revolving fund to advance monies to affected countries in the event of an epidemic outbreak or public health emergency. Advanced funds would be recovered from appeals and other forms of voluntary contributions received in response to the emergency.

#### **14.8 Food Safety Five-Year Plan Fund**

The Food Safety Five-Year Plan Fund was established by Resolution CSP28.R16 of the 28th Pan American Sanitary Conference, 64th Session of the Regional Committee. This fund supports food safety initiatives.

#### **14.9 Pan American Sanitary Bureau Management Information System (PMIS) Fund**

The Pan American Sanitary Bureau Management Information System (PMIS) Fund was established by Resolution CSP28.R16 of the 28th Pan American Sanitary Conference, 64th Session of the Regional Committee. The PMIS fund was established for the implementation of enterprise resource planning (ERP) software for the Organization.

#### **14.10 IPSAS Surplus Fund**

The IPSAS Surplus Fund was established by Resolution CSP28.R16 of the 28th Pan American Sanitary Conference, 64th Session of the Regional Committee. This fund will be used to meet future unforeseen strategic and/or administrative initiatives. Future proposals for the use of this reserve may also include increases in any other existing funds.

#### **14.11 Budgetary Surplus**

The Financial Regulations, approved by Resolution CD49.R1 of the 49th Directing Council, 61st Session of the Regional Committee, stipulate that "Any balance of the Regular Budget appropriation not committed by the end of the current budgetary period, shall be used to replenish the Working Capital Fund to its authorized level, after which any balance will be available for subsequent use in accordance with the resolutions adopted by the Conference or Directing Council."

#### **14.12 Revenue Surplus**

The Financial Regulations approved by Resolution CD49.R1 of the 49th Directing Council, 61st Session of the Regional Committee, stipulate that "Any excess of revenue over the Regular Budget appropriation at the end of a budgetary period shall be considered a revenue surplus and shall be available for use in subsequent periods to cover the unfunded portion of the Strategic Plan, as determined by the Director and with the concurrence of the Subcommittee on Program, Budget, and Administration".

**15. Revenue**

	Total 2018	Total 2017
<b>Revenue from Non-Exchange Transactions</b>		
<b>Assessed Contributions</b>		
PAHO Assessed Contributions and Miscellaneous	97 150	96 368
Tax Equalization Fund	6 075	6 025
<b>Subtotal</b>	<b>103 225</b>	<b>102 393</b>
<b>Voluntary Contributions</b>		
Voluntary Contributions	46 192	46 890
Voluntary Contributions - National Voluntary Contributions <sup>1/</sup>	439 396	532 375
Voluntary Contributions - Emergency Preparedness and Disaster Relief	5 915	3 527
Special Fund for Program Support	26 776	31 398
<b>Subtotal</b>	<b>518 279</b>	<b>614 190</b>
<b>WHO Allocations</b>		
AMRO Regular Budget	42 560	41 130
AMRO Voluntary Funds for Health Promotion	21 186	22 606
AMRO Special Account for Servicing Costs	5 569	12 031
<b>Subtotal</b>	<b>69 315</b>	<b>75 767</b>
<b>Revenue from Exchange Transactions</b>		
<b>Procurement of Public Health Supplies</b>		
Revolving Fund for Vaccine Procurement	605 326	611 958
Reimbursable Procurement on Behalf of Member States	4 655	3 838
Regional Revolving Fund for Strategic Public Health Supplies	68 280	69 025
Special Fund for Program Support	8 008	8 135
<b>Subtotal</b>	<b>686 269</b>	<b>692 956</b>
<b>Other Revenue</b>		
PAHO Assessed Contributions and Miscellaneous	39	
Income for Services	3 141	2 076
Expanded Textbook and Instructional Materials Program	2 495	3 360
Special Fund for Health Promotion	17	21
Master Capital Investment Fund	1 190	1 053
Special Fund for Program Support	1 272	947
<b>Subtotal</b>	<b>8 154</b>	<b>7 457</b>
<b>Miscellaneous Revenue</b>		
PAHO Assessed Contributions and Miscellaneous		
Interest Earned	18 389	19 022
Valuation Gains and Losses	( 8 919)	( 4 313)
Investment Management Fees	( 445)	( 477)
Other Miscellaneous	447	278
Special Fund for Program Support	( 1 521)	1 427
Expanded Textbook and Instructional Materials Program	54	
Provision for Termination and Repatriation Entitlements	188	119
Voluntary Contributions-Emergency Preparedness and Disaster Relief		1
<b>Subtotal</b>	<b>8 193</b>	<b>16 057</b>
<b>Total</b>	<b>1 393 435</b>	<b>1 508 820</b>

<sup>1</sup> In 2018 the Mais Medicos program totaled \$364 850 591 (2017: \$466 453 982)

## 16. Expenses

	Total 2018	Total 2017
<b>Staff and Other Personnel Costs</b>		
International and National Staff	114 526	138 627
Temporary Staff	8 900	9 321
<b>Subtotal</b>	<b>123 426</b>	<b>147 948</b>
<b>Supplies, Commodities, Materials</b>		
Vaccines / Syringes / Cold Chain	590 652	594 921
Medications and Medical Supplies	71 116	70 950
Other Goods and Supplies	30 885	31 304
<b>Subtotal</b>	<b>692 653</b>	<b>697 175</b>
<b>Equipment, Vehicles, Furniture, Intangible Assets, Depreciation and Amortization</b>		
Equipment, Vehicles, Furniture <sup>/2</sup>	( 513)	( 723)
Intangible Assets <sup>/2</sup>		( 655)
Depreciation / Amortization	1 962	2 237
<b>Subtotal</b>	<b>1 449</b>	<b>859</b>
<b>Contract Services</b>		
Contracts	112 459	137 836
<b>Subtotal</b>	<b>112 459</b>	<b>137 836</b>
<b>Travel</b>		
Duty Travel	49 055	54 187
<b>Subtotal</b>	<b>49 055</b>	<b>54 187</b>
<b>Transfers and Grants to Counterparts</b>		
Letters of Agreements <sup>3/</sup>	365 813	454 959
<b>Subtotal</b>	<b>365 813</b>	<b>454 959</b>
<b>General Operating and Other Direct Costs <sup>/1</sup></b>		
Maintenance, Security and Insurance	23 940	17 900
<b>Subtotal</b>	<b>23 940</b>	<b>17 900</b>
<b>Total</b>	<b>1 368 795</b>	<b>1 510 864</b>

<sup>1/</sup> General Operating Expense and Other Direct Costs include Lease Payments for \$3 469 650 (2017: \$2 503 288)

<sup>2/</sup> The balance includes the capitalization of assets in the Statement of Financial Position.

<sup>3/</sup> In 2018 Letters of Agreement implemented by The *Mais Médicos* program totaled \$348 250 083 (2017: \$436 655 834)

## 17. Comparison of Budget and Actual Amounts

In accordance with IPSAS 24, variances between budget and actual amounts must be reconciled. Explanations should be provided in accordance with the following categories:

**Basis Differences:** Occur when the budget and the financial statements are prepared in different basis (i.e. budget prepared in cash basis and financial statements prepared in accrual basis). For the case of PAHO although the budget is prepared on accrual basis some expenses are not included: (i.e. depreciation, amortization and cost of goods sold)

**Timing Differences:** Occur when the budget period differs from the period reflected in the financial statements. PAHO's budget is prepared on biennial basis although its financial statements are prepared on annual basis.

**Presentation Differences:** Occur from format and classification schemes used in the presentation of the cash flow and the comparison of budget and actual amounts (i.e. investing and financing activities shown in the Statement of Cash Flow but not budgeted)

**Entity Differences** include actual expenses for programs not reflected in the budget. These programs are classified as Non-Program and Budget. Programs under the Non-Program and Budget classification include but are not limited to: National Voluntary Contributions, Revolving Fund for Vaccine Procurement, PAHO After-Service Health Insurance Fund, Post Occupancy Charge Fund and the Expanded Textbook and Instructional Materials Program.

### 17.1 Reconciliation between Cash Flow Activity and Actual Expenses Reported in the Statement of Budget and Actual Amounts

The reconciliation between the actual amounts on a comparable basis in the Comparison of Budget and Actual Amounts and the actual amounts in the Cash Flow Statement for the year ended 31 December 2018 is presented below:

Activity	Operating	Investing and Financing	Total
Actual Amount on comparable basis from Statement of Budget and Actual Amounts	( 261 548)		( 261 548)
Basis Differences	( 1 962)		( 1 962)
Timing Differences			
Presentation Differences		64 691	64 691
Entity Differences	326 791		326 791
<b>TOTAL</b>	<b>63 281</b>	<b>64 691</b>	<b>127 972</b>

### 17.2 Reconciliation between Total Expenses (net) Reported in the Statement of Financial Performance and the Expenses reported in the Comparison Budget and Actual Amounts (Program and Budget).

Activity	Total
Actual Amount on comparable basis from Statement of Budget and Actual Amounts	( 261 548)
Basis Differences	( 1 962)
Timing Differences	
Presentation Differences	
Entity Differences	(1 105 285)
<b>TOTAL</b>	<b>(1 368 795)</b>

### 17.3 2018 Expenses vs Funding

Category/Program Area	2018-2019 Approved Budget	Funds Budgeted as of 31 December	Actual expenses	% Expenses Vs Funds Budgeted
1. Communicable Diseases	114 600	92 373	49 878	54%
2. Non-communicable Diseases and Risk Factors	59 100	41 332	21 199	51%
3. Determinants of Health and Promoting Health throughout the Life Course	81 400	54 289	26 891	50%
4. Health Systems	118 400	87 661	43 983	50%
5. Health Emergencies	56 400	40 086	19 983	50%
6. Leadership, Governance, and Enabling Functions	189 700	143 255	78 911	55%
<b>Sub-total for Base Programs (Categories 1-6)</b>	<b>619 600</b>	<b>458 996</b>	<b>240 845</b>	<b>52%</b>
Special Programs and response to emergencies	56 000	42 684	20 703	49%
<b>TOTAL</b>	<b>675 600</b>	<b>501 680</b>	<b>261 548</b>	<b>52%</b>

Given that the approved PAHO budget is typically not fully funded, it can be useful to compare expenses vs funding ("Funds Budgeted") as shown in the table above, as well as vs approved budget (envelopes or ceilings) as shown in the Comparison of Budget and Actual Amounts.

The table above shows that all categories are "on track" in terms of expenditure vs available funding, with rates around 50%, as would be expected half-way through the biennium.

## 18. Segment Reporting

### 18.1 Statement of Financial Position by Segments

	Total Core Activities Segment	Total Partnership Activities Segment	Total Enterprise Activities Segment	Total Special Activities Segment	Intra-Party Segment	Total 2018	Total 2017
<b>ASSETS</b>							
<b>Current Assets</b>							
Cash and Cash Equivalents	193 712					193 712	65 740
Short Term Investments	288 320					288 320	359 795
Owed From Other Segments *		182 735	661 450	39 324	( 883 509)		
Accounts Receivable	51 289	89 976	58 169	2 254		201 688	352 316
Inventories			7 824			7 824	8 010
<b>Total Current Assets</b>	<b>533 321</b>	<b>272 711</b>	<b>727 443</b>	<b>41 578</b>	<b>( 883 509)</b>	<b>691 544</b>	<b>785 861</b>
<b>Non-Current Assets</b>							
LongTerm Investments	379 245					379 245	372 974
Accounts Receivable		79 608				79 608	140 111
Net Fixed Assets	103 491			2 652		106 143	107 356
Intangible Assets			695			695	931
<b>Total Non-Current Assets</b>	<b>482 736</b>	<b>79 608</b>	<b>695</b>	<b>2 652</b>		<b>565 691</b>	<b>621 372</b>
<b>TOTAL ASSETS</b>	<b>1 016 057</b>	<b>352 319</b>	<b>728 138</b>	<b>44 230</b>	<b>( 883 509)</b>	<b>1 257 235</b>	<b>1 407 233</b>
<b>LIABILITIES</b>							
<b>Current Liabilities</b>							
Accrued Liabilities	3 089	17 748	2 262	2 299		25 398	22 938
Owed To Other Segments *	883 509				( 883 509)		
Accounts Payable	7 814	3 141	519	468		11 942	8 343
Employee Benefits				2 759		2 759	2 812
Deferred Revenue		177 656	378 514			556 170	661 221
<b>Total Current Liabilities</b>	<b>894 412</b>	<b>198 545</b>	<b>381 295</b>	<b>5 526</b>	<b>( 883 509)</b>	<b>596 269</b>	<b>695 314</b>
<b>Non-Current Liabilities</b>							
Accounts Payable	7 796					7 796	7 796
Employee Benefits				200 468		200 468	235 794
Deferred Revenue		150 501				150 501	219 549
<b>Total Non-Current Liabilities</b>	<b>7 796</b>	<b>150 501</b>		<b>200 468</b>		<b>358 765</b>	<b>463 139</b>
<b>TOTAL LIABILITIES</b>	<b>902 208</b>	<b>349 046</b>	<b>381 295</b>	<b>205 994</b>	<b>( 883 509)</b>	<b>955 034</b>	<b>1 158 453</b>
<b>NET ASSETS / EQUITY</b>							
<b>Fund Balances and Reserves</b>							
Fund Balances	92 000	37	232 844	( 182 793)		142 088	91 226
Reserves	21 849	3 236	113 999	21 029		160 113	157 554
<b>TOTAL NET FUND BALANCES and RESERVES</b>	<b>113 849</b>	<b>3 273</b>	<b>346 843</b>	<b>( 161 764)</b>		<b>302 201</b>	<b>248 780</b>

\* Owed to/from Other Segments is due to PAHO holding pooled cash on behalf of other segments. This cannot be allocated directly to a cash segment. These are eliminated on consolidation.

## 18.2 Statement of Financial Performance by Segments

	Total Core Activities Segment	Total Partnership Activities Segment	Total Enterprise Activities Segment	Total Special Activities Segment	Intra-Party Segment	Total 2018	Total 2017
<b>REVENUE</b>							
<b>Revenue from Non-Exchange Transactions</b>							
Assessed Contributions	97 150			6 075		<b>103 225</b>	102 393
Voluntary Contributions		518 279	26 776		( 26 776)	<b>518 279</b>	614 190
WHO Allocations	42 560	21 186	5 569			<b>69 315</b>	75 767
<b>Revenue from Exchange Transactions</b>							
Procurement of Public Health Supplies			694 277		( 8 008)	<b>686 269</b>	692 956
Other Revenue	39		7 785	27 884	( 27 554)	<b>8 154</b>	7 457
Miscellaneous Revenue	9 472		( 1 467)	188		<b>8 193</b>	16 057
<b>TOTAL REVENUE</b>	<b>149 221</b>	<b>539 465</b>	<b>732 940</b>	<b>34 147</b>	<b>( 62 338)</b>	<b>1 393 435</b>	<b>1 508 820</b>
<b>EXPENSES</b>							
Staff and Other Personnel Costs	98 688	13 569	23 324	14 522	( 26 677)	<b>123 426</b>	147 948
Supplies, Commodities, Materials	3 049	23 044	673 517	1 654	( 8 611)	<b>692 653</b>	697 175
Equipment, Vehicles, Furniture, Intangible Assets, Depreciation and Amortization	1 406		199	( 156)		<b>1 449</b>	859
Contract Services	28 176	72 479	7 387	4 493	( 76)	<b>112 459</b>	137 836
Travel	12 384	34 441	2 252	175	( 197)	<b>49 055</b>	54 187
Transfers and Grants to Counterparts	2 534	362 944	335			<b>365 813</b>	454 959
General Operating and Other Direct Costs	3 814	6 740	4 314	9 073	( 1)	<b>23 940</b>	17 900
Indirect Support Costs		26 776			( 26 776)		
<b>TOTAL EXPENSES</b>	<b>150 051</b>	<b>539 993</b>	<b>711 328</b>	<b>29 761</b>	<b>( 62 338)</b>	<b>1 368 795</b>	<b>1 510 864</b>
<b>NET SURPLUS/ (DEFICIT)</b>	<b>( 830)</b>	<b>( 528)</b>	<b>21 612</b>	<b>4 386</b>		<b>24 640</b>	<b>( 2 044)</b>



## **19. Losses, Ex-Gratia Payments and Write-Offs**

In 2018 the Organization recorded the following accounting entries:

- \$564 was recorded as Losses/Damage of the PALTEX program as a result of physical inventory counts during annual visit to the points of distributions (2017: \$6 274)
- \$51 452 were recorded as write-off for PALTEX program (2017: \$0)
- \$36 407 were recorded for letters of agreement not implemented by the recipient institutions (2017: \$0)
- \$26 was recorded for small amount write-offs (2017: \$0)
- No write off was recorded as Administrative waivers for letters of agreement (2017: \$447 800)
- \$444 was recorded as Ex-Gratia Payments (2017: \$400).

## **20. Cases of Fraud and Presumptive Fraud**

In 2018, a total of 56 cases of fraud, theft and loss of property valued at \$143 153 were reported. PAHO recovered \$83 819 of this amount, leaving an overall net loss to the Organization of \$59 333.

The PALTEX program had 12 cases involving the loss or theft of textbooks totaling \$59 088. In 11 of those cases, the losses were reimbursed to PAHO by the point-of-sale-locations. In one instance, however, the textbooks were lost in transit and never reached their intended point-of-sale location. Thus, the Organization bore the loss in this instance and suffered a net loss of \$3 263 relating to the PALTEX program in 2018.

In 2018, there were 34 cases involving the loss or theft of PAHO property from PAHO personnel in the country offices and Headquarters. The total net loss to the Organization of this lost or stolen property was \$8 889.

In addition, there were four cases involving suspected financial fraud that resulted in investigations by the Investigations Office. The amount of the net loss to the Organization in these cases was \$47 181.

Finally, there were six cases involving the misuse of PAHO purchasing or travel credit cards committed by people outside the Organization. In these cases, the fraudulent charges, amounting to \$1 496 were reimbursed by the financial institutions concerned.

## **21. Related-Party and Other Senior Management Disclosure**

As stated in Note 1, the Organization serves as the Regional Office for the Americas of the World Health Organization. The relationship between both organizations is detailed in the Agreement between the World Health Organization and the Pan American Health Organization duly signed on 24 May 1949. This agreement provides for the allocation of funds from the WHO budget for implementation by PAHO. The financial management of the funding received by the Organization from WHO is governed by Regulation IV, "Financing the Program and Budget" of PAHO's Financial Regulations.

The Agreement between the World Health Organization and the Pan American Health Organization and the PAHO Financial Regulations can be found in the Basic Documents of the Pan American Health Organization at the following link:

<https://www.paho.org/hq/dmdocuments/2017/basic-documents-paho-2017.pdf>

Key management personnel are the Director, Deputy Director, Assistant Director, and Director of Administration, as they have the authority and responsibility for planning, directing, and controlling the activities of the Organization.

The aggregate remuneration paid to key management personnel, as established by the United Nations International Civil Service Commission (ICSC), includes: gross salaries, post adjustment, entitlements such as representation allowance and other allowances, assignment and other grants, rental subsidy, personal effects shipment costs, income tax reimbursement, and employer pension and current health insurance contributions. These remunerations are provided in conformity with the standards established by the ICSC and are applicable to all United Nations personnel.

Key management personnel are also qualified for post-employment benefits at the same level as other employees. These benefits cannot be reliably quantified.

Key management personnel are ordinary members of the United Nations Joint Staff Pension Fund (UNJSPF).

### 21.1 Key Management Personnel

As of 31 December 2018, the number of key management personnel totaled 4 (2017: 4).

Key Management Personnel	2018	2017
Compensation and Post Adjustment	842	761
Entitlements	487	302
Pension and Health Plans	289	255
<b>Total Remuneration</b>	<b>1 618</b>	<b>1 318</b>
<b>Outstanding Advances against Entitlements</b>		2

### 22. Events after Reporting Date

The Organization's reporting date is 31 December of each year. On the date of signature of these accounts by the External Auditor, no material events, favorable or unfavorable, have occurred between the date of the Statement of Financial Position and the date when the financial statements have been authorized for issue that would have impacted these statements.

### 23. Provisions

As at 31 December 2018, the Organization had not recognized any provisions.

### 24. Contingent Liability

In the normal course of business PAHO faces lawsuits which are at various stages of action. Having undertaken a review, we do not consider these legal cases to have any significant impact on the financial statements, given the balance of probabilities. We are unable to quantify the potential costs of defending these actions, but do not consider them to be significant or reliably estimable.

### 25. In-Kind Contributions

Host governments and cooperating partners at the country level provide different in-kind contributions, which are utilized by the Organization's Country Offices for their general and daily operations. These contributions are not recognized in the Organization's financial statements due to the complexity of standardizing a fair value throughout all the Organization's Country Offices. In-kind contributions received by the Organization include personnel, office premises, office services, and use of office equipment.

Country Office or Center	Services Received In-Kind			
	Personnel	Office Premises	Office Services	Office Equipment
Argentina	X			
Bahamas	X	X	X	
Barbados	X	X	X	
Belize	X		X	
Bolivia	X			
Chile	X	X		
Costa Rica	X	X	X	
Cuba	X			
Dominican Republic	X	X		
Ecuador	X			
El Salvador	X			
Guatemala	X			
Guyana	X	X	X	
Haiti	X			
Honduras	X			
Jamaica	X		X	
Mexico	X			
Nicaragua	X	X	X	
Panama	X	X	X	
Paraguay	X			
Suriname	X	X	X	
Trinidad and Tobago	X	X	X	
Uruguay	X		X	
PANAFTOSA	X	X	X	X
CLAP	X			

## **Report of the External Auditor**





National Audit Office

APRIL 2019

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**Pan American Health Organization**

**External Auditor's Report on the 2018**

**PAHO Financial Statements**

The aim of the audit is to provide independent assurance to Member States; to add value to the PAHO's financial management and governance; and to support your objectives through the external audit process.

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# Contents

<b>Introduction</b>	<b>66</b>
Key observations	67
<b>Part One</b>	
Financial management	69
Strategic financial management	73
Monitoring the use of funds	75
<b>Part Two</b>	
Governance and internal control	77
<b>Part Three</b>	
Prior year recommendations	82
Acknowledgments	83
<b>Appendix One Prior Year Recommendations</b>	<b>84</b>

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# Introduction

## Background

**1** The Pan American Health Organization (PAHO) is the specialized international health agency for the Americas. It works with countries throughout the region of the Americas, to improve and protect people's health. PAHO engages in technical cooperation with its member countries to fight communicable and noncommunicable diseases and their causes, to strengthen health systems, and to respond to emergencies and disasters. PAHO is committed to ensuring that all people have access to the health care they need, when they need it, with quality and without fear of falling into poverty. Through its work, PAHO promotes and supports the right of everyone to good health.

**2** To advance these goals, PAHO promotes technical cooperation between countries and works in partnership with ministries of health and other government agencies, civil society organizations, other international agencies, universities, social security agencies, community groups, and other partners. PAHO promotes the inclusion of health in all public policies and the engagement of all sectors in efforts to ensure that people live longer, healthier lives, with good health as their most valuable resource.

**3** In addition to our opinions on PAHO's financial statements, this report presents the key findings and recommendations arising from our work, including our observations on financial management and governance. These areas were considered important to cover in the first year of our audit mandate. We have also followed up the progress made implementing our predecessor's recommendations.

**4** Our findings have been discussed with management and the results of our audit were communicated to the Audit Committee prior to finalising our work, in line with good practice.

## Key observations

### Audit opinion on Financial Statements

**5** Our audit comprised the examination of the 2018 financial statements and the associated transactions and events for that year. It was conducted in accordance with International Standards on Auditing and the Financial Regulations. We provided an unqualified audit opinion, without modification, on the financial statements. We noted areas where controls could be further enhanced. We also identified scope to reduce the level of complexity and manual intervention required to produce International Public Sector Accounting Standards (IPSAS) compliant financial statements. It remains important for the whole organisation to support the Finance and Resource Management (FRM) team in the efficient compilation of the financial statements, which should not be seen solely as a finance related task.

### Financial management

**6** PAHO achieved an overall surplus of \$24.6m on its activities in 2018, with total revenues of \$1,393m and expenses of \$1,369m. The reductions in revenues and expenditures arose from a decline in project activity. PAHO has improved its net asset position, rising from \$248.8 million to \$302.2 million at the close of 2018, due to the operating surplus and a reduction in the employee benefit liability. PAHO has strong overall reserves, which are supported by high levels of cash. Despite this, many of the reserves are restricted for specific purposes, which emphasises the importance of sound financial management to ensure cash is available for regular activities. Late payment of assessed contributions has meant that there has been consistent depletion of the working capital fund for many years.

**7** Retained balances in the Programme Support Fund have increased considerably over the past few years. Along with many other international organisations, PAHO has not actively reviewed its overhead recovery rates on voluntary funded activities for many years. These rates were originally established in the 1980s. It is important that PAHO uses its improved financial reporting through PMIS to analyse the true costs of the activities it undertakes, providing improved information against which to evaluate its current programme support cost rates. This will facilitate more informed decision making and support the development of a consistent and transparent cost recovery policy.

**8** Strategic financial management is an important element in ensuring the effective use of resources over the longer term. While PAHO operates within its planned resourcing envelope, there is scope to develop some of PAHO's current processes. Providing Member States with greater visibility around the planning assumptions underpinning the long-term strategy. We noted that the 2014-19 Strategic Plan lacked financial details and that it was not supported by a Resource Mobilisation Strategy.

**9** PAHO has a number of funds and reserves which it utilises as part of its integrated funding model, and there is scope to rationalise the management of funds and develop clear strategies aligned with the longer-term planning needs of PAHO. In particular, we highlighted the importance of the current Master Capital Improvement Fund and developing a clear long-term strategy to help deliver the organisation's strategic capital investment requirements and to consider whether the current activities through this fund will achieve those needs. We have additionally highlighted the significance of the employee benefit liabilities, and the importance of the Member States formally considering and approving the long-term funding strategy.

**10** Following the adoption of IPSAS, budgets and financial reporting are no longer fully aligned. There are benefits in adopting a single basis for reporting, and moving towards a greater focus on reporting annually on the outcome against budget in a more meaningful way. While recognising current processes of accountability within the Performance Monitoring and Assessment framework, we believe there are benefits in exploring ways in which PMIS can be used to support budget accountabilities. This would have efficiency and provide real-time integrated reporting of the financial position. Allocating resources in line with expenditure plans, would provide a useful means of monitoring planned expenditure against delivery. This

would help to reduce the risk of significant biennium end expenses, which have been the subject of observations by our predecessors. This would enhance both visibility and accountability and enable cost centre managers to better map resources to the timing of planned activity.

### **Governance and internal control**

**11** In the first year of our mandate we sought to review the governance and other oversight activities established by PAHO which provide assurance to Member States. In respect of internal control, we noted no significant weaknesses, although we highlighted areas for improvement such as the management oversight over the administration of staff health insurance claims. We also identified that many processes still require significant manual intervention, and that the management oversight of controls could be further enhanced.

**12** Positive steps are being taken by PAHO, such as the development of a Compliance Unit and holding cost centre managers to account for the quality of data through compliance dashboards. We also noted management commissioned an external consultant to provide recommendations to enhance the utilisation of PMIS. We will monitor how these new, positive initiatives develop to enhance the control environment and secure the return on the investment made in PMIS.

**13** Risk management processes in PAHO provide a framework for reporting corporate risks, but we have identified the need to fully embed these processes at the operational level. Our reviews have found that the risk processes do not fully capture operational risks at cost centre level, and the results are not being used to inform decision making and to provide oversight on risk mitigation. Risk management is seen as a compliance exercise, rather than a process which can add greater value by being systematic and comprehensive. The benefit of effective risk management is that it supports management decision making and the regular review of the effectiveness of risk mitigation. We identified scope to enhance risk management at the inception of projects, and management should draw on good practice to improve its current due diligence processes.

**14** Like many international organisations, PAHO operates in difficult environments where fraud risks might be elevated. It is important that the organisation has appropriate measures in place to prevent and detect fraud, supported by up to date fraud policies. PAHO has been slow to develop a comprehensive fraud policy, which is currently being finalised. The launch of the new policy needs to be supported by clear communication of zero tolerance, and the communication of actions taken against those perpetrating fraud. It also needs to be supported by effective risk assessments to ensure effort, controls and other mitigations are in place to reduce fraud risk.

**15** PAHO was an earlier adopter of the Statement on Internal Control this is a key document to provide visibility to Member States on the processes which provide assurance on internal control, and the observations made for their improvement. We have worked with management to enhance the statement this year, but further work can be done to improve the Statement. Greater clarity on the assurances provided by cost centre managers and a focus on reporting the outcomes from assurances processes will ensure greater value can be obtained from the Statement.

**16** As new compliance and investigation functions are established it is important to map the various sources of assurance and to ensure these are effectively co-ordinated and that themes and findings are shared to inform risk assessment. In our view it remains important for the PAHO Audit Committee to keep its scope under review to ensure that it has visibility of the full range of assurance and financial reporting processes, to provide independent and objective observations to the Director and Member States.

# Part One

## Financial management

### Overall audit results

**1.1** Our audit of PAHO's financial statements revealed no weaknesses or errors which we considered material to their accuracy, completeness or validity. The audit opinion confirms that these financial statements present fairly, in all material respects, the financial position of PAHO as at 31 December 2018 and of its financial performance and cash flows for the year then ended. It also confirms their preparation in accordance with International Public Sector Accounting Standards. The audits also confirmed that, in all material respects, the transactions underlying the financial statements have been made in accordance with the Financial Regulations and applied to the purposes intended by the governing bodies.

**1.2** The audit included a general review of PAHO's accounting procedures, an assessment of internal controls that impact on our audit opinions; and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. Our audit procedures were designed primarily for the purpose of forming those opinions. The audit did not involve a detailed review of all aspects of the budgetary and financial information systems, and the results should not be regarded as a comprehensive statement on them. Finally, an examination was carried out to ensure that the financial statements accurately reflected the accounting records and were fairly presented. We also undertook field visits outside Washington DC to Country Offices in the Dominican Republic and Brazil.

### Financial commentary

**1.3** PAHO reported an overall surplus of \$24 million (2017: deficit \$2 million), with total revenues of \$1,393 million (2017: \$1,509 million) and expenses of \$1,369 million (2017: \$1,511 million). Reductions in revenues and expenses were primarily driven by the significant changes and reduction in project activities funded by national voluntary contributions in Brazil. Statement V shows disbursements against the approved biennial budget, with actual expenditure incurred of \$261.5 million.

**1.4** PAHO manages its budget on a biennial basis and does not profile its expenditures over the period of the budget in line with expenditure plans and expectations. This means that in year one of a biennium Statement V provides little meaningful analysis of progress against the total approved budget of \$675.6 million. We believe this is an area where PAHO can develop improved monitoring and control, and we report on this later. PAHO's expenses in 2018 were dominated by the procurement fund activities and nationally funded project activities in Brazil. We reviewed the expenditures and revenues while on our field visit in Brazil in respect of Mais Médicos, and we are content they are fairly reflected in these financial statements. Other project expenditures were tested as part of our general expenditure testing.

**Table 1: Key revenue and expense streams:** PAHO remains dominated by the services it provides directly to individual national governments.

## Part One

<b>Key revenue streams</b>	<b>2018</b>	<b>Per cent of total revenue</b>
Procurement activities on behalf of Member States	\$686.3m	49.3
Voluntary (including National) contributions	\$518.3m	37.2
Assessed contributions	\$103.2m	7.4
Other revenue	\$85.6	6.1
<b>Total revenue</b>	<b>\$1,393.4</b>	
<b>Key expense streams</b>	<b>2018</b>	<b>Per cent of total expenses</b>
Procurement activities on behalf of Member States	\$661.8m	48.3
Letters of Agreements	\$365.8m	26.7
Staff and Other Personnel Costs	\$123.4m	9.0
Other expenditure	\$217.8	15.9
<b>Total</b>	<b>\$1,368.8</b>	

Source: NAO analysis of PAHO financial statements

**1.5** Overall, net assets have increased from \$248.8 million as at 31 December 2017 to \$302.2million at 31 December 2018. Total assets included property, plant and equipment holdings with a net value of \$106.1 million (2017: \$107.4 million) and total cash and investments of \$861.3 million (2017: \$798.5 million). Total liabilities reduced from \$1,158.5 million to \$955.0 a reduction of \$203.5 million, including actuarial gains on the staff benefit liability of \$28.8 million.

**1.6** The gains on the employee benefit liability arise predominantly because of changes in assumptions when valuing the liabilities. For example, on the assumption that the liability will be incurred in US dollars PAHO based its discount rate on the yield curve from United States high-grade corporate bonds as agreed with the Actuary (AON AA above median curve), this rate increased from 3.8 per cent to 4.5 per cent causing a significant reduction in the overall liability. The rate used follows the rate approved by the United Nations Task Force on Accounting Standards. The Task Force has been working to standardise the assumptions to enhance the comparability of liabilities between entities, and the rates applied by PAHO are those chosen for the United State of America. In our view, while within a tolerable range, the bond rate utilised is at the upper end of expectations of the US corporate bond market. We asked PAHO to enhance its disclosure of the sensitivity of key liability assumptions. The use of higher bond rates will have the impact of reducing the liability, for example, a 1 per cent reduction in the discount rate increases the liability by some \$44.6 million (note 12.7 to the financial statements).

**1.7** The Director's Report provides an overview of the financial position and performance of PAHO in 2018. PAHO should consider further development of this commentary, utilising the IPSAS Board's guideline on presenting financial statement discussion and analysis, enhancing the disclosure of the underlying causes of variations. This would provide a richer context for the reader to understand movements in the financial position and cash flows presented in the financial statements.

**1.8** PAHO's overall financial health has stayed broadly consistent over the past four years, but activities funded through core have greater cash pressures than the voluntary funded activities. We use ratio analysis of an organisation's financial health on all our international audits to show how financial positions change over time. They express the relationship of one item of account against another. For example, there are \$1.2 of current assets for every \$1 of current liabilities, demonstrating that current assets cover current liabilities by some 20 per cent. We have undertaken a review of the indicators of PAHO's financial health,

using key financial ratios (Table 2). Overall resources have remained broadly consistent over time, with sound liquidity levels. We will explore in future years the relationship of these ratios to core and voluntary activities.

**Table 2: Analysis of key financial health ratios for PAHO core and other activities:** The ratios show that core activities are under greater pressure than those funded by voluntary funds

Ratio	2018	2017	2016	2015
<b>Current ratio</b>				
Current assets: Current liabilities	1.2	1.1	1.2	1.3
<b>Total assets: Total liabilities</b>				
Assets: Liabilities	1.4	1.2	1.3	1.2
<b>Cash ratio:</b>				
Cash and short-term investments: Current liabilities	0.8	0.6	0.6	0.7
<b>Investments ratio:</b>				
Cash and investments: Total assets	0.7	0.6	0.5	0.5

<sup>1</sup> A high current ratio indicates an entity's ability to pay off its short-term liabilities.

<sup>2</sup> A high Assets to Liability ratio is a good indicator of solvency.

<sup>3</sup> The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash, cash equivalents or deposited funds there are in current assets to cover current liabilities.

<sup>4</sup> Investment Ratio: Measures the proportion of total assets which comprise cash or cash equivalent investments.

Source: NAO analysis of PAHO financial statements

## Management of cash resources

**1.9** Good financial management is a vital enabler of the effective delivery of an organisation's objectives. Sound financial management helps to ensure resources are allocated to meet the priorities of Member States and provides a stable basis on which to continue to deliver objectives across future periods. In our first year we have undertaken a high-level review of key areas of financial management in PAHO, and we will explore these elements in more detail over the course of our mandate.

**1.10** Our financial commentary highlights that while overall cash balances have continued to grow, core activities, which are funded through assessed contributions, face greater pressure. PAHO has strong overall reserves, which are backed by high levels of cash. The Organization operates an integrated budget which provides flexibility in funding the biennial program. However continued attention is needed to manage the cash balance available to meet requirements under core activities. This includes managing outstanding assessed contributions; having an appropriate level of working capital; ensuring programme support adequately covers the indirect costs of implementing activities funded by voluntary contributions and a clear overarching strategy for managing and utilising reserve funds. These processes need to be underpinned by effective means of monitoring and reporting on the use of these funds.

### Assessed contributions

**1.11** To have stable and predictable levels of resource it is important that Member States fulfil their obligations in full, and on a timely basis. We noted at 31 December that there were \$42.8m (2017: \$44.4m) of assessed contributions outstanding from Member States, and \$2.4m has been outstanding for more than 12 months. PAHO has a policy to allocate cash received to the oldest debt, which obscures the reality that some debt may in substance be much older and may have been disputed by Members. The level of

outstanding receivables constitutes a significant financial burden on the available cash resources of the Organization to fund its core activities. There is a need for PAHO to consider whether these receivables are reported in the financial statements at the expected levels of future cash inflow and that any indicators of impairment have been taken into consideration.

#### Working capital fund

**1.12** Late and non-payment of assessed contribution is one of the main reasons that PAHO has fully depleted its Working Capital Fund and borrowed some \$22.2 million from other Funds at 31 December 2018 to meet the cash needs of the activities expected to be funded by assessed contributions. This is the difference between the total borrowed from other segments (\$883.5m) and cash and investments held (\$861.3m) which can be seen in Note 18 to the financial statements. This borrowing could be reduced if the Working Capital Fund were funded to its full authorised level. As shown in Table 3, there has been a consistent utilisation of the Working Capital Fund for several years.

**Table 3: PAHO Working Capital Fund 2014-2018:** WCF balances have been consistently depleted by year end

	2018	2017	2016	2015
Working Capital Fund at 31 December	\$21.7m	\$21.7m	\$20.7m	\$20.7m
Cash available / (required) for Assessed Contributions and Miscellaneous Revenue	\$(19.4m)	\$(22.6m)	\$(6.1m)	\$(27.6m)

Source: NAO analysis of PAHO funds and reserve balances

**1.13** Utilising cash resources from other funds does not represent good practice and doing this on a consistent basis is not a sustainable way to resource activity. It creates a risk that resources might not be available to replenish those funds which exist for other purposes.

**1.14** We noted that Financial Regulations 8.5 and 9.5 reference constraints on borrowing and replenishment of cash funds. We sought clarification from PAHO's Legal Counsel and she is content that the Regulations do not prevent the borrowing of internal funds but has noted the need for clarification of Regulations. In our view, it is important that any changes provide for a process to report where funds are in a cash deficit and utilise intra-fund borrowing, and they should be confirmed by the Director's approval.

#### PAHO should

**R1: undertake an analysis of the Working Capital Fund utilisation and consider the need to review its capitalisation level**

**R2: clarify the ability to borrow cash between funds in the Financial Regulations and Rules and should introduce a process for the Director to authorise and report all borrowed funds.**

#### Programme support fund

**1.15** When undertaking voluntary funded activities PAHO, along with practice in other international organisations, levies a charge for programme support. This revenue in 2018 was some \$34.5 million and was credited to the PSC Fund. \$28.7m was utilised from the PSC Fund in 2018, reflecting PSC which had been collected from activities in the previous period. Table 4 highlights the growth in PSC fund balances, the increase reflecting growth in project activities during the period.

**Table 4: Level of the Special Fund for Programme Support:** The volume of PSC revenues earned and credited to the fund.

	2018	2017	2016	2015	2014
Fund balance at 31 December	\$114.0m	\$108.1m	\$100.0m	\$78.9m	\$70.9m
Percentage increase	5.5	8.1	26.7	11.3	

Source: NAO analysis of PAHO funds and reserve balances

**1.16** Programme support represents a contribution to overheads and other on-costs associated with the provision of services and use of personnel; ensuring that additional costs arising from voluntary activities would not be borne by core resources. Methodologies for setting programme support costs were established in the 1980s and have generally been harmonised at a level of around 13 per cent across the UN system. However, international organisations have not been proactive in assessing whether these costs accurately reflect the current overheads of delivering services and that they remain fair and equitable. In PAHO the rates charged vary, dependent upon the individual donor and scale of activities, and are not evidenced as driven by the additional cost of the underlying activity.

**1.17** Management accounting and costing have been underdeveloped specialisms throughout the wider United Nations system and for PAHO its legacy systems would not have provided comprehensive financial information to accurately calculate the full costs of operations. The significant investment in PMIS should now provide the capability to systematically capture the costs of operations. Consequently, it would now be appropriate for PAHO to develop a transparent methodology to underpin an equitable basis for cost recovery. A better understanding of these costs will inform decision making and support more efficient service delivery.

**1.18** Given the growth in the PSC Reserves it indicates that recovery rates need further attention, indicating that PAHO may be over-recovering on its project activities, or not sufficiently utilising the Fund with an appropriate level of resource to compensate for the costs incurred by the core resources.

**PAHO should:**

**R 3: analyse costs to assess the extent to which full cost is recovered on voluntary-funded activity and develop an equitable, consistent and transparent cost recovery policy.**

**R4: review its accumulated programme support reserves and consider whether additional funds should be utilised to meet costs that have previously been borne by core resources.**

## Strategic financial management

**1.19** Strategic financial management involves the consideration of how the resources of the organisation can be used to fund the longer-term objectives of the organisation. This involves consideration of how resources are linked to the goals of the Member States and how resources are planned for longer term commitments, such as capital works and the payment of after service health insurance. It also requires a holistic approach to how the overall reserve funds of PAHO can be used to fund operations.

### Long term planning

**1.20** We have looked at how PAHO plans for its future resources and have reviewed the Strategic Plan for 2014-We have considered how PAHO's primary financial plan covering this financial period, the 2018-19 Programme and Budget, approved by the Governing Bodies in 2017, fits within the organisation's longer-term financial planning.



**1.21** We noted that the Strategic Plan set out the objectives of the organisation and the areas where effort will be focused. The plan envisaged an overall resource envelope of \$1.8bn to fund Programme Budget activities over the period and recognised the need for a Resource Mobilization Strategy (RMS) to finance this requirement. A comprehensive RMS supporting the Strategic Plan was never fully developed and only covered a single biennium. The RMS set out the other sources of funding at a very high-level identifying a funding gap.

**1.22** While PAHO has successfully mobilised funds over the period, we believe that the longer-term resource plans presented to Member States for approval, and which underpin longer term planning assumptions, should contain more detail. These long-term plans should be adapted on a rolling basis and that the detail of the resourcing plan should be provided to Member States alongside the strategic plan. This should include options for resourcing long term capital projects and integrate with the strategic use of accumulated reserves. These plans become a starting point for the assumptions informing planning for future biennia and demonstrate an organisation's longer-term consideration of financial factors.

### Strategic use of funds and reserves

**1.23** Effective financial management utilises reserves to smooth the resource demands of the organisation and to meet known obligations or commitments. Despite pressures on core resources, PAHO does have considerable cash backed reserves and fund balances. While some balances may be restricted for specific purposes, others are available to the Director. We have reviewed two reserves which are important in respect of long-term financial management.

#### Master Capital Investment Fund

**1.24** PAHO has a Capital Investment Fund, comprised of five sub funds. Those funds cover real estate maintenance, information technology, vehicle replacement, purchase of premises and human resources strategy. At 31 December 2018, the balance on those funds was \$23.7 million (2017: \$20.1 million), utilisation of the fund is reported annually to Member States. We believe that PAHO would benefit from developing a more comprehensive strategy for the longer-term capital investments which PAHO require.

**1.25** Most of this fund balance is contained within the Real Estate Maintenance and Improvement sub fund which was originally established in 2007 under resolution CSP27.R19. The purpose of this fund was to finance building renovations and repairs for projects larger than \$15,000 at PAHO's office premises whether leased, owned or provided by Member States. In 2014, PAHO commissioned a region-wide real estate condition survey of all PAHO owned buildings which identified that substantial investment was required as buildings were nearing the end of their design life. Subsequent discussions with Member States resulted in a more detailed option appraisal that was presented to the Executive Committee in 2015.

**1.26** As a step towards financing future projects, elements of revenue surpluses are being credited to the Fund. During 2018, PAHO reported expenditure of \$1.6 million against this fund; a high proportion of this expenditure (\$880,000) related to the lease costs of PAHO's Offices at 2121 Virginia Avenue in Washington DC. While it may be appropriate to attribute rental income to this fund, as a means of resourcing investment, the lease costs should be treated as operating costs to understand the true costs of delivering activities.

**1.27** While options for the renovation of the Headquarters real estate have been presented to the governing body, together with the results of the earlier real estate condition surveys, PAHO does not have an overarching long-term capital investment strategy covering all major capital projects. Expenditure through the various sub funds has not been planned over a longer term, and some items are funding annual running costs. There is scope for a more strategic approach in the use of these funds, which would also benefit from harmonisation with thresholds contained in accounting policies. This would make reporting more consistent and efficient.

**1.28** There is scope to review other funds and reserves in a similar manner to ensure they remain appropriate for the longer-term strategies of PAHO and that they remain essential to hold for specific purposes. For example, several funds and reserves remain static over time and six reserves have balances ranging between \$2.7m and \$1,000. Cleansing and consolidating funds and reserves will make the process of reporting and accounting easier. When implementing PMIS, PAHO undertook a review of its funds and reserves; we believe it would be beneficial to undertake a similar process during 2019.

**PAHO should:**

**R5: underpin any long-term strategy approved by Member States with supporting financial detail, such as a comprehensive Resource Mobilisation Strategy covering the period of the Strategic Plan.**

**R6: develop a comprehensive long-term capital investment strategy that is reviewed annually and linked to detailed procurement plans, and align the financial reporting policies for property, plant and equipment and the use of capital funds to ensure efficient, consistent and harmonised reporting on the use of funds to Member States.**

**R7: review all its current fund and reserve balances and consider the scope for rationalisation and simplification, reviewing whether balances continue to be relevant to the organisation's financial plans. This should be in the context of an overall strategy for the maintenance of reserves and funds, aligned to the development of the longer-term strategic plans of PAHO.**

After Service Health Insurance (ASHI) Liabilities

**1.29** PAHO funds long term staff benefits in respect of health care after a qualifying period, recording these obligations as a liability in the accounts. These obligations are a significant long-term financial risk to the organisation, totalling some \$198.7m. The Staff Health Insurance Fund (SHIF) benefits are currently funded by annual contributions made to fund SHIF activity to meet the costs arising in year. They also include additional contributions towards the funding of the long-term liability. While this approach was communicated to Member States in 2015 (CE156/24 (Rev1)), we believe that the funding of such a substantive liability should be agreed by resolution of the Member States. Our predecessors, the Spanish Court of Auditors raised a recommendation regarding the need to fund SHIF liabilities. From our work we can see that management have set out an approach towards the longer-term funding, but that this now needs to be formally approved, and kept under regular review.

**R8: In consultation with Member States the funding plan being adopted by management should be approved by the Governing Body, to formalise the funding approach for Staff Health Insurance benefits.**

## Monitoring the use of funds

**1.30** The original budget for the biennium 2018-2019 was approved by the Pan American Sanitary Conference in 2017 at \$675.6 million. For 2018, PAHO recognized revenue of \$266.8 million relating to the assessed budget, representing the proportion invoiced in 2018.

**1.31** The introduction of annual financial statements under IPSAS in 2010 meant that the statements were no longer aligned with the biennial budget period. Comparing outturn in 2018 against the "annualized" biennial budget is therefore only a partial or interim process because a comprehensive and meaningful review of spend against the budget can be performed fully only at the end of the biennium given the current budgeting arrangements of PAHO.

**1.32** While PAHO has introduced accrual accounting for the financial statements, its budget is prepared on a different basis. Consequently, IPSAS requires a reconciliation of the accrual-based accounts with the

cash-based budget outturn. This is reported in Statement V and compares, at a summary level, to the information previously reported in the Statement of Appropriations. Note 17 to the financial statements also includes a reconciliation of the total actual budget expenditure reported in Statement V with the corresponding figures in the statement of cash flows.

**1.33** Programme and Budget Unit (PBU) communicate budget awards to cost centre managers, as a means of allotting resources. Monitoring of expenditure is primarily performed against these allotments; the allotments and the available funds; and the overall biennium budget approved by the Governing Body. There are formal six-monthly Performance Management Assessment reviews by cost centres which are returned to Headquarters, but since these largely monitor against the biennium envelope they have limited financial accountability value until the 18-month review point. These are supplemented by monthly monitoring meetings to look at budgetary implementation against these metrics at Executive Management level and Cost Centres.

**1.34** Budget monitoring does not utilise the potential functionality of PMIS to provide a single source of reporting. This means efficiency gains and the benefits of more powerful real-time reporting are being lost. Current formal reporting takes place in many forms locally, often using locally produced manual spreadsheets, for example as we found during our field visit in Brazil. PMIS monitoring functionality and budget monitoring are not being used in a systematic way and because the current basis of monitoring adds little value. PAHO inform us there may be some constraints within PMIS, but we believe substantial benefits and efficiencies can be gained by using a single integrated system for budgetary and financial reporting.

**1.35** We believe there is scope to enhance budgetary control and the management of resources by introducing processes which will create greater accountability, a more regular systematic review and a clearer overall picture of the use of resources against planned activities for cost centre managers. This would include developing realistic expenditure profiles linked to known planned activities; major procurements; renewal of contracts; and other significant financial events. Routine items such as staff and establishment costs could be profiled evenly across the period.

**1.36** Using PMIS to design a monitoring process to provide real-time spend data against a more realistic allocation of the approved resource would provide cost centre managers with greater visibility and accountability. Such changes would be consistent with wider developments, for example as part of his reforms, the UN Secretary-General is promoting the concept of annualised budgets to better align budgetary and financial reporting, enhancing the need for more regular review of budget performance as a means of enhancing accountability and transparency.

**1.37** PBU reports to the Deputy Director, while FRM reports to the Director of Administration. There are clear communications between the two, but different reporting lines for these two functions is in our view unusual, and places importance in good and regular communications, particularly when reporting basis and systems differ. PAHO should look at internal structures to assess the benefits of aligning accountability and reporting lines for budget and financial reporting, to ensure a more integrated approach to financial management.

**PAHO should:**

**R8: consider the benefits of a formal annual budget (which could be within a biennium approval) and the benefits of adopting a full IPSAS based budget.**

**R9: review the basis on which it monitors its expenditures against its available budget and develop an improved basis to monitor funds against a meaningful measure of expected use of resources at cost centre level. This should draw upon the PMIS functionality as far as possible and support a process that can enforce real-time budget accountabilities on cost-centre managers.**

**R10: consider the current internal structures to ensure good integration of budget and financial reporting to support the recommended budget monitoring improvements.**

## Part Two

### Governance and internal control

**2.1** Effective governance and internal control are an integral part of providing Member States with assurance over the use of resources. They are the mechanisms that Member States have established to discharge their oversight responsibilities. In the first year of our mandate we wanted to assess the effectiveness of these mechanisms. Our work has looked at:

internal control;

risk management;

fraud detection and prevention;

statement on internal control;

oversight mechanisms; and the

audit committee.

#### Internal control

**2.2** The Director is responsible for ensuring effective financial administration of the Organization in accordance with the Financial Regulations. To affect this the Director has established and maintains systems of internal control and delegation which are important in providing a framework of assurance for Member States to rely upon. In our financial audit we have identified some areas for improvement to these controls, but in general we found no control weaknesses which impacted on our audit opinion.

**2.3** Workday is central to the processes that ensure internal control, and we found that the functionality in this system is still being embedded. Certain business processes continue to have significant manual intervention. In his 2018 annual report, PAHO's Auditor General identified the need to strengthen management's oversight of control processes, and this is consistent with the findings from our own work.

**2.4** We have noted that PAHO's Compliance Unit is now exploring the reporting capabilities of PMIS and developing dashboards to review transactions within business processes to identify unexpected results. Such dashboards should facilitate greater levels of compliance and facilitate the oversight. The process has only recently been initiated and we will review how it has been integrated into the control environment during future audits. It is however, a positive step in addressing the need to enhance oversight of the control environment.

**2.5** The reliability of system generated analytical reporting by the Compliance Unit is critically dependent on the quality and accuracy of the data within PMIS. During our audit, we analysed the system data covering the processes of purchase to payment, to gain insight into various aspects of the business process, such as looking for retroactive purchase order processing and to ensure key roles were performed by different staff. We found that a lack of precision in input date information undermined the reliability of the results. Management are aware that data quality issues exist, and the development of the compliance function should help drive improvement in this area and should be used to inform training needs.

**2.6** PAHO commissioned an independent consultant to review the status of the PMIS implementation and identify opportunities for future development. The findings of their work were consistent with our own, for example in Brazil we found that 27 steps for procurement actions for transactions less than \$5,000. The consultants reported that the number of steps required to process requisitions and purchase orders was extensive with 17 requisition types, 78 steps to generate a requisition and 30 steps to generate a Purchase Order. We will seek to review the actions taken by management in response to the consultant's findings.

### Staff Health Insurance

**2.7** One of the internal control weaknesses identified related to the oversight of the Staff Health Insurance scheme. We analysed PAHO's health insurance scheme, established as part of the social security scheme for staff and retirees. It provides health services to some 4,700 members and dependants.

**2.8** The self-insured scheme is administered through two different processes; PAHO headquarters manages the scheme for field staff and retirees; and for headquarters-based staff, retirees and dependents, the medical insurance programme is managed by third-party administrators that administer the plans and adjudicate claims. We identified two key issues which require consideration by management:

- **Assurance over third-party administrator:** \$16m of expenditure is validated through its administrator's processes, but at present PAHO has not obtained any independent assurance reports over the soundness of the administrator's controls or undertaken any formal systematic assurance or oversight activity to ensure only valid claims have been paid or exercised open-book access to its records. FRM staffing constraints and expertise regarding SHI has limited checks to Aetna claims processing to a monthly overview of total claims by broad categories (Dental, Physicians, Hospital) to assess any outliers;
- **Effectiveness of PAHO's arrangements to review field SHI claims:** PAHO does not have the same capacity and claims handling expertise as an established claims administrator which has monitoring tools and trend analysis to enable it to assess and detect potentially fraudulent claims. Consideration should be given to assessing the relative merits of maintaining the current arrangements versus using the services of a third-party administrator, which should include examining the relative costs and service levels of the two arrangements.

**2.9** We understand that FRM has also requested a pending claims report from Aetna that will illustrate the significant degree of involvement and interaction that FRM has with Aetna and WHO to obtain approvals for claims in accordance with the SHI Rules. The degree of validation undertaken by management was not readily available to us to fully evidence the extent of management review. We are also aware of current plans for an audit by the External Auditors of WHO/PAHO SHIF to review a sample of Aetna claims. However, an external audit process does not provide management assurance over claims handling and should not replace a suitable internal assurance process.

**2.10** Seeking more information on available assurances which Aetna might be able to provide and undertaking more systematic validation and oversight of contract performance would mitigate risk. The area is one that is susceptible to fraud cases, note 20 to the financial statements, highlights falsified medical claims processed by headquarters which resulted in a loss of at least \$47,000 to the organisation.

**R11: Management should obtain and review independent assurance reports from the third-party provider and undertake a risk analysis to consider ways in which it will oversee the validation of its administrator's claims.**

**R12: PAHO should consider undertaking an open-book audit of the accuracy of reported costs and to confirm they have complied with their contractual obligations. Such inspection rights should be exercised regularly in future.**

**R13: PAHO should review its current procedures and processes against the benefits of the services and capacity that can be offered externally and consider the relative cost differences.**

## Risk management

**2.11** The purpose of a risk management process is to systematically identify, consider and mitigate risks that could adversely affect the organisation and the achievement of its objectives. A systematic process provides confidence in the management of risk, and a clear route for escalating those risks which need to be brought to the attention. A sound process can also drive more efficiency in the management of risk; aid the appropriate allocation of resource to mitigate risk; and provide clear accountability and considered review.

**2.12** The key features of risk management are that it should be systematic, built up through the organisation and be subject to regular challenge and scrutiny. Risk management should be a key focus for senior management attention and to support decision making and resource allocation. Internal controls should be appropriately aligned to mitigate risk.

**2.13** PAHO use a bespoke online tool to record risks. Focal points in each cost centre are responsible for maintaining the risk register, including describing the risk, assigning it to one of 23 risk categories, identifying mitigating controls and assigning ratings for impact and probability. Our initial review identified that cost centres are recording information inconsistently, for example, we identified one country office that has not entered any risks and another office that entered quite generic risks such as "changes in national priorities".

**2.14** During our field visits we found that risk management was not embedded, with limited correlation of the risks articulated in the corporate register to the reality of the management of the operational risks to the achievement of local objectives. There was limited analysis of either project risks, or those risks relevant to the wider operating environment, such as the exposure to fraud risk. Compilation of the risk register was treated as an annual compliance exercise, with corporate risk categories driving the local risk identification. In the Dominican Republic, no project risk appraisal had been performed for the 9.1.1 project. Risk management has not been fully exploited as a tool to inform decision making. PAHO has informed us that good practice has been identified, such as the Smart Hospitals Project, while partly driven by donor requirements, it is important to ensure that the lessons and benefits of these tools should be shared more widely.

**2.15** There are 11 corporate risks included in the 2018-2019 Programme Budget, these risks were identified by Executive Management. As part of its review of those risks in 2018, PAHO engaged consultants to assess the current risk management practices. The consultants made recommendations to enhance the governance and coordination of the risk management process and recommended introducing further tools, such as dashboards to support risk awareness at various levels of the Organization.

**2.16** PAHO's risk processes are still maturing, further development of its existing risk management processes, particularly at the operational level, will help to identify risks which should be supported by development of quality mitigations. These outcomes should then become a key part of the review and accountability processes. When risk management can be used to provide effective monitoring and to support decision making, PAHO will unlock the true value of systematic risk management.

### PAHO Should:

**R14: review the effectiveness of risk management procedures at the cost centre level; develop an action plan to embed a culture of risk awareness throughout the Organization and promote the use of risk registers at cost centre level to inform decision making and monitoring of risk mitigation.**

**R15: require cost centres to generate a full and complete list of risks, emphasising the need to capture all relevant risks from the lower levels within cost centres. Those of greatest significance should be escalated to the corporate risk register, to keep the number of escalated risks to a manageable level.**

**R16: build a more systematic approach to risk management into its project approval and monitoring processes, so it becomes an integral part of project due diligence. These risks assessment should be scalable to reflect the size and scope of a project and draw upon good practice examples within PAHO.**

## **Fraud detection and prevention**

**2.17** A strong commitment to fraud prevention and a zero tolerance of fraudulent activity are considered by many donors when making partnering decisions, and Member States have high expectations of propriety. However, within international organisations fraud measures can be weak and instances of reported fraud are low. The UN Panel of External Auditors recently wrote to the UN Secretary General in his capacity of the Chair of the Chief Executive Board on the need to enhance fraud prevention and detection measures across the system.

**2.18** The number of reported frauds tripled in the past three years, but we believe this remains low when considering the nature and location of many of PAHO's activities. PAHO operates in some high-risk environments, for example it operates in eight countries considered amongst the highest risk of exposure by Transparency International<sup>10</sup>, and is exposed to a wide range of different fraud risks, both internal and external. A total of 56 cases of fraud were reported, largely relating to theft and loss of property totalling \$143,000, of which \$84,000 was subsequently recovered. Details of these losses are set out in Note 20 to the financial statements. The cases resulting in a loss to PAHO were due to the loss or theft of property in country offices (34 cases), and four cases of suspected financial fraud.

**2.19** PAHO does not currently have an up to date anti-fraud policy and it needs to finalise and operationalise its draft policy as a matter of priority. PAHO should take advantage of the launch of this new policy to raise fraud awareness and emphasise the obligations of staff. Fraud and corruption may be opportunistic attempts by individuals that can add up to significant losses if not tackled, and if the perpetrators escape with light or insignificant punishments, it can create a culture in which wrongdoers appear to act with impunity. The large sums expended by PAHO mean that it may also be exposed to systematic, well-organized and premeditated fraud. Despite the operating environment, no country office highlighted any fraud risks.

**2.20** An important aspect of effective fraud prevention is a clear assessment of where the Organization is most susceptible to fraud, so it can put in place an appropriate response. PAHO has not carried out an organisational wide fraud risk assessment and while it recognises the potential for fraud as a generic risk, the risk mitigations are weak and unlikely to deter, or detect fraudulent activity. A systematic approach to the assessment of fraud will increase donor confidence and enable PAHO to target resources on internal control and anti-fraud measures more effectively. Similarly exercises and awareness raising should be conducted at Country Office level periodically. This will serve to reinforce a stronger culture of fraud awareness.

### **PAHO should**

**R17: operationalise its anti-fraud policy as a matter of priority and use the opportunity of the launch to raise awareness of the policy, responsibility of staff and to cite examples of zero tolerance of fraudulent behaviour. From this any identifying training needs should be considered.**

**R18: perform a systematic analysis of its exposure to fraud risks throughout the organisation and consider whether current control sufficiently mitigate these risks.**

<sup>10</sup> Transparency International.

[https://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2017?gclid=CjwKCAjw39reBRBJEiwAO1m00eOI00254496cjkgnSZ\\_b9qpO2f\\_sXQfkjX-UFIn2dlhhs\\_I5HNxoCziMQAvD\\_BwE#table](https://www.transparency.org/news/feature/corruption_perceptions_index_2017?gclid=CjwKCAjw39reBRBJEiwAO1m00eOI00254496cjkgnSZ_b9qpO2f_sXQfkjX-UFIn2dlhhs_I5HNxoCziMQAvD_BwE#table)

## The Statement on Internal Control

**2.21** The Statement on Internal Control is used to provide a transparent and accountable report of the control environment and risks faced by organisations. It should be a by-product of day-to-day processes and be informed by the essential components and interactions within a well-functioning governance and internal control framework. The effectiveness of internal controls described in the statement should be kept under constant review, informed by inputs from assurance providers and the results of management's compliance checks. PAHO was an early adopter of the Statement, and it should provide an important vehicle for communicating key assurance to Member States.

**2.22** Following our observations that the production of the document had become a "finance-led" exercise, the 2018 Statement was produced by the Office of the Director of Administration. Some of our other comments aimed to enhance the Statement were adopted, however there is scope to further develop the quality of the assurance it delivers and provide greater insight over the internal control environment.

**2.23** While describing the process, the focus of the Statement should be on the results and how these will inform the improvements in the control framework. The involvement of Internal Oversight and Evaluation Services (IES) is, in our view, essential as they should be a prime source of assurance for the Director over the effectiveness of internal control processes. In the spirit of full transparency, the Statement should reflect identified weaknesses in internal control and the actions planned to address such weaknesses.

**2.24** The annual assurance statements of Representatives and Cost Centre Managers to the Director should further support the Statement content. However, we found these assurances of limited value, with no commentary on how the cost centre control environment has operated in the period or highlighting known issues such as where the Auditor General has highlighted weaknesses, for example in the offices in Haiti and Venezuela. The assurance statements also require cost centre managers to certify the correctness of the financial accounts under their responsibility, such accounts are not clearly defined.

**2.25** We believe there is scope to improve these statements over the coming year underpinned by better evidence to support the certification and to describe any weaknesses which have come to attention. In compiling the Statement on Internal Control, the assurances provided by cost centre managers should be validated against the results of oversight activities for consistency. This would strengthen the assurance the Director receives.

**R19: PAHO should further develop its SIC processes to draw upon the full range of assurances, with a focus on the outcomes from those processes and how the weaknesses identified will be addressed.**

**R20: The good practice of annual assurance letters should be reviewed, to ensure that they become more qualitative in providing disclosure of how controls have been assured locally, and to highlight issues identified, they should be consistent with IES and Compliance Unit and other assurance provider observations.**

## Oversight activities

**2.26** Internal Oversight and Evaluation Services (IES) has an important role in providing assurance over the operation and effectiveness of an organisation's internal controls. The Director should obtain assurance from their reports and findings and the results can also help to direct our own audit work towards risk areas. IES has appropriate independence and the Auditor General, as head of IES, has a direct reporting line to the Governing Body.

**2.27** PAHO is currently developing its evaluation policy, seeking to balance a practical approach which supports programme delivery while also ensuring rigour and insight which can be shared across the organisation. The wider UN system increasingly looks to develop effective evaluation processes to demonstrate accountability for the resources and for these results to be shared with Member States. IES provides an advisory support for evaluation exercises.



**2.28** During 2019 a new investigator was appointed, and this created the separation of the investigation processes from the role of the Ethics Office. As a result, new processes and policies should evolve. Together with other developments such as the Compliance Officer role, we believe it is important for PAHO to take stock and consider how the various assurance functions co-ordinate; and to consider the need for an overarching assurance map. This will help to show the extent of assurance coverage; help to refine scope and mandates; and provide a forum to formally share intelligence, to inform plans and risk assessments. This will strengthen the overall framework of assurance and support the processes which underpin the Statement on Internal Control.

**2.29** Given the changes in arrangements for the delivery of Evaluation, Investigations and Ethics, we will review the quality of the oversight functions, including IES and compliance at a later point in our mandate.

**PAHO should:**

**R21: PAHO should consider developing an overarching assurance map and a formal process for the assurance and compliance providers to share plans, findings and risks to ensure assurance is co-ordinated, themes are identified, and that intelligence informs future more integrated work plans.**

### **PAHO Audit Committee**

**2.30** In 2009, PAHO's Directing Council established an Audit Committee, it exists to serve the Director and PAHO's Member States in an independent expert advisory capacity. Through the Executive Committee, the Audit Committee advises on the operation of the Organization's financial controls, reporting structures, risk management processes, and other audit-related controls.

**2.31** From the perspective of your independent external auditor, we believe the Audit Committee is a valuable part of the assurance available to Member States. It can serve as a focus for supporting the Director in assessing all the assurances available to her, providing her with observations on their outputs and the quality and sufficiency of their work. We consider that an important role for an effective audit committee is to provide independent and objective assurance to the Director and Member States on the quality of financial reporting. This complements responsibilities in reviewing the effectiveness of accounting policies and the oversight of financial controls.

**2.32** To ensure that an audit committee adapts to changing assurance needs and best governance practice, it may wish to consider a self-assessment of its effectiveness. The results can help inform any proposals for changes to mandate to the Governing Bodies, to provide them and the Director with assurance that the Audit Committee's work provides appropriate and effective assurance. Such audit committee self-assessment checklists are readily available and many of the large accounting firms advocate them.

## **Part Three**

### **Prior year recommendations**

**3.1** As part of the handover process, we reviewed the outstanding recommendations of our predecessors and have followed up on management's responses while undertaking our audit. Many of the recommendations made have been impacted by the changes to the national funded projects in Brazil which meant the recommendations were no longer relevant. Other recommendations related to the operation of PMIS and other processes, points which we have further developed from our own experience of PAHO's financial processes. Therefore, no prior year recommendations remain outstanding.

**3.2** We are content that in all cases management were undertaking appropriate actions in response to the recommendations made, and we have no concerns to bring to attention. It remains appropriate for clear responsibilities and timelines to be assigned to recommendations and this should form part of the internal monitoring progress. This should also provide a basis for reporting on progress to the Audit Committee.

## Acknowledgments

**3.3** We would like to thank the Director and her staff for their co-operation in facilitating the first year of our audit engagement and to the Spanish Court of Auditors in supporting the transition of external audit provision.

**Sir Amyas C E Morse**

**Comptroller and Auditor General, United Kingdom - External Auditor**

**15 April 2019**

## Appendix One Prior Year Recommendations

Previous reference	Summary of recommendation	Administration's comments on status: March 2019	External Auditor's view	Status
2016 Long Form Report (17)	PAHO should develop a schedule to reach a 100% funding of the ASHI liability in a period.	The 2017 actuarial study will determine the degree to which the full funding objective of the Plan aligns for WHO and PAHO, given the finance measures taken during 2017, including the transfer of PAHO ASHI assets to WHO, the ongoing transfer of monthly ASHI contributions collected through the payroll. Changes in SHI rules and the US TPA RFP in process should have a positive impact to improve the funding of the ASHI liability starting in 2018. Update as of 30 September 2017: The current policies will allow the organization to reach 100% funding of the ASHI liability within a prescribed period.	Superseded  We have made recommendations for Member States to agree a plan to formalise the arrangement.	Closed
2017 Long Form Report (1)	We recommend revising the relevant control procedures thoroughly and implementing an ex post payment review process to detect all indispensable adjustments that must be made monthly. We also recommend performing a regular data cross checking between the accounting periods to ensure that all reconciliations are carried out with due care.	In the last quarter of 2017, the Technical Unit has worked together with Administration to review the control procedures of the Mais Medicos Project and to identify possible inconsistencies within control systems of the transfers made to the Cuban Embassy (COLPADI & IVS).  A working group was established and data within COLPADI has been adjusted (most cases identified). At the same time some types of transactions were detected that were not appropriately considered and calculated in IVS (ex. End of Mission and Marriage).  As a result, there is a guide in place for the appropriate updating of doctor's information in COLPADI, which defines the procedures, rules and responsibilities for everyone involved in the process of doctor's movements.  We have developed new procedures/systems for data validation before the funds transfers, which will also allow us to check and reconcile the transfers made in the previous months. The technical team checks and validates the total amount to be transferred to Cuban Embassy every month; and the administrative team reconciles the	Good progress was being made to develop new processes, when the Programme changed, the recommendation was no longer relevant.	Closed

Previous reference	Summary of recommendation	Administration's comments on status: March 2019	External Auditor's view	Status
2017 Long Form Report (2)	We recommend updating the data in the COLPADI database with all relevant supporting documentation related to new registrations and withdrawals to improve the quality of the information registered therein. Besides, we recommend upgrading the functionality of the Incidents Management Module to properly identify and register various incidents related to the doctors' employment.	<p>payments after the funds transfers, using the system created for data validation. If necessary, the adjustment is done immediately.</p> <p>We have developed a guide for the accurate updating of doctor information in COLPADI and we are working on new procedures/system for data validation, which are expected to be concluded by 31 July 2018.</p> <p>The technical team checks and validates the total amount to be transferred to Cuban Embassy every month; and the administrative team reconciles the payments after the funds transfers, using the system created for data validation. If necessary, the adjustment is done immediately.</p>	Good progress was being made to develop new processes, when the Programme changed, the recommendation was no longer relevant.	Closed
2017 Long Form Report (3)	We recommend either updating the Invoice Verification System application or migrating the existing data to a new and modular system to enable the collection of information about all kinds of situations (and respective procedures) that may occur in the future regarding the Mais Medicos project. In addition, such a solution should be completely integrated with the COLPADI database.	<p>PWR/BRA IT department in coordination with the Mais Médicos Technical Unit have worked in 2017 to identify the project's critical systems demands and its operational requirements.</p> <p>PWR/BRA has already hired two IT National PAHO Consultants, with primary functions assigned to the Mais Médicos project, and IT/BRA is developing a project for a new system (SIOP+MM) to replace IVS.</p> <p>This system will consider all possible types of doctor's movements and will be integrated to COLPADI database.</p> <p>SIOP+MM is expected to be fully developed and implemented by 31/12/2018. However, this system's project will be on hold until further notice due to the change of Brazilian Government starting the 1st of January 2019. The PWR/BRA must wait the new assigned MM Program coordinators in MoH to discuss and define possible changes in the MM Project (TC 80). implemented by 31/12/2018.</p>	Good progress was being made to develop new processes, when the Programme changed, the recommendation was no longer relevant.	Closed

Previous reference	Summary of recommendation	Administration's comments on status: March 2019	External Auditor's view	Status
2017 Long Form Report (4)	We recommend avoiding using general grants or budget lines to fund activities which are used within the scope of Mais Medicos project. Besides, we recommend specifying in all official documents and financial reports the total amount related to Mais Medicos Project, distinguishing between payments funded by TC 80 or others TCs.	<p>Update 03/11/19 - Taking into consideration the current situation of Mais Médicos, where all activities of the project with Cuban physicians finished during November and December 2018, there's no need to develop a new system to replace IVS. During the External Audit that took place in Brasilia in January 2019, NAO Auditors expressed that, due to a changing situation, this and other recommendations made by the previous auditors will need to be closed. HSS will distinguish the total amount of expenses funded by TC67 and by TC80 in future documents and reports related to the Mais Médicos Project.</p> <p>We would like to highlight that the 3TA and 5TA/TC67 have some specific actions in coordination with TC80 (Mais Médicos Project), related to indigenous districts; and the objective of the 6TA/TC67 is to provide support to the MM Project, since the payment to indigenous districts doctors could not be done by TC80 due to the MM Program governmental directives.</p>	We have noted management's response and are content appropriate action has been taken.	Closed
2017 Long Form Report (5)	We recommend continuing the close monitoring of relevant decisions of the Brazilian courts related to the Cuban doctor's claims. At the same time, the contingency plan must be continually updated accordingly to the development of the projected situation.	<p>Cuban doctors' lawsuits are being closely monitored by PAHO/BRA, PAHO/LEG/WDC, Brazil Government Union Law, Brazil Ministry of Health (CONJUR and SGETS) and the Cuban Embassy.</p> <p>All relevant decisions of the Brazilian Federal Supreme Court and constitutionality lawsuits are being followed and monitored by the Legal Counsel of the Ministry of Health (CONJUR/MS). All the lawsuits were unsuccessful and there was no impact in the project as of now. PWR/BRA is closely monitoring the situation as well.</p> <p>The project's exit-strategy contingency plan was updated in November 2018 and will be kept up-to-date according to the Mais Médicos Project planning forecast decided at the 70th World Health Assembly, that took place at WHO/HQ (Geneva) on 22nd May 2017.</p> <p>Update 03/12/19 - PAHO, together with the Government of Brazil, has continued to closely monitor the lawsuits filed by Cuban doctors and corresponding decisions of the Brazilian</p>	We have enquired around the status of litigation and are content the financial statements disclose this appropriately. We will continue to monitor progress and the impact of any outcomes on the financial statements. However, we do not consider it is necessary to hold open a recommendation on this item.	Closed

Previous reference	Summary of recommendation	Administration's comments on status: March 2019	External Auditor's view	Status
2017 Long Form Report (6)	We recommend increasing efforts to limit the off-the-system data manipulation to the indispensable.	<p>courts. In this regard, it is important to note that the Supreme Court of Brazil has upheld the constitutionality of the Mais Medicos Program and that most of lawsuits filed by Cuban doctors have been dismissed. Additionally, a contingency plan was updated, and an exit strategy was implemented, in close coordination with the respective governments, following termination of the PAHO-Brazil and PAHO-Cuba technical cooperation agreements underlying the participation of Cuban doctors in the Mais Medicos Program.</p> <p>PAHO will continue to develop reports within Workday to assist in the financial statement and manager's report preparation, bank reconciliation process and revaluation of foreign currencies and other accounting processes. This will reduce manual workload and ensure accuracy and prompt availability of managerial information.</p>	We have noted similar findings. PAHO has undertaken a review of PMIS and how it can be better utilised by the organisation, developing an action plan. We will monitor progress.	Closed
2017 Long Form Report (7)	We highly recommend introducing a reliable bank reconciliation Report in the system. The Report should be used regularly to reconcile all banks' accounts monthly, comparing data obtained from banks with the ledger entries.	The PMIS module of banking is not set up to generate static information, thus whenever a report is generated for a specific date the figures may change including ulterior transactions. Due to this system particularity, FRM management decided in September 2017, that all bank accounts reconciliation must be performed using Excel format, as a way of presenting historical figures at a specific point of time for review and audit purposes and not including ulterior transactions. Such Excel Reconciliations are based on PMIS reports and they are prepared monthly, cross checked, reviewed and signed by each cost centre administrator. This process guarantees the figures accuracy and the monitoring of outstanding items in the reconciliation. This topic will be discussed and reviewed with the incoming external auditors.	We understand the issue has now been addressed and we are content with bank reconciliation controls in place.	Closed.
2017 Long Form Report (8)	We recommend updating the system to enable proper calculation of exchange differences and automatic	<ul style="list-style-type: none"> <li>• PAHO began utilizing the automatic revaluation of bank accounts in August 2018 on a monthly basis.</li> <li>•PAHO is analysing options to manage the revaluations of</li> </ul>	We are content with management's response and consider the	Closed

Previous reference	Summary of recommendation	Administration's comments on status: March 2019	External Auditor's view	Status
	<p>revaluation of open positions denominated in foreign currencies at the period end closures. If correct treatment of those operations is not possible due to the system limitations, relevant information should be disclosed in the financial statements and in the accounting policy of the Organization.</p>	<p>other open positions denominated in local currency in PMIS.</p> <p>Update 03/08/19 - FRM analysed the open local currency positions of non-bank balance sheet items to determine the need for revaluation during the closure of the 2018 accounts. FRM continues to assess options to correct the composition of balances to utilize the revaluation business process.</p>	<p>recommendation closed.</p>	
<p>2017 Long Form Report (9)</p>	<p>We recommend translating end user related system messages and alerts to other languages than English. There are several system users in CO who do not speak English but need to operate the system. Inability to clearly understand the system documentation, messages or instructions may diminish their usefulness and contribute to erroneous data input.</p>	<p>The status of the cases referred to in the observation have all been closed as of May 2018.</p>	<p>We are content with management's response and consider the recommendation closed.</p>	<p>Closed</p>
<p>2017 Long Form Report (10)</p>	<p>We recommend improving the scheduling of the implementation of the Program and Budget for the biennium 2018-2019, developing tools within the new budgetary scheme to avoid the accumulation of expenses at the end of the biennium.</p>	<p>PBU has already taken measures to address the issues. For 18-19, workplans were available and funds were allocated at the end of the previous biennium (December 2017) for the first time, and indicative flexible funding amounts were provided in July 2017. This has resulted in increased levels of implementation already observed as of end-April 2018. If this pattern of expenditure continues, it will result in a more even distribution of implementation for the remainder of the biennium. PBU monitors and reports on the situation to EXM, and to the entire Organization at PMA meetings.</p>	<p>Superseded</p> <p>In our report we speak in detail around the benefits of developing budgetary control, these processes would help to mitigate the risk of biennium end procurement expenditure.</p>	<p>Closed</p>