



PAN AMERICAN HEALTH ORGANIZATION
WORLD HEALTH ORGANIZATION



138th SESSION OF THE EXECUTIVE COMMITTEE

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PROCESS FOR THE APPOINTMENT OF THE EXTERNAL AUDITOR

The appointment of the current External Auditor of the Pan American Health Organization will expire at the completion of the audit of the 2006-2007 financial period. The Director is therefore submitting, for the review of the Executive Committee, a proposed procedure for the appointment of the External Auditor of the Pan American Health Organization for the 2008-2009 and 2010-2011 financial periods. The procedure as outlined in paragraph 2 of the document conforms to the Financial Regulations and Rules of the Organization, and reflects in general the practice of the World Health Organization in the appointment of its External Auditor.

Annex I of the document contains the note verbale which would be sent to all Member, Participating, and Associate States. The note verbale describes in detail the process the Members must follow in order to nominate an Auditor of international repute. Included with the note verbale are excerpts from the Organization's Financial Regulations, as well as additional detailed information and references concerning the scope of the Organization's financial operations.

The Executive Committee is invited to consider the draft resolution in which the Committee requests that Member, Participating, and Associate States submit questions to the Secretariat prior to the opening of the 47th Directing Council and that the Secretariat respond to any such questions, and recommends to the 47th Directing Council the approval of the proposed process for the nomination and appointment of the External Auditor of the Organization.

Process for the Appointment of the External Auditor

1. Regulation 14.1 of the Financial Regulations of the Pan American Health Organization (PAHO) stipulates that the Conference or Directing Council shall appoint an External Auditor(s) of international repute to audit the accounts of the Organization. In accordance with Resolution CD46.R3, the Directing Council reappointed the Organization's current External Auditor for the 2006-2007 financial period and requested the Director to submit to the 47th Directing Council a call for bids from qualified external auditors of international repute to be considered for appointment as the External Auditor of the accounts of the Organization for the 2008-2009 and 2010-2011 financial periods.

2. The Secretariat reviewed the regulations and rules of the Organization, together with past practice, including the process followed by the World Health Organization for the nomination and appointment of its External Auditor, and proposes the following:

- The process would be initiated by a note verbale (Annex I) which would be sent to Member, Participating, and Associate States in October 2006, requesting nominations to be submitted to the Secretariat by 30 April 2007.
- The Secretariat would prepare a document for submission to the 27th Pan American Sanitary Conference in September 2007, including all valid nominations.
- The Members would appoint the External Auditor for the 2008-2009 and 2010-2011 financial periods at the 27th Pan American Sanitary Conference pursuant to the Rules of Procedure of the Conference.

3. The successful nominee will be notified by letter from the Director of the Pan American Sanitary Bureau in October 2007. If necessary, the current External Auditor will be notified that its appointment will end with the completion of the audit of the 2006-2007 financial period in April/May 2008 with the expectation of cooperation in the transition to the new External Auditor. The newly appointed External Auditor will meet with senior management to discuss the audit plan for the 2008-2009 biennium as soon as possible in the new financial period.

Action by the Executive Committee

4. The Executive Committee is invited to consider the following resolution:

Proposed Resolution

THE 138th SESSION OF THE EXECUTIVE COMMITTEE,

Having considered the report of the Director on the Process for the Appointment of the External Auditor (Document CE138/22); and

Noting the rules, regulations, and practices of the Pan American Health Organization and the practices of the World Health Organization,

RESOLVES:

1. To take note of the report of the Director on the Process for the Appointment of the External Auditor (Document CE138/22).
2. To recommend that Member, Participating, and Associates States are invited to provide written comments on the proposed process directly to the Secretariat prior to the opening of the 47th Directing Council in September 2006.
3. To request the Secretariat to respond to any questions submitted by Member, Participating, and Associate States to the 47th Directing Council.
4. To recommend that the 47th Directing Council approve the proposed process for the nomination and appointment of the External Auditor of the Organization at the 27th Pan American Sanitary Conference.

Annexes

**Note Verbale to Member States regarding the
Appointment of the External Auditor of the Pan American Health Organization
for Financial Periods 2008-2009 and 2010-2011**

The Director of the Pan American Sanitary Bureau (PASB) presents her compliments to Member, Participating, and Associate States and has the honor to recall that in September 2005, the 46th Directing Council, by Resolution CD46.R3, appointed the holder of the Office of Comptroller and Auditor General of the United Kingdom of Great Britain and Northern Ireland to be the External Auditor of the Pan American Health Organization (PAHO) for the 2006-2007 financial period. Accordingly, and with reference to Regulation 14.1 of PAHO's Financial Regulations, it will be necessary for the 27th Pan American Sanitary Conference in September 2007 to appoint an External Auditor of international repute for the financial periods 2008-2009 and 2010-2011. The purpose of this note verbale is to prepare for the appointment of the External Auditor by inviting nominations from Members.

The Director has the honor, therefore, to invite Members to nominate a candidate, fulfilling the conditions of Regulation 14.1 of PAHO's Financial Regulations, who they wish the Sanitary Conference to consider for appointment as the External Auditor of PAHO for the financial periods 2008-2009 and 2010-2011. The full text of Regulation XIV of the Financial Regulations and the Additional Terms of Reference governing the External Audit of PAHO are enclosed herewith as Annex I. Annex II provides background information including information on the scope of PAHO's financial operations.

Should a Member wish to propose a candidate, the name of the candidate, along with the candidate's supporting proposal, should reach the Organization no later than 30 April 2007 to allow time for the preparation of the submission to the 27th Sanitary Conference in September 2007. The nominee's proposal should include the following in respect of the proposed External Auditor:

- a. a curriculum vitae and details of the national and international activities of the nominee noting the range of audit specialties that can be of benefit to the Organization;
- b. a description of the audit approach, procedures and standards that the nominee would apply, having regard to the Organization's accounting principles and practices, its Financial Regulations and Financial Rules, and the United Nations System Accounting Standards;
- c. estimates of the overall number of auditor-work-months which would be devoted to carrying out the audit for each of the two financial periods, 2008-2009 and 2010-2011;
- d. a proposed audit fee for each financial period (2008-2009 and 2010-2011), expressed in United States dollars. This fee should cover the international audit of PAHO regular program activities, as well as extrabudgetary and other activities, and should be summarized on a single page. In estimating the cost of the audit, all secretarial and other ancillary costs, including all travel costs and

- living expenses of the External Audit staff, should be included in the audit fee proposed. Travel costs should include travel from the country of residence to Washington, D.C., and to the other offices of the Organization, as required by the External Auditor for the purposes of the audit;
- e. an indication of the nature, extent and timing of requests for information, including access to the audit working papers of the outgoing auditor, in accordance with recognized auditing standards, and an assurance of the nominee's cooperation, on completion of appointment, in responding to similar requests for information by an incoming auditor;
 - f. any other information which may assist the Sanitary Conference in finalizing the appointment, such as letters of reference, evidence of membership with professional audit or accounting associations such as the International Organization of Supreme Audit Institutions (INTOSAI), accreditation from the World Bank or other international or governmental agency, publications, etc.

Since nominations will be submitted to the Sanitary Conference, they must be prepared and submitted in one of the four working languages of the Conference (English, French, Portuguese, and Spanish). The Organization will undertake to translate the tenders. For this reason, the nomination should not exceed 6,000 words and the format and printout should be one suitable for reproduction, i.e. two sharp black and white originals (laser printer quality, not photocopies) should be provided on pages not larger than 8.5" x 11" with margins no less than 1" on each side and top and bottom. Photographs and certain types of graphic presentations with shading do not reproduce well and should be avoided.

The Director of the Pan American Sanitary Bureau would like to take this opportunity to express her appreciation for the support of the Members in this very important endeavor.

Washington, D.C., October 2006

PAN AMERICAN HEALTH ORGANIZATION
EXTRACT FROM FINANCIAL REGULATIONS

Regulation XIV – External Audit

- 14.1 The Conference or the Directing Council shall appoint an External Auditor(s) of international repute to audit the accounts of the Organization. Auditor(s) appointed may be removed only by the Conference or the Directing Council.
- 14.2 Subject to any special direction of the Conference or the Directing Council, each audit which the External Auditors(s) performs/performs shall be conducted in conformity with generally accepted common auditing standards and in accordance with the Additional Terms of Reference set forth in the Appendix to these Regulations.
- 14.3 The External Auditor(s), in addition to rendering its opinion on the account, may make such observations as he/she/they may deem necessary with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls, and in general, the administration and management of the Organization.
- 14.4 The External Auditor(s) shall be completely independent and solely responsible for the conduct of the audit.
- 14.5 The Conference or the Directing Council may request the External Auditor(s) to perform certain specific examinations and issue separate reports on the results.
- 14.6 The Director shall provide the External Auditor(s) with the facilities required for the performance of the audit.
- 14.7 For the purpose of making a local or special examination or for effecting economies of audit cost, the External Auditor(s) may engage the services of any national Auditor-General (or equivalent title) or commercial public auditors of known repute or any other person or firm that, in the opinion of the External Auditor(s) is technically qualified.
- 14.8 The External Auditor(s) shall issue a report including its opinion, on the audit of the biennium financial report prepared by the Director pursuant to Regulation XIII. The report shall include such information as he/she/they deem(s) necessary in regard to Regulation 14.3 and the Additional Terms of Reference.

- 14.9 The report(s) of the External Auditor(s) shall be completed and provided to the Director together with the audited final accounts no later than 15 April following the end of the financial period to which the final accounts relate. The Director will provide the report to the Executive Committee which shall examine the interim and final financial reports and the audit report(s) and shall forward them to the Conference or the Directing Council with such comment as it deems necessary.

**PAN AMERICAN HEALTH ORGANIZATION
EXTRACT FROM FINANCIAL REGULATIONS**

Appendix

**ADDITIONAL TERMS OF REFERENCE
GOVERNING THE EXTERNAL AUDIT OF
THE PAN AMERICAN HEALTH ORGANIZATION**

1. The External Auditor(s) shall perform such audit of the accounts of the Pan American Health Organization, including all Trust Funds, Special Funds and Special Accounts, as he/she/they deem necessary in order to satisfy himself/herself/themselves:
 - (a) that the financial statements are in accord with the books and records of the Organization;
 - (b) that the financial transactions reflected in the statements have been in accordance with the rules and regulations, the budgetary provisions, and other applicable directives of the Organization;
 - (c) that the securities and funds on deposit and on hand have been verified by the certificates received direct from the Organization's depositaries or by actual count;
 - (d) that the internal controls, including the internal audit, are adequate in view of the extent of reliance placed thereon;
 - (e) that procedures satisfactory to the External Auditor(s) have been applied to the recording of all assets, liabilities, surpluses and deficits.
2. The External Auditor(s) shall be the sole judge as to the acceptance in whole or in part of certifications and representations by members of the staff of the Organization and may proceed to such detailed examination and verification as he/she/they choose(s) of all financial records including those relating to supplies and equipment.
3. The External Auditor(s) and staff shall have free access at all convenient times to all books, records and other documentation which are, in the opinion of the External Auditor(s), necessary for the performance of the audit. Information classified as privileged and which the Director agrees is required by the External Auditor(s) for the purposes of the audit, and information classified as confidential,

shall be made available upon request. The External Auditor(s) and staff shall respect the privileged and confidential nature of any information so classified which has been made available and shall not make use of it except in direct Connection with the performance of the audit. The External Auditor(s) may draw the attention of the Conference or the Directing Council to any denial of information classified as privileged which, in his/her/their opinion, was required for the purpose of the audit.

4. The External Auditor(s) shall have no power to disallow items in the accounts but shall draw to the attention of the Director for appropriate action any transaction that creates doubt as to legality or propriety. Audit objections, to these or any other transactions, arising during the examination of the accounts shall be immediately communicated to the Director.
5. The External Auditor(s) shall express and sign an opinion on the financial statements of the Organization. The opinion shall include the following basic elements:
 - (a) identification of the financial statements audited;
 - (b) a reference to the responsibility of the entity's management and responsibility of the External Auditor(s);
 - (c) a reference to the audit standards followed;
 - (d) a description of the work performed;
 - (e) an expression of opinion on the financial statements as to whether:
 - (i) the financial statements present fairly the financial position as at the end of the period and the results of the operations for the period;
 - (ii) the financial statements were prepared in accordance with the stated accounting policies;
 - (iii) the accounting policies were applied on a basis consistent with that of the preceding financial period.
 - (f) an expression of opinion on the compliance of transactions with the Financial Regulations and legislative authority;
 - (g) the date of the opinion;

- (h) the External Auditor's(s') name and position;
 - (i) the place where the report has been signed;
 - (j) should it be necessary, a reference to the report of the External Auditor(s) on the financial statements.
6. The report of the External Auditor(s) to the Conference or Directing Council on the financial operations of the financial period should mention:
- (a) the type and scope of examination;
 - (b) matters affecting the completeness or accuracy of the accounts, including where appropriate:
 - (i) information necessary to the correct interpretation of the accounts;
 - (ii) any amounts that ought to have been received but which have not been brought to account;
 - (iii) any amounts for which a legal or contingent obligation exists and which have not been recorded or reflected in the financial statements;
 - (iv) expenditures not properly substantiated;
 - (v) whether proper books of accounts have been kept; where in the presentation of statements there are deviations of a material nature from a consistent application of generally accepted accounting principles, these should be disclosed.
 - (c) other matters that should be brought to the notice of the Conference or the Directing Council such as:
 - (i) cases of fraud or presumptive fraud;
 - (ii) wasteful or improper expenditure of the Organization's money or other assets (notwithstanding that the accounting for the transaction may be correct);
 - (iii) expenditure likely to commit the Organization to further outlay on a large scale;

- (iv) any defect in the general system or detailed regulations governing the control of receipts and disbursements, or of supplies and equipment;
 - (v) expenditure not in accordance with the intention of the Conference or the Directing Council, after making allowance for duly authorized transfers within the budget;
 - (vi) expenditure in excess of appropriations as amended by duly authorized transfers within the budget;
 - (vii) expenditure not in conformity with the authority that governs it.
- (d) the accuracy or otherwise of the supplies and equipment records as determined by stocktaking and examination of the records.

In addition, the report may contain reference to:

- (e) transactions accounted for in a previous financial period, concerning which further information has been obtained, or transactions in a later financial period concerning which it seems desirable that the Conference or the Directing Council should have early knowledge.
7. The External Auditor(s) may make such observations with respect to his/her/their findings resulting from the audit and such comments on the financial report as he/she/they deem(s) appropriate to the Conference or the Directing Council or to the Director.
 8. Whenever the External Auditor's(s') scope of audit is restricted, or insufficient evidence is available, the External Auditor's(s') opinion shall refer to this matter, making clear in the report the reasons for the comments and the effect on the financial position and the financial transactions as recorded.
 9. In no case shall the External Auditor(s) include criticism in any report without first affording the Director an adequate opportunity of explanation on the matter under observation.
 10. The External Auditor(s) is/are not required to mention any matter referred to in the foregoing which is considered immaterial.

PAN AMERICAN HEALTH ORGANIZATION

Background Information

1. General Requirements and Objectives

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

The External Auditor must be experienced in the provision of professional auditing services in a multilingual environment and must be able to provide audit staff that can function in such an environment, specifically Spanish and English. The External Auditor must be able to deliver all reports in English.

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

2. Nature of Audit Assignment

2.1 An appreciation of the magnitude and diversity of the financial operations of the Pan American Health Organization, and thus of the nature of the audit, may be obtained from the detailed financial report titled *Financial Report of the Director and Report of the External Auditor 1 January 2002 – 31 December 2003*, which is available on the Pan American Health Organization's website at:

<http://www.paho.org/english/gov/ce/od315-e.htm>

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

http://www.paho.org/English/PAHO/about_paho.htm

3. The Institute of Nutrition of Central America and Panama (INCAP)

The Institute of Nutrition of Central America and Panama, located in Guatemala City, Guatemala, is a fully decentralized center administered by the Pan American Health Organization. Article XII of INCAP's Financial Regulations stipulates that its

Directing Council will select an auditor to be responsible for the review of its accounts. However, past practice has been that the PAHO External Auditor acts as the auditor for INCAP. INCAP requires a separate audit opinion of its financial statements which are included in the *Financial Report of the Director and Report of the External Auditor*. Therefore, the External Auditor of PAHO should be prepared to undertake the audit of INCAP. Additional information regarding INCAP is available on its website at:

<http://www.incap.org.gt/>

4. The Caribbean Epidemiology Centre (CAREC)

The Caribbean Epidemiology Centre, located in Port of Spain, Trinidad, is a decentralized center administered by the Pan American Health Organization. CAREC adheres to the Financial Regulations and Rules of PAHO and its financial statements are included in the *Financial Report of the Director and Report of the External Auditor*. CAREC does not require a separate audit opinion of its financial statements, however, its activities form part of the consolidated financial statements of PAHO. Therefore, the External Auditor of PAHO should be prepared to include CAREC in its audit plan. Additional information regarding CAREC is available on its website at:

<http://www.carec.org/>

5. The Caribbean Food and Nutrition Institute (CFNI)

The Caribbean Food and Nutrition Institute, located in Kingston, Jamaica, is a decentralized center administered by the Pan American Health Organization. CFNI adheres to the Financial Regulations and Rules of PAHO and its financial statements are included in the *Financial Report of the Director and Report of the External Auditor*. CFNI does not require a separate audit opinion of its financial statements, however, its activities form part of the consolidated financial statements of PAHO. Therefore, the External Auditor of PAHO should be prepared to include CFNI in its audit plan. Additional information regarding CFNI is available on its website at:

<http://www.paho.org/english/cfni/home.htm>

6. The World Health Organization (WHO)

PAHO also serves as the Regional Office for the World Health Organization in the Americas (AMRO). The AMRO activities funded by WHO form part of the consolidated financial statements of PAHO. The World Health Organization, whose headquarters is located in Geneva, Switzerland, appoints its own External Auditor who might not be the same as that appointed by PAHO, in

which case close collaboration is required between the two auditors. Additional information regarding WHO is available on its website at:

<http://www.who.int/en/>

7. Internal Audit and Oversight (IOS)

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

8. External Audit Fee

The external audit fee for 2004-2005, including all travel and other costs associated with the audit of the entities as noted above, was GBP 212,000 or approximately US\$370,000. Audit fees should be expressed in US dollars.