



National Audit Office

The National Audit Office (NAO), headed by the Comptroller and Auditor General of the United Kingdom, provides an external audit service to the Pan American Health Organization. (PAHO). The External Auditor has been appointed by the Directing Council in accordance with the Financial Regulations. In addition to certifying the accounts of the PAHO, he has authority under the mandate to report to the Directing Council on the economy, efficiency and effectiveness with which the PAHO has used its resources.

The aim of the audit is to provide independent assurance to the Directing Council; to add value to PAHO's financial management and governance; and to support the objectives of the PAHO's work.

For further information please contact:

Graham Miller
Director
National Audit Office
157-197 Buckingham Palace Road,
Victoria, London, SW1W 9SP

+44 (0)20 7798 7136

Email: graham.miller@nao.gsi.gov.uk or
manjit.lall@nao.gsi.gov.uk

2006-2007

External Auditor's Report

Audit of the Pan American Health Organization (PAHO) Financial Statements

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EXECUTIVE SUMMARY

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- *On PAHO:*
 - *Financial results of PAHO and the collection rate for contributions*
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- *On sub-regional Centers:*
 - *Financial results*
 - *Guidance on separation of the centers from PAHO*
- *Follow up to previous audit recommendations focussing on corporate governance*

OVERALL RESULTS OF THE AUDIT

1. We have audited the financial statements of the Pan American Health Organization (PAHO) in accordance with the Financial Regulations and in conformity with International Standards on Auditing. The audit examination revealed no weaknesses or errors which we considered to be material to the accuracy, completeness and validity of the financial statements. In my opinion, these financial statements present fairly, in all material respects, the financial position as at 31 December 2007 and the results of operations and cash flows for the period then ended, in accordance with United Nations System Accounting Standards and the Pan American Health Organization's stated accounting policies.

2. The main observations and recommendations from our audit are summarised below, with a more detailed commentary in the section on Detailed Findings. Action taken by management in response to our previous year recommendations, for 2004-2005, is set out at **Annex A**; and the scope and approach of the audit, which were communicated to management in a detailed audit strategy, is summarised at **Annex B**.

PAN AMERICAN HEALTH ORGANIZATION

On the overall financial results of PAHO

3. Total PAHO expenditure across all funds increased by 24.3 percent from \$786.3 million in 2004-2005 to \$977.7 million in 2006-2007. The increase of some \$191.4 million is mostly accounted for by greater expenditure of some \$184.3 million within Trust Funds, Procurement Funds and World Health Organization Other Funds. Total fund balances increased by \$209.2 million during the biennium reflecting the significant increase in total income and a lesser increase in expenditure. Net cash and term deposits increased significantly by \$177.5 million reflecting this higher income yield.
4. The Financial Statements report that for 2006-2007 the Organization obligated \$257.3 million or 97 percent of the Effective Working Budget, excluding the WHO Regular Budget element of \$75.1 million. After adjustments, the Organization recorded a net excess of income over expenditure on the Regular Budget amounting to \$43.9 million compared with \$6 million for 2004-2005 reflecting the significant increase in income.
5. The collection rate for quota contributions from member states for the current period increased to 85 percent and was significantly higher than the previous biennium; there was also a welcome increase from 80 percent to 85 percent in the collection rate for quota arrears. Of the \$35.4 million outstanding at 31 December 2007 on quota assessments for the current and prior periods, \$7.3 million (21 per cent) had been received by 31 March 2008.
6. The Working Capital Fund balance brought forward was \$14.2 million at 1 January 2006. PAHO achieved a significant surplus of \$43.9 million during this biennium and in line with the Directing Council resolution can only hold a maximum of \$20 million in the Working Capital Fund at the end of this period. This meant that PAHO transferred \$5.8 million of the regular budget surplus into the Working Capital Fund to stay within the maximum permitted limit,

transferring the remainder to the PAHO holding account. We have ensured that the financial statements properly report the correct balance of the Working Capital Fund within its prescribed limit of \$20 million and that the balance of the surplus in 2006-2007 is shown as being held in the PAHO Holding Account.

On the progress and improvements towards implementing IPSAS

7. International Public Sector Accounting Standards (IPSAS) are credible, high quality, independently produced accounting standards which are comprehensive and supported by Governments, professional accounting bodies and international organisations. They offer more regular, complete and transparent reporting as well as more consistency between financial periods and different organisations. We have identified the key areas to be addressed by PAHO in respect of full accruals accounting for income and expenditure, assets and liabilities and for employee benefits. Further, we have commented on the options for upgrading PAHO's information technology platform to facilitate full implementation of IPSAS, noting the risks involved in further customising the existing system. We recommend that PAHO compare the options of buying a new system with that of customising their existing system, seeking best value in doing so.

8. In October 2007, the member states of PAHO approved proposals to implement International Public Sector Accounting Standards from 1 January 2010. PAHO has decided to make progress on the adoption of IPSAS using a phased approach where they began to implement IPSAS requirements gradually, with a view to introducing further changes in the next biennium. Following a change to the financial regulations approved by the 47th Directing Council, PAHO now only recognise disbursed expenditure and unliquidated obligations (outstanding liabilities) in respect of goods and services delivered or contractually due to be delivered in this biennium. This matches the expenditure recorded in this biennium rather than across two biennia. We have reviewed the implementation of this policy ensuring the validity of data in PAHO's accounting systems and adequate disclosure in the financial statements. This represents a positive move to adopting IPSAS while staying fully compliant with the United Nations System Accounting Standards (UNSAS) for this biennium.

On the use of letters of agreement with implementing partners

9. PAHO has used letters of agreement (LOAs) extensively during this biennium. Such letters represent agreements between PAHO and a third party to provide technical co-operation and transfer funds to implement health policies. PAHO transferred \$54.2 million during this biennium, most of which related to activity undertaken by PAHO's Brazil country office, which disbursed \$38.1 million through LOAs. While internal controls to ensure the security and appropriate use of these funds have operated effectively to the point at which funds leave PAHO, there are weaknesses in the oversight of funds after they have been transferred to third parties. We found a significant number of cases in our sample where technical reports confirming how the funds had been used by the implementing partner, had not been received by PAHO. We recommend that PAHO act to ensure that health ministries engaging third parties ensure they are bona fide and provide PAHO with appropriate assurances.

On staff vacancies in PAHO

10. We have identified that at the end of this biennium PAHO had 184 vacant posts, including thirteen in Financial Resource Management (FRM) and 29 across PAHO country offices. We note that PAHO has undertaken an exercise to establish how many of these posts have been recently filled and posts that are no longer relevant have been abolished. While we have highlighted the significant rise in trust fund and procurement fund activity which has placed increasing demands on finance and administrative staff in headquarters and country offices, PAHO need to evaluate the overall risk to their business of these posts remaining vacant and develop a plan to mitigate these risks as a routine part of their business processes. A human resources plan has been recently completed and the vacant posts have been approved for advertisement.

On financial control in the field

11. During 2006-2007, we carried out audit visits to PAHO Headquarters and eight country offices (Panama, Haiti, Guyana, Dominican Republic, Brazil, El Paso, Mexico and Trinidad and Tobago), as well as to the three sub-regional centers (INCAP, CAREC and CFNI) and the regional center PANAFTOSA, to examine internal controls, the oversight provided by PAHO headquarters, and perform tests of detail on transactions and key accounting reconciliations. Generally we found a high standard of financial control in operation. However, areas where improvements could be made were notified to the Organization and

country offices by way of reports to management containing observations and recommendations in respect of each visit. We have identified common areas where there was some weakening in internal controls in relation to appropriate segregation of duties, timely performance of bank reconciliations, procurement procedures and fixed asset inventories. PAHO has undertaken improvements in monitoring internal controls at country offices by implementing a month-end controls checklist which is returned to headquarters. We have recommended that Internal Oversight undertake a risk based review of country offices on an ongoing basis to assess the effectiveness of the controls checklist system; and use lessons learned to educate country office staff as necessary.

SUB-REGIONAL CENTERS

On the financial results of the Centers (CAREC and CFNI)

12. The overall financial position of the Caribbean Epidemiology Center, CAREC, worsened slightly in 2006-2007. The balance on CAREC's Working Capital Fund decreased from \$672,687 to \$663,538 as a result of incurring a net deficit of some \$9,149. However, this deficit was considerably lower than in 2004-2005 (\$273,158) largely as a result of a lower provision for delays in the collection of assessed contributions and also an increased collection of contribution arrears.
13. The overall financial position of the Caribbean Food and Nutrition Institute, CFNI, also worsened in 2006-2007. The deficit on the Center's Working Capital Fund increased further to \$504,276. This was as a result of the increased provision for the delay in collecting contributions and also a significant decrease in the collection of arrears of contributions.
14. Expenditure administered by PAHO for the three sub-regional Centers, INCAP, CAREC and CFNI, increased from \$20.3 million to \$22.9 million in 2006-2007 in line with its continued commitment to these centers over the biennium.
15. This report outlines the risks arising as a result of the decision for the sub-regional centers to separate from PAHO, taking account of their financial performance during this biennium.
16. We have issued a separate audit opinion and report in relation to the Institute of Nutrition of Central America and Panama, INCAP.

On the planned separation of PAHO and the sub-regional Centers

17. In July 2007, following an evaluation of three options for regional health care, health ministers in the Caribbean approved the option of a single health care institute, but asked PAHO to conduct a cost benefit analysis of the best structure within such an institution. This analysis showed that a single governance and administrative structure would be the most cost effective option and members have voted to combine five Caribbean Regional Health Institutions - including CAREC and CFNI - in a single new Caribbean Public Health Agency (CARPHA). The plan for CAREC and CFNI to separate from PAHO during the next biennium gives rise to a number of significant risks for all parties involved. We have identified risks in relation to the financial viability of the centres; their legal status; their management and resource capacity to continue providing an existing level of service and a sustainable internal control environment. We recommend that PAHO and the sub-regional Centers develop a coherent strategy to manage the transition, taking account of key risks.

FOLLOW-UP TO PREVIOUS AUDIT RECOMMENDATIONS

18. In our last report on the 2004-2005 biennium, we noted the continued weakness in the level of internal oversight available within the Organization. While PAHO has tried to address these concerns and recruit an appropriate team of qualified staff, they have been unable to attract suitable candidates for the Head of Internal Oversight post. The Internal Oversight Office has used temporary audit staff to undertake audits during this biennium. However, we reiterate the need to strengthen internal oversight for such a diverse organisation with a large geographical spread and we have recommended that PAHO should consider outsourcing this service to buy in a suitable level of service provision.
19. In the last biennium we also noted the establishment of the Integrity and Conflict Management System (ICMS) to further strengthen governance arrangements and provide a co-ordinated service to deal with cases of conflict within the organization. We welcome the progress made in embedding the system during this biennium. However, we have noted that as a part of these new procedures, the previous arrangements for recording, investigating and reporting fraud have been diluted and there is no central focal point to undertake this critical aspect of good governance. We have recommended that the ICMS team establish a sub-group to specifically record, investigate and report fraud. In addition, this group could then consolidate lessons learned from recorded fraud cases and implement appropriate improvements as necessary.

20. We made three recommendations in our report on the 2004-2005 biennium relating to improved arrangements for systematic risk management, the adoption of International Public Sector Accounting Standards and establishing an Audit Committee with a membership of independent external experts.
21. PAHO's Directing Council has formally approved the adoption of IPSAS from 2010 and PAHO is using a phased approach to implementing full accruals accounting. As a part of the first phase, PAHO has improved the expenditure recognition policy in this biennium to match expenditure recorded to goods and services received in respect of all funds except trust funds. We welcome the progress made and we have reported separately on the new expenditure recognition policy in this report.
22. On risk management, we have worked closely with Financial Reporting and Management (FRM) professional staff and PWRs, to share our expertise on risk management and provide guidance on risk assessment and the development of risk registers. PAHO has also engaged consultants to begin to undertake a comprehensive risk assessment. While the Organization is making progress in this regard, risk management has not yet been embedded into its business processes and we recommend that the Organization set a target date to fully adopt a systematic arrangement of enterprise risk management.
23. PAHO has established a Sub-Committee on Programme, Budget and Administration (SPBA), made up of seven members, four of which are concurrently represented on the Executive Committee. While the terms of reference are extensive and include the review of financial statements, external and internal audit plans and reports, this committee does not require the attendance of the external auditor and does not fulfil the good governance role of an audit committee chaired by and made up of a majority of independent members. We continue to believe that the purpose served by an audit committee with a majority of independent external members would bring significant benefits to PAHO and we continue to encourage the Organization to establish such a committee.

DETAILED FINDINGS

Pan American Health Organization (PAHO)

Overall Financial Position of the Organization

- *Showing significant increases in income and expenditure, particularly in relation to trust funds and procurement funds used for acquiring health related products*
- *Noting a significant increase in the rate of collection of current year assessed contributions, and also further improvements in the collection of contribution arrears*
- *Confirming that the substantial increase in the regular budget surplus is properly reported in the financial statements given the cap on the working capital fund of \$20 million dollars*

Income and expenditure

24. PAHO's total income for 2006-2007 increased from \$798.8 million in the previous biennium to \$1,157.7 million in this biennium. This is an increase of \$358.9 million or 45 percent compared to the previous biennium and represents continued growth of income within Trust Funds and Procurement Funds, while there has been a more modest increase in assessed contributions. Total PAHO expenditure across all funds increased by 24.3 percent from \$786.3 million in 2004-2005 to \$977.7 million in 2006-2007. The increase of some \$191.4 million is mostly accounted for by greater expenditure within Trust Funds, Procurement Funds and World Health Organization Other Funds. Table 1 highlights the most significant areas where income and expenditure has changed between biennia.

Table 1: Showing Significant Increases in Income and Expenditure

Activity	Increase in Income from 2004-2005 to 2006-2007 (US\$ million)	Increase in Expenditure from 2004-2005 to 2006-2007 (US\$ million)
Regular Budget	13.1	6.9
Trust Funds	153.8	58.1
Procurement Funds – Expanded Programme on Immunisations	146.4	59.7
Procurement Funds – Advances from Governments and Institutions for Procurement	5	24.3
Non- Project Funds – Strategic Public Health Supplies	23.1	19.4
World Health Organization – Other Funds	20.4	20.4
Sub-Total	361.8	188.8
Total Increase in Income / Expenditure	358.9	191.4
% of increase accounted for by significant areas of activity	101	98.6

Source: PAHO Financial Statements 2006-2007

25. During the biennium total fund balances increased by \$209.2 million, much of which is held as cash and term deposits and these increased by some \$177.5 million reported in Statement III.

Budgetary transfers and program delivery

26. Statement IV to the Financial Statements shows that the Organization obligated \$257.3 million (97 percent) of the available appropriations from the 2006-2007 Effective Working Budget of \$265.6 million, which included the WHO regular budget contribution of some \$75.1 million.

Results of the PAHO regular budget

27. As shown in Statement I, in 2006-2007 the Organization received Regular Budget income of \$196.7 million and incurred expenditure of \$182.2 million. After providing for delays in the collection of assessed contributions, and adjusting for contributions received in relation to prior periods and savings on prior periods' obligations, the excess of income over expenditure was \$43.9 million.
28. For 2006-2007 the excess of income over regular budget expenditure amounted to \$43.9 million compared with \$5.7 million in 2004-2005, and this increase is due in part to an improvement in the collection of quota arrears (Table 2 refers). Following a transfer of \$5.1 million to Special Funds and Procurement Funds, a balance of \$38.8 million was available for transfer to the working capital fund. However, the working capital fund is capped at a maximum of \$20 million. We have ensured that the financial statements properly report the correct balance of the Working Capital Fund within its prescribed limit of \$20 million and that the balance of the surplus in 2006-2007 (\$33.1 million) is shown as being held in the PAHO Holding Account.

Quota contributions

29. Table 2 shows that for 2006-2007, PAHO achieved a collection rate for quota contributions due that at 85 percent was significantly higher than the previous biennium, and much higher than the average for the last 10 years. PAHO has responded positively to our concerns, expressed in our reports on previous biennia, that the collection rate is much lower than for comparable international organisations. The action that they have taken has resulted in a significant improvement in the collection rate for both current biennia contributions and arrears for previous years, and we encourage the secretariat to continue their efforts to improve this further.

Table 2: The Collection Rate for Current PAHO Quota Contributions (excluding arrears)

Biennium	Net Assessments	Amount Collected	Outstanding Contributions	Collection Rate
	\$	\$	\$	%
2006-2007	183,550,000	155,058,405	28,491,595	85
2004-2005	184,306,000	134,134,974	50,171,026	73
2002-2003	180,960,000	139,546,733	41,413,267	77

Biennium	Net Assessments	Amount Collected	Outstanding Contributions	Collection Rate
	\$	\$	\$	%
2000-2001	170,796,000	132,108,444	38,687,556	77
1998-1999	163,618,000	124,459,109	39,158,891	76
1996-1997	162,918,000	113,061,891	49,856,109	69
Average collection rate				74
<i>Source: Audited Financial Statements 1996-1997 to 2006-2007</i>				

30. The Organization applies receipts from Member States to the oldest outstanding contribution. Table 3 shows amounts received of \$54.8 million in relation to contributions outstanding at 31 December 2005, representing a collection rate of 88 percent. This is significantly higher than in 2004-2005 and also higher than the average for the last ten years. PAHO has acted positively to address the risk of aged uncollected contributions and significantly reduced the proportion of older contributions still outstanding at the end of this biennium. We welcome the progress that has been made and continue to encourage the Organization to consolidate this progress further.

Table 3: Collection Rate for Arrears of PAHO Quota Contributions

Biennium	Arrears	Payments received	Balance due at 31 December	Collection Rate
	\$	\$	\$	%
2006-2007	61,740,124	54,809,510	6,930,614	88
2004-2005	58,197,534	46,628,436	11,569,098	80
2002-2003	49,216,339	32,432,072	16,784,267	66
2000-2001	46,596,506	36,067,723	10,528,783	77
1998-1999	52,128,026	44,690,411	7,437,615	86
1996-1997	49,204,772	46,932,855	2,271,917	95
Average collection rate				81
<i>Source: Audited Financial Statements 1996-1997 to 2006-2007</i>				

Eliminations for inter-group transactions on all funds

31. In the 2004-2005 Financial Statements, PAHO introduced the additional disclosure of eliminations, where transactions between funds were eliminated to avoid double counting of income and expenditure. We conducted further work during 2006-2007 and identified some \$34.8 million of eliminations relating to 2006-2007. These concerned inter-fund transactions and eliminations from INCAP and CAREC.

Cases of fraud and presumed fraud, other losses and ex-gratia payments

32. The Organization informed us that there were 37 cases of fraud detected during the biennium. Of the total value misappropriated amounting to \$79,087, PAHO recovered \$25,562 prior to 31 December 2007. The balance of \$53,525 has not been recovered and this mainly relates to assets which have been stolen from the Organization.
33. The Organization notified the write-off of uncollectible receivables amounting to \$6,557; and a total of administrative waivers amounting to approximately \$300,000 are under investigation. Details are provided in Note 24 to the Financial Statements.
34. The Organization had reported that ex-gratia payments of \$19,664 were made during 2006-2007.

Progress and Improvement towards Implementing International Public Sector Accounting Standards (IPSAS)

- *Outlining the key changes required for financial reporting under IPSAS and the need to ensure appropriate IT functionality*
- *Noting the successful implementation of the revised expenditure recognition policy in respect of outstanding liabilities in respect of the regular budget and other funds, except trust funds*
- *Recognising the progress made to adopt IPSAS through a programme of gradual change in preparation for full adoption from 2010*

Issues to be addressed by PAHO for IPSAS implementation

35. IPSAS are credible, high quality, independently produced accounting standards which are comprehensive and supported by governments, professional accounting bodies and international organisations. They represent international good practice for the public sector and not-for-profit organisations, and utilise the full accruals basis of accounting and financial reporting. They are issued by the International Public Sector Accounting Standards Board (IPSASB), a standing committee of the International Federation of Accountants (IFAC).
36. The benefits of adoption of IPSAS include the following:
- Improved stewardship and transparency with respect to all assets and liabilities;
 - More regular (annual), comprehensive and consistent information about costs and income, and
 - Improved consistency and comparability of financial statements over time, and over different organisations.
37. For 2006-2007, PAHO has successfully adopted an improved expenditure recognition policy for the regular budget and all other funds except trust funds and we commend the progress made. We report on this phase of moving towards IPSAS adoption further below. In making further progress for the adoption of IPSAS, PAHO will need to consider the impact on other areas of reporting. An overview of the impact on accounting and financial reporting for PAHO is shown in Table 4.

UNPAS	IPSAS	Issues to Address for PAHO
Reported expenditure represents disbursements and unliquidated obligations (ULO's)	Recognition of expenditure on the basis of goods and services delivered. (The delivery principle).	PAHO has implemented a revised expenditure recognition policy for all funds except trust funds. In future biennia all funds would be reported on an accruals basis where expenditure is recognised when goods and services are delivered.
Reporting requirements take a modified accruals approach that is similar to cash accounting	Requirements are on a full accruals basis	In addition to reporting all expenditure on an accruals basis, PAHO would report all income on an accruals basis.
Costs of fixed assets are reported as expenditure, in the statement of Income and Expenditure, when the assets are purchased	Cost of fixed assets are capitalised and are included on the balance sheet when first acquired. The original cost is then spread over the useful life of that asset as a depreciation expense	There will be a decrease on reported expenditure and an increase in assets reported. A capital reserve will need to be established upon initial recognition of existing fixed assets. Depreciation charges will need to be calculated and a capitalisation (threshold for capitalising assets) and depreciation policy will need to be established.
Accrued employee benefits in respect of repatriation grants and annual leave are to be reported in a note to the accounts	Full recognition of liabilities for employee benefits and these are reported as an expense	An increase in reported expenditure and a corresponding increase in liabilities for the amounts accrued in respect of employee benefits. Staff costs will have to be separately disclosed.
Preparation of budgets on a cash basis.	Preparation of budgets on an accruals basis	Changes of content and format of budget for the adoption of an accruals basis of accounting, or reconciliation between the two bases.

38. Compliance with IPSAS accounting and reporting requirements will involve an analysis of the existing financial systems to assess whether the systems have the functionality for full IPSAS compliance. In doing so, PAHO will need to consider whether information on capital assets, depreciation and employee benefits in addition to income and expenditure recognition can be correctly captured through modification of the existing IT platform. There are two options to achieving IT functionality to meet the needs of IPSAS compliance:

- Upgrade of the existing IT system by adding appropriate modules to the existing platform;
or
- Purchase of a new IT system with full functionality to meeting the needs of accounting, budgeting and financial reporting under IPSAS.

39. Adapting the existing system, which is becoming outdated, brings with it the risk of it becoming expensive to maintain and develop to accommodate future requirements. If PAHO choose to follow the second option and acquire a new system, we recommend that there should be little customisation to minimise maintenance and development costs.

Recommendation 1: We recommend that PAHO develop a project plan for full IPSAS adoption and assess whether the existing accounting systems will provide the functionality and capability for full accruals accounting under IPSAS. In doing so they should conduct a cost benefit analysis of upgrading the existing IT platform or purchasing a new IT system. Such an analysis should take account of the risks involved with either option.

Improvements made in expenditure recognition

Background

40. In October 2007, the member states of PAHO approved proposals to implement IPSAS from 1 January 2010. PAHO has decided to make progress on the adoption of IPSAS using a phased approach where they began to implement IPSAS requirements gradually with a view to introducing further changes in the next biennium. The proposed changes in the accounting policy are clearly disclosed in the notes to the financial statements and represent a positive move towards adopting IPSAS, while staying fully compliant with the United Nations System Accounting Standards (UNSAS) for this biennium.
41. During this biennium, PAHO's Directing Council passed a resolution (CD47.R13) that changed the way in which expenditure is recognised, as part of the implementation of PAHO's results-based management initiative. This Resolution changed the wording of Financial Regulation 4.2 from: "*Obligations...shall cover the cost of goods or services which were contracted during the period and which are to be supplied or rendered during that period or within the year following the end of the period*" to "*Obligations...shall cover the cost of goods or services which were contracted during the period and which are contractually due to be delivered during that period.*"

42. The move towards accruals accounting will lead to more transparent and meaningful financial reporting and allow PAHO to better budget for biennial expenditure. This is exactly in line with the overarching objectives of IPSAS, to improve financial reporting and achieve greater consistency in reporting for international organizations.

How the new expenditure recognition policy worked in practice

43. In accordance with the Directing Council resolution, PAHO has introduced two changes in the expenditure recognition policy, as follows:
- PAHO revised the basis on which unliquidated obligations (ULOs) were recognised; and
 - PAHO accounted for ULOs in the financial statements on more funds than in previous biennia.
44. In 2004-2005 PAHO only recognised ULOs in relation to regular budget expenditure and certain WHO funds (in accordance with WHO's own policy). For 2006-2007, accounting for ULOs was extended to all other PAHO non-regular budget funds, with the exception of trust funds which continued to be reported on a cash basis, as in the previous biennia and as disclosed in the accounting policies Note to the financial statements. The finance team at PAHO went through the same year-end process with trust funds as with all other funds, but decided not to account for and disclose them in the financial statements for two reasons:
- The timeframe for the implementation of the new expenditure recognition policy was short and particularly complicated for trust funds. This was because there were a large amount of unliquidated obligations by both number and value that related to trust funds at the year end, and PAHO's use of letters of agreement to distribute the funds may have led to large amounts of prepayments being recognised (where monies have been disbursed by PAHO but the goods or services to which they related were not contractually due to be received before the year end).
 - Financial reports sent to trust fund donors throughout 2006-2007 had been on a cash basis and PAHO did not wish to cause confusion by reporting on a different basis in the financial statements.
45. To enable automated recording of the revised expenditure recognition policy PAHO developed a database module for the AmpesOmis system that captured unliquidated obligations from AmpesOmis and allowed allotment holders as owners of the obligations to

split the ULOs between those amounts relating to goods and services contractually due to be delivered by 31 December 2007 and those contractually due to be delivered afterwards.

46. This database then interfaced with PAHO's main financial systems; and the ULO amounts recorded in 2006-2007 reflect only the amounts pertaining to goods and services delivered or contractually due to be delivered in 2006-2007. The overall result was that the ULOs reported on PAHO's balance sheet decreased from \$6,588,500 in 2004-2005 to \$5,442,431 in 2006-2007, even though PAHO moved from recording regular budget ULOs to ULOs for regular budget and all other funds except trust funds.
47. This decrease represents a tightening of PAHO's control and oversight over obligated monies as they are now matching expenditure to the contractual right to receive goods or services during the biennium.

Audit of the revised expenditure recognition practice

48. We examined the new module during the testing phase to ensure that there was appropriate control over the validity of the figures reported in the accounts. We have also ensured that the treatment of ULOs has remained UNSAS-compliant, as these are the standards against which PAHO currently report.
49. We commend the time and effort invested by PAHO to ensure that the module developed to handle the transition to the new expenditure recognition policies was robust and properly interfaced with the primary accounting system and in educating PAHO allotment holders about the change in accounting treatment.
50. We audited both the ULO figures disclosed in the financial statements and the amounts that were taken out which related to 2008-09 to ensure that completeness of the value of ULOs reported for this biennium.

Proposals for future years

51. We understand that there will be further gradual moves towards IPSAS compliance in the following biennium (2008-2009), with trust fund expenditure being recognised in accordance with the new expenditure recognition policies. Income is expected to be recognised on an accruals basis in the following biennium (2010-2011). This phased approach retains compliance with existing accounting standards and helps to establish an effective strategy for a smoother transition to IPSAS.

Recommendation 2: We commend PAHO for adopting an incremental transition to IPSAS compliance and accruals accounting while remaining UNSAS-compliant. We recommend that PAHO perform similar amounts of testing on other systems designed to record information on a full accruals basis, to ensure that data is validated before being posted to the financial accounts system.

Use of Letters of Agreement with Implementing Partners

- *Analysing the use of letters of agreement to transfer funds to third parties to implement health projects, which shows that the use of such instruments is concentrated in six country offices*
- *Noting the effectiveness of internal controls to the point at which funds leave PAHO*
- *Identifying improvements to enable PAHO to engage with bona fide third parties*

52. Letters of Agreement (LOA) represent agreements between PAHO and an implementing partner to provide technical co-operation and transfer funds to implement health policies. We understand that to develop and implement health policies in the Americas requires co-operation and understanding between health ministries, the state government, municipal authorities and universities or other non-governmental organizations (NGOs); and typically these entities do not work well together, thereby hampering progress in developing and implementing health policies.

53. PAHO is recognised by all of these entities as a prestigious organisation with technical knowledge. On that basis, health ministries have encouraged PAHO to work with them to help implement their policies by providing administration and technical expertise, as well as by transferring funding to third parties while at the same time providing oversight of these funds. With PAHO's involvement other entities such as the state government, municipal authorities and universities are more willing to be involved in these projects. Furthermore, the projects benefit because they are shielded from political instability, which may otherwise affect them if they were directly funded.

54. During the biennium, PAHO transferred \$54.2 million to third parties through letters of agreement. Table 5 shows the countries which most commonly use LOAs. It is clear that 87 percent of expenditure undertaken through this method lies within just six countries.

Table 5: Showing countries most commonly using Letters of Agreement

Country	Disbursed Expenditure in 2006-2007	Number of Letters of Agreement Used	% by Value of Total Disbursements for LOAs
Brazil	38,549,282	387	71
Guatemala	4,205,451	689	8
El Paso	1,863,379	54	3
Nicaragua	1,770,077	449	3
Cuba	758,029	61	1
Peru	725,239	62	1
Total for 6 Countries	47,871,460	1,702	87
Total for All LOAs	54,239,357	2,446	100

Source: PAHO's Accounting System (FAMIS)

55. We carried out an examination of \$4.5 million (8 percent) transferred to implementing partners through the use of LOAs, of which \$4.3 million related to Brazil. We focussed our testing on higher value LOAs within the Brazil office, while also examining a random sample of lower value items across other offices. Our overall conclusion was that the controls over the use of LOAs were operating effectively to the point at which funds are transferred by PAHO to the third party. We found that:

- country offices held signed LOAs in each case;
- signed approval from the local or HQ contract committee approving the use of the LOA was held;

- signed approval to enter into the LOA from the relevant Ministry of Health secretariat was held on file;
 - a copy of the project proposal from the third party entity was retained; and
 - a copy of the request to the health ministry for the approval of the third party was also held.
56. We noted that improvements had been made in the terms and conditions assigned to LOAs. For example, where the LOA amount exceeded US\$100,000, payments by instalments had been introduced which required that the entity provide technical and financial reports on the execution of the first instalment before they can receive the second instalment. We welcome the work done by the PWR office to assess the integrity and reliability of a proposed partner institution or entity, since it is vital that partner entities are well-equipped and well managed to ensure that they can deliver the project objectives.
57. We also welcome the improved functionality of the upgraded financial and budgetary management system (OMIS v.2.5), which now separates LOAs from CSA contracts, providing better management information and improving internal control over LOAs.
58. However, for a sample of the LOAs that we examined, we found that in four out of six cases where payments had been made by instalments, the interim technical reports required by the PAHO technical unit from the recipient of the LOA funds were overdue. Although no subsequent payments were made against these LOAs, this is critical information which confirms that the technical aspects of the project have been achieved and that funds have been used for the purposes intended. Oversight of the funds in relation to LOAs is weakened once the money has been transferred to the third party; and we recommend that a number of further actions are taken to improve the control and oversight of these funds after they have left PAHO.
59. Similarly, in six of the twelve LOAs sampled, it we noted that the original LOA had been extended. In four of these cases, the extension had been made after expiration of the original LOA. Therefore, while the final technical reports would have originally been overdue, extension of the LOA meant that this was no longer the case at the time of audit. We recommend that where LOAs are extended, PAHO should ensure that sufficient oversight is maintained of how funds are disbursed.

60. In overall terms the increased level of donor funding for extra-budgetary activities and the associated increase in the use of LOAs is resource intensive and may hinder PAHO's ability to execute its regular budget objectives if these activities continue to grow in number and value.

Recommendation 3: We recommend that PAHO ensure that all government candidates for engagement on projects through letters of agreement are screened by the relevant health ministries to ensure that they are bona fide bodies. Criteria for screening may include obtaining confirmation of legal status and audited financial statements.

Recommendation 4: We recommend that PAHO undertake a risk assessment to evaluate its appetite for accepting further extra-budgetary funds in future biennia.

Recommendation 5: We further recommend that PAHO seek a letter of comfort from each health ministry confirming that the third party to be engaged by letter of agreement is on the ministry's approved list. PAHO need to ensure that LOAs are not entered into without this confirmation from the ministry.

Staff Vacancies

- ***Noting a significant number of staff vacancies across the Organization; the main areas where vacancies exist; and the risks presented in the light of rising activity in trust funds and procurement funds***
- ***Drawing attention to the need to assess the risks posed to PAHO's business by continued staff vacancies***

61. Our review of the information drawn from the human resources PAS system showed that at 31 December 2007 PAHO was carrying 184 vacant posts. We note from the detailed listing of vacant posts that vacancies exist in some significant business areas, as follows:

- PWR Offices across the region - 39 vacancies
- Family and Community Health - 21 vacancies
- Health Surveillance and Disease Management – 16 vacancies
- Financial Resource Management (FRM) – 13 vacancies
- Directorate – 10 vacancies

- Human Resources – 10 vacancies
62. Many of the vacancies related to administrative and finance positions at headquarters and in the PWR offices and Centers. PAHO has undertaken an extensive human resources planning exercise at the beginning of 2008 to establish the action required to manage the vacancies either through recruitment or, where deemed appropriate, to abolish posts, in order to tackle the problem of posts remaining vacant in the long term.
63. We welcome the action being taken to tackle the high level of vacancies. However, so many vacant and key posts present a risk to the effective functioning of the divisions affected, particularly as the level of activity in trust funds and procurement funds has increased significantly, which has contributed to PAHO processing income exceeding \$1 billion in this biennium. For example, FRM are now processing \$154 million and \$146 million additional income on trust funds and procurement funds respectively. The resource burden on FRM falls in several respects:
- increased treasury management activity to invest the increased level of cash funds held;
 - increased oversight of funds going out;
 - increased accounting for and processing of funds; and
 - increased donor reporting on the use of funds.
64. The Organization needs to identify the risks posed by the continued vacancies for each area affected. We suggest this needs to be a systematic and ongoing analysis of risks, with an agreed action plan to mitigate the potential effects of those risks.

Recommendation 6: We recommend that as part of the Organization's normal business processes PAHO undertake a risk assessment of post vacancies; and develop an appropriate and ongoing action plan to manage and mitigate the risks posed.

Financial Control in the Field

- *Identifying weaknesses in internal controls commonly occurring in PAHO country offices*
- *Noting the particular risks involved with inappropriate segregation of duties and user rights granted to users of the AmpesOmis accounting system*

65. We adopt a risk based approach to inform which PAHO country offices we visit. Our risk assessment takes account of the level of expenditure undertaken by each office; known control weaknesses from our discussions with Headquarters staff; the length of time since our previous visit; and the level of PAHO's own internal oversight of the various offices. Based on this risk assessment, during 2006-2007 we carried out audit visits to eight country offices (Panama, Haiti, Guyana, Dominican Republic, Brazil, El Paso, Mexico and Trinidad & Tobago), as well as to the three sub-regional Centers (INCAP, CAREC and CFNI) and the regional center in Brazil (PANAFTOSA), in order to review local controls and the oversight provided by Headquarters. In addition we carried out tests of detail on transactions processed by each of these satellite offices. We also conduct a high level review of the control exercised by the PAHO/World Health Organization Representatives (PWRs) who exercise management oversight of the satellite offices.

66. During the course of our audit visits, we identified a series of common internal control weaknesses and assessed the impact of those on financial reporting more generally in PAHO. Where control weaknesses exist, we conduct more tests of detail on transactions to establish an acceptable level of audit evidence to support our audit opinion. As a result, we can confirm that there were no significant errors or misstatements arising from the control weaknesses identified which would have affected the audit opinion for 2006-2007. We reported our findings to management immediately after each visit on an office-by-office basis. During this biennium we also obtained responses from PAHO Headquarters on the various issues raised. On three of the most significant issues arising - in relation to the use of letters of agreement, risks involved with the separation of the sub-regional centers from PAHO and on user rights in the AmpesOmis accounting system - we have provided more detailed commentary in this present report. Table 6 records other common findings across country offices which have been reported to both local and Headquarters management.

Table 6: Showing Common Audit Findings from Country office Visits

Issue	Number of reports issue raised in	Common themes	Issues for PAHO
Bank & petty cash controls	8	Failure to perform bank (2 cases) and petty cash reconciliations on a timely basis. Absence of spot checks on petty cash.	Timely reconciliations improve ongoing control and reduce the risk of errors and fraud remaining undetected.
Fixed asset inventory & PROMESS	8	Instances of asset disposals without appropriate approval and several cases of discrepancies between assets held and inventory records.	Risk of loss of assets remaining undetected if records do not match the existence of assets.
Local payroll controls	8	Instances of inappropriate segregation of duties for making payroll payments.	This issue is closely linked to the financial and budgetary management system user rights and is discussed separately in this report.
Procurement controls	7	Rules requiring a prerequisite number of bids required for procurement above prescribed values not consistently applied. More specific problems in one office that indicated the bidding process may be influenced inappropriately.	Strict rules on obtaining a prerequisite number of bids for procurement above a certain value help to ensure that PAHO is obtaining best value for money and these rules should be applied without exception.
Project management	3	Lack of technical officer approval of some disbursements made against project allotments.	Control weakness which may result in error or fraud.
Travel advances	6	Instances of travel advances not being properly monitored and cleared against final claims.	Control weakness which may result in travel advances not being promptly cleared. Additional risks of advances being used inappropriately.
Accounting system (AMPES / OMIS) user roles	5	See paragraphs 71 to 75	See paragraphs 71 to 75
Separation of sub-regional Centers from PAHO	3	See paragraphs 66 to 67	See paragraphs 66 to 67
Letters of Agreement	4	See paragraphs 48 to 54	See paragraphs 48 to 54

67. During 2006-2007, PAHO headquarters have implemented a process whereby country offices are required to complete a monthly checklist confirming that a prescribed list of internal control procedures have been completed. We commend this initiative which has helped to improve overall internal control in country offices this biennium. Many of our findings relate to the period before the monthly controls checklist was put in place. If country offices use the checklist as intended, such control failures should be detected and avoided. Internal Oversight can provide valuable assistance to country offices and headquarters by regularly reviewing that the checklist system is working effectively.

Recommendation 7: We recommend that Internal Oversight undertake a risk based-review of country offices on an ongoing basis to assess the effectiveness of the controls checklist system. Further, PAHO should use the findings from IOS reports to determine whether further training and education is required for country office staff.

Country office accounting system (AmpesOmis) user rights

68. During our audit visits to PAHO PWR Offices and Centers in the 2006-2007 biennium, we routinely audited user access rights to the PAHO country office financial and budgetary management system, AmpesOmis, granted to each member of staff working in the country office. We obtained a report showing the user rights for each member of staff in each element of the AmpesOmis system. We then checked to see if the allocation of roles allowed sufficient segregation of duties to ensure that internal controls were effective and could not be overridden. We also compared the allocation of roles against PAHO's guidance for AmpesOmis which contained a list of 'not recommended' user role combinations.

69. In 5 offices of the 11 visited we found that there were instances where the user rights held were inappropriate, as follows:

- Users with 'not recommended' user role combinations.
- Users who had left the employment of PAHO but whose user log-ons were still active.
- Users who had been granted temporary administrator rights in the absence of the system administrator and had retained them.

70. A common example of 'not recommended' user rights is the administrator of a country office having 'Manager' roles on several different AmpesOmis areas, including obligations (the ability to create and authorise obligations) and treasury (the ability to create and authorise payments). In all cases, the administrator was also one of the authorised cheque signatories.
71. While this failure in segregation of duties does not fully circumvent the controls in operation (two individuals must sign the cheque for each payment), this situation could lead to reduced oversight over transactions processed by the offices concerned and thus lead to a greater risk of error or fraud. However, our tests of detail on transactions did not detect evidence of this weakness having resulted in errors or fraud. The matter was raised in the relevant reports to management after the end of each audit visit and the secretariat have been working to produce standard user role templates for both small and medium/large offices to guide the segregation of duties in offices with few employees.
72. The new draft user rights allocation templates address the issues raised during our country office visits, moving away from the blanket allocation of 'manager's' user rights. We welcome the immediate action taken by PAHO to address these weaknesses and we will assess the progress made to implement new user rights templates during our future audits.

The Sub-regional Centers

Financial Results of the Centers

- *Improvement in the collection rate for assessed contributions and arrears at CAREC*
- *Overall worsening in the financial position of both CAREC and CFNI, resulting in further reductions in their respective Working Capital Fund balances.*

Caribbean Epidemiology Center (CAREC)

Quota Contributions

73. Table 7 shows that CAREC's collection rate of current assessments (quota contributions) rose to 76 percent in 2006-2007, improving further on the collection rate in the previous biennium.

Table 7: Collection Rate for Current CAREC Quota Contributions (excluding Arrears)

Biennium	Net Assessments	Amount Collected	Outstanding Collection	Collection Rate
	\$	\$	\$	%
2006-2007	4,756,053	3,596,569	1,159,484	76
2004-2005	4,308,852	3,044,002	1,264,850	71
2002-2003	3,849,202	2,289,685	1,559,517	59
2000-2001	3,599,228	1,208,442	2,390,786	34
1998-1999	3,410,400	800,474	2,609,926	23
1996-1997	3,360,000	738,515	2,621,485	22
Average collection rate				48
<i>Source: Audited Financial Statements 1996-1997 to 2006-2007</i>				

74. CAREC also collected \$1.1 million of total prior period assessments amounting to \$4.3 million in 2006-2007: 26 percent of amounts in arrears, compared to 20 percent collected in 2004-2005. Total contributions outstanding increased from \$4,326,451 at the end of 2005 to \$4,345,888 at 31 December 2007. Three countries (Jamaica, Netherlands Antilies and Suriname) account for \$4.1 million (95 percent) of all arrears outstanding at the end of this biennium.
75. The preponderance of arrears among these three countries, of which some \$3.1 million owed is more than two years old, may affect the Center's ability to undertake its planned transition to move away from PAHO to CARPHA and potentially places at risk its continued financial viability. This is discussed further below.

Overall Financial Position

76. The key features of CAREC's financial performance for 2006-2007 are as follows:
- Regular budget income continued to increase, rising from \$4.4 million to \$4.8 million;
 - Regular budget expenditure also increased from \$4.2 million to \$4.6 million;
 - CAREC realised a deficit on its regular budget of \$9,149, reducing the balance on the Working Capital Fund, which remained within its limit of \$1 million;
 - Trust Fund income fell significantly from \$6.3 million in 2004-2005 to \$4.7 million in this biennium, largely as a result of changes in donor priorities in the region; and
 - PAHO continued to increase its funding, which rose to \$3.3 million during 2006-2007.

Caribbean Food and Nutrition Institute (CFNI)

Quota Contributions

77. Table 8 shows that during 2006-2007 the amount collected on current assessments was lower than in 2004-2005 and the collection rate for 2006-2007 at 58 percent remained significantly lower than the comparable rate for PAHO (88 percent) and CAREC (75 percent).

Table 8: Collection rate for current CFNI quota contributions (excluding arrears)

Biennium	Net assessments	Amount collected	Outstanding collection	Collection Rate
	\$	\$	\$	%
2006-2007	730,067	420,325	309,742	58
2004-2005	712,268	423,043	289,225	59
2002-2003	688,969	367,937	321,032	53
2000-2001	665,670	233,296	432,374	35
1998-1999	649,825	207,171	442,654	32
1996-1997	633,980	263,777	370,203	42
Average collection rate				44
<i>Source: Audited Financial Statements 1996-1997 to 2006-2007</i>				

78. CFNI collected only \$76,571 of assessed contribution arrears, leaving a substantial balance of uncollected arrears at \$1.3 million, most of which was owed by one country, Jamaica. The preponderance of arrears may have an adverse effect on the Center's ability to undertake its planned transition to move away from PAHO to Caricom and potentially place at risk its continued financial viability. This is discussed further below.

Overall Financial Position

79. Key features of CFNI's financial performance during 2006-2007 were as follows:

- Regular budget income continued to increase steadily, rising from \$712,268 to \$730,067;
- Regular budget expenditure also increased from \$581,328 million to \$637,566 million;
- CFNI recorded a deficit of \$140,670 on its regular budget, increasing the deficit on the Working Capital Fund to \$504,276;
- Trust Fund income fell significantly from \$1.7 million in 2004-2005 to \$1.1 million in this biennium, largely as a result of changes in donor priorities in the region; and
- PAHO continued to increase its funding, which rose to \$1.6 million during 2006-2007.

Planned separation of CAREC and CFNI from PAHO

- *Noting the planned separation of the sub-regional centers from PAHO.*
- *Identifying risks arising from the planned separation and the need to develop a strategy to manage those risks.*

Background

80. During 2006-2007, the Caribbean Community (CARICOM) secretariat and health ministers in the region asked PAHO to identify options for reforming the structure of health care institutions in the region. PAHO identified three options as follows:
- A single governance structure with five separate agencies;
 - A single governance and administrative structure with five separate agencies; and
 - One institution with either five agencies or a single large institution.
81. In July 2007, health ministers in the region approved the option of a single institution but asked PAHO to conduct a cost benefit analysis of the best structure within that context. PAHO's analysis confirmed a single institution as the most cost effective option and members have voted to combine five Caribbean Regional Health Institutions - including CAREC and CFNI - in a single new Caribbean Public Health Agency, CARPHA. It is anticipated that CARPHA will have a single overall governance structure and will demand a single quota contribution from each country. This contribution will then be distributed between the five component entities. As part of this transition, CAREC and CFNI will separate their administrative and governance structures from PAHO during the 2008-2009 biennium.

Issues arising and areas we recommend should be addressed

82. During 2006-2007 PAHO and WHO provided \$2.2m (53 percent) of CFNI's total income and 3.6m (26 percent) of CAREC's total income. In addition, the Centers' Directors are appointed by the Director of PAHO; PAHO is represented on the Centers' Directing Council; and the Centers follow the rules and regulations set down by PAHO. The plan for CAREC and CFNI

to separate from PAHO during 2008-2009 gives rise to a number of significant risks for all parties involved. Risks which are particularly significant from an audit perspective have been highlighted in Table 9.

Table 9: Showing the risks and issues arising from the planned separation of CAREC and CFNI from PAHO

Risk	Issues we consider need to be addressed by PAHO
<p>Accounting System</p> <p>CAREC and CFNI both currently use AMPES-OMIS as their accounting system. Licenses for an alternative accounting system need to be procured and staff training and data transfer will be required.</p>	<p>If an appropriate accounting system is not procured and introduced within the centers promptly, the ability of Centers to operate with adequate arrangements to maintain financial records will be impaired.</p> <p>Inadequate staff training or incomplete data transfer may lead to misstatements in the future financial statements of CAREC and CFNI.</p>
<p>Financial solvency</p> <p>During 2006-7, PAHO/WHO provided \$2.2m (53%) of CFNI's total income and \$3.6m (26%) of CAREC total income.</p> <p>The financial position of CFNI is particularly concerning: the net deficit on the working capital fund stood at \$504,276 as at 31 December 2007; and CFNI collected only 57 percent of their quota contributions for 2006-07 further reducing their liquidity (CAREC collected 76%).</p>	<p>The ability of the Centers to meet their cash requirements may be in question without continued PAHO financial support. Furthermore both CAREC and CFNI have significant balances of uncollected quota contributions which are more than two years old, further increasing the risk of insolvency.</p>
<p>Investment Management and Banking</p> <p>PAHO currently hold funds on behalf of both CAREC and CFNI and invests these funds to generate optimum interest.</p> <p>PAHO is not a financial institution and the continuation of this service beyond the transition would not be appropriate.</p> <p>Bank accounts in PAHO's name will need to be closed and re-opened for the new institution.</p>	<p>If alternative arrangements are not put in place this income stream may be reduced and the security of these cash holdings weakened, as CAREC and CFNI lose PAHO's expertise.</p>

Risk	Issues we consider need to be addressed by PAHO
<p>Professional Staff Employment</p> <p>Both CAREC and CFNI employ PAHO staff members based on PAHO's terms and conditions and rates of pay.</p>	<p>As these individuals hold important posts within CAREC and CFNI there is a risk that the Centers may not be able to retain them on revised terms of employment which would affect the management capacity and capabilities of the Centers.</p> <p>If these staff members were to be transferred to new, non-PAHO contracts, significant costs may be incurred in the form of redundancy payments¹</p>
<p>Operating Policies</p> <p>PAHO's internal control structure, pay scales and operating policies are followed in CAREC and CFNI.</p>	<p>The introduction of new working practices could lead to a weakening of the control environment, particularly during the period of transition and staff training.</p>
<p>Legal Services</p> <p>PAHO provides legal services to CAREC and CFNI – notably the review of all Trust Fund agreements and Letters of Agreement involving third parties.</p>	<p>Without alternative arrangements for legal services support, there is a risk that the Centers will be exposed to risk from the absence of sufficiently robust contracts and agreements with third parties.</p>
<p>Training provided by PAHO</p> <p>Staff training, including ethics training and technical training, is provided by PAHO for free. In the future charges may be made for these services.</p>	<p>Without alternative arrangements for staff training and development, CAREC and CFNI staff may become less effective.</p>
<p>Tax</p> <p>CAREC and CFNI expenditure is not subject to tax due to the status of these entities as PAHO bodies: this privilege extends to staff salaries.</p>	<p>If CARPHA does not obtain the same legal status the cost of incurring tax on staff costs and expenditure may further reduce the centers financial viability.</p>
<p>CAREC and CFNI support to PAHO PWR Offices</p> <p>CAREC provide various services to the Trinidad and Tobago PWR: IT support is provided, the Director and Administrator are cheque signatories, temporary staff are procured and ad hoc driving services are provided. CAREC also offer</p>	<p>Without formal plans to either replace or retain the support services currently provided by CAREC and CFNI, the administrative and support functions of the PWR offices and Caribbean HIV/AIDS Center will be interrupted.</p>

¹ The transfer of the HIV work from CAREC to a new 'PAHO Caribbean HIV/AIDS Office' and the resultant move of staff from CAREC to PAHO contracts lead to redundancy payments of circa US\$160k. Assuming similar levels of payments would be required large costs will be incurred.

Risk	Issues we consider need to be addressed by PAHO
<p>administrative services to the PAHO Caribbean HIV/AIDS center.</p> <p>Similarly, CFNI provide services to the Jamaica PWR: temporary staff are procured and ad hoc driving services are provided.</p> <p>The relationship between the Centers and PWR offices will be different following the transition because they will not be part of the same organisation.</p>	
<p>PWR support to CAREC and CFNI</p> <p>CAREC and CFNI projects often benefit from support and coordination services of the Caribbean PWRs.</p> <p>The relationship between CAREC, CFNI and PWR offices will be different following the transition because they will not be part of the same organisation.</p>	<p>Without the cooperation of the PWR offices, the ability of CAREC and CFNI to deliver against Trust Fund agreements may be impaired.</p> <p>In order to secure future cooperation, letters of agreement between the PWRs and CARPHA may be required.</p>

Recommendation 8: We recommend that PAHO, CAREC and CFNI work together to ensure that an action plan is developed for the transition arrangements, which responds appropriately to the key risks identified above.

Follow up to Previous Audit Recommendations

- *Highlighting the continued difficulties faced by PAHO in recruiting internal auditors.*
- *Noting the establishment of the Sub-Committee on Programme Budget and Administration (SPBA) and the need to reform arrangements to achieve a more conventional audit committee structure.*
- *Reviewing the progress made in implementing the Integrity Conflict Management System (ICMS) and the need to develop a central focal point to investigate, record and report frauds.*

83. In our report for 2004-2005 we made three recommendations on the adoption of IPSAS, establishing an audit committee and introducing systematic risk management arrangements. Annex A reports the progress made by management against these recommendations. Further, in our audit reports for the last two biennia, and in the special and follow-up reports produced in 2004 and 2005, we identified a number of areas where improvements could be made and bring PAHO practices in line with good practice elsewhere. The areas considered in those reports were:

- Ethical standards and code of conduct;
- Recruitment of employees and consultants;
- Complaints procedures, investigation and reporting;
- The management of external relationships;
- IT security;
- Internal audit; and
- The independence of the Ombudsman.

84. In our last report, we noted progress made by PAHO in implementing these recommendations, in particular by:

- Implementing a new Code of Ethical Principles and Conduct from 1 January 2006;
- Appointing a dedicated Ethics Officer;
- Requiring all staff to make a declaration of interests;
- Appointing an independent Ombudsperson with effect from 30 March 2006; and

- Developing the Integrity and Conflict Management System (ICMS), which has been fully operational since October 2007.

85. While we welcome the positive and significant progress made in improving the governance structure of the Organization, there are some areas where sufficient progress has not yet been made, particularly in relation to improving and strengthening internal oversight and establishing an independent audit committee.

Internal Oversight

86. During the course of this biennium PAHO has maintained an Office of Internal Oversight (IOS) with only one full time member of staff in place supported by temporary audit staff as necessary. In December 2007 a further post for a P4 evaluator was filled. The Organization has actively worked to recruit the Head of Internal Oversight without any success. We understand that PAHO have been unable to attract suitably qualified and experienced candidates to meet the criteria for the posts advertised and in particular have found it difficult for prospective candidates to commit to the diverse nature of the post, based in Washington but with extensive travel in and around the Americas. Given the size of the Organization and the complexity of its operations, PAHO need to have a properly resourced internal oversight function in place to provide appropriate support to management.

87. As the Organization is experiencing difficulties in recruiting appropriately qualified staff, it needs to consider an alternative plan of action to overcome these difficulties. PAHO may wish to consider fully outsourcing this service and buying in an appropriate level of professional service provision from an external provider.

Recommendation 9: We recommend that PAHO consider the use of an external provider for internal oversight services. In doing so the Organization needs to assess the level of service required and draw up appropriate terms of reference to ensure that the service received meets the diverse needs of the Organization, to cover Headquarters, the country offices and the Centers.

Progress on Establishing an Audit Committee

88. PAHO has established a Sub Committee on Programme, Budget and Administration which consists of seven members, four of whom have concurrent membership on the Executive Committee with three members designated by the Director of the Pan American Sanitary Bureau annually. This Committee has extensive terms of reference which, amongst other things, includes 'to review and, as appropriate to make recommendations on....the audit plans and reports of External and Internal Auditors and the United Nations Joint Inspection Unit'. Despite this remit, we have not been invited to the meetings of the SPBA to present or discuss our plans and reports.
89. The SPBA has a wide ranging remit and, while these arrangements cover some aspects of the work of a conventional audit committee, it cannot perform effectively as an audit committee if internal and external auditors are not represented at meetings. Furthermore, with member states' representatives on the SPBA, there is a lack of independent external representation, which is needed to bring valuable expertise to the Organization; and provide independent challenge to management and organisational processes without members having any vested interest in the Organization.
90. We welcome the progress made by PAHO to establish a committee which reviews, amongst other things, the financial statements, budgets, plans and reports of internal and external auditors. Nevertheless, a committee which deals with programme, budget and administrative matters cannot operate effectively as an audit committee should. We consider further improvements can be made to the membership and structure of the Committee to bring it more in line with the model of an effective audit committee.

Recommendation 10: We recommend that PAHO review the structure and operation of the SPBA to determine whether the role of an audit committee for the Organization is being met. We would be happy to provide further advice to management to this end.

Integrity and Conflict Management System (ICMS)

Background to the ICMS

91. The ICMS was set-up with the goal of bringing together all PAHO resources that covered ethical issues, workplace concerns and the prevention and resolution of conflict under one umbrella body. These resources include:

- The Ombudsperson
- The Ethics Office
- Human resources management
- The Legal Office
- Internal Oversight Services
- The Information Security Office
- ICMS Country Focal Points
- The Grievance Panel
- The Board of Appeal
- The ILO Administrative Tribunal

92. These resources all pre-dated the ICMS but before the ICMS there had been little understanding of the way these resources inter-related – often leading to staff being unaware which resources to use. The ICMS now has its own pages on the PAHO intranet, with helpful advice on which of its resources staff should call on, depending on their particular situation. The Ethics Office has set up their own helpline – so staff now have better access to ICMS resources.

Operation of the ICMS

93. Each office that falls under the ICMS umbrella has their own reporting line to executive management, apart from the Ethics Officer, who reports directly to the member states but for administrative purposes also reports to the Deputy Director. The ICMS has a Coordinating Committee, with terms of reference, which meets every 3-4 weeks to review outstanding cases, share information and plan for the future. This Committee consists of the Ethics Officer and the respective heads of the Legal and HRM departments, with other members of the ICMS being included when a matter falls under the remit of their offices.

94. We see the approach adopted for handling cases as a practical solution. Given the confidentiality and sensitivity of the topics discussed at these meetings, it would be inappropriate for all officers falling under the ICMS to be represented at each Coordinating Committee meeting where they had little or no direct connection with the case under review. However, at the moment there is no periodic scheduled meeting for the ICMS to meet as a whole to discuss ICMS-wide issues collectively.

Current arrangements for fraud reporting and investigation

95. In addition to line management, PAHO has many different bodies which may uncover fraud against the Organization, or which may have fraud reported to them as follows:
- Treasury and FRM may find and investigate credit card frauds and many types of external fraud committed against PAHO. They also maintain a fraud register and report on all frauds occurring in the biennium when they prepare the fraud note to PAHO's financial statements;
 - GSO may identify loss of PAHO assets;
 - The Ethics Officer may uncover frauds whilst investigating ethical conduct cases;
 - IOS may uncover fraud during the course of audit.
96. Currently there is no central forum for all of these bodies to report fraud, organise the investigation of fraud and discuss the prevention of fraud in the Organization.
97. The head of Treasury is responsible for preparing the official disclosure of frauds in the financial statements. Our audit of the underlying information supporting the fraud note in the PAHO financial statements showed that the lack of a central forum can lead to an incomplete disclosure of PAHO's reporting of fraud. Further, this deficiency restricts the effective investigation and prevention of fraud, since significant information on the underlying causes is not shared across the organisation. We found evidence of these weaknesses during our audit as follows:
- During our country office audit visits we noted two frauds that had not been reported to Headquarters and thus had not been initially reported in the draft financial statements;
 - A further fraud was uncovered during FRM's investigation of the above cases;

- There was no systematic process for investigating frauds that were reported. This led to some frauds not being investigated.
98. PAHO has the resources to investigate these frauds (using IOS, FRM, Information Security Officer and the Ethics Officer) but these resources are not currently working in unison.
99. While we welcome the establishment of the ICMS, which now provides a co-ordinated approach to managing cases where conflict arises between employees and management, there is a need to strengthen the approach to reporting, investigating and learning the lessons from internal and external fraud.

Recommendation 11: We recommend that the Coordinating Committee of the ICMS schedules periodic meetings of all of its members to discuss common issues arising and the future strategy of the ICMS, so as to ensure that it benefits from the lessons learned from dealing with ongoing cases.

Recommendation 12: We further recommend that the Coordinating Committee of the ICMS forms a sub-group responsible for reporting, investigating and discussing the prevention of fraud against PAHO with appropriate terms of reference. This sub-group should meet regularly and consist of all PAHO units which encounter fraud during the course of their work (i.e. FRM, the Ethics Officer, IOS and GSO). This sub-group should maintain a central fraud register and assign the investigation of frauds to the appropriate member of this group.

Recommendation 13: We also recommend that the fraud sub-group should provide support and education to PAHO's country offices on the detection, prevention and reporting of fraud, to improve the effectiveness of internal arrangements in this area.

Acknowledgement

100. We wish to record our appreciation for the willing co-operation and assistance extended by the Director and the officers of the Organization throughout the course of this audit.



T J BURR

Comptroller and Auditor General, United Kingdom

External Auditor

FOLLOW UP TO AUDIT RECOMMENDATIONS FOR 2006

Audit Recommendation	Management Response	External Auditor's Comments
<p>Recommendation 1</p> <p>I recommend that PAHO consider the creation of an Audit Committee, preferably to be chaired by an independent non-executive member and with a majority of external members.</p>	<p>The Subcommittee on Program, Budget and Administration (SPBA), a new ancillary body to the Executive Committee, was constituted in 2007 and is chaired by an elected Member State. The SPBA, which meets annually in March, was envisioned to fulfil the role of an Audit Committee for the Organization. The Secretariat will support the oversight role which the Member States determine to be appropriate within the mandate of the SPBA.</p>	<p>While we welcome the establishment of the SPBA, we have commented further in this report on how the terms of reference for this committee can be improved for it to be able to fulfil the role of an audit committee with a majority of independent external members. We also raise the need for such a committee to engage with the external auditors throughout the biennium.</p>
<p>Recommendation 2</p> <p>I recommend that the Director of PAHO should consider introducing a systematic process of identifying, measuring and managing corporate risks. Such risks should be recorded in a risk register which is regularly reviewed and updated to ensure that key corporate risks are being managed effectively.</p>	<p>The Secretariat is in agreement with this recommendation and contracted an external audit firm to perform a Risk Assessment, including the preparation of an initial risk register, which was completed in 2007. Furthermore, in November 2007, PAHO's External Auditors made a formal presentation to the PAHO/WHO Representatives and center directors during a global meeting in Geneva. The formalization of a risk register and its subsequent maintenance will be performed by the PAHO Internal Oversight Services</p>	<p>We welcome the progress made to conduct a risk assessment and have actively engaged with PAHO to provide advice and guidance on risk management. We will follow up on this issue further in the next biennium, once the risk register has been developed.</p>

<p>Recommendation 3</p> <p>I commend the adoption of the independent IPSAS accounting standards to PAHO as an appropriate financial reporting framework and recommend that the Organization prepares a detailed strategy to provide for this development.</p>	<p>project team once that team is fully staffed.</p> <p>In October 2007, the PAHO Member States approved a resolution for the Secretariat to implement IPSAS effective 1 January 2010. In preparation for this change in accounting standards, PAHO has actively participated on the United Nations IPSAS Accounting Task Force and the United Nations Finance and Budget Network in the application of IPSAS accounting standards within the United Nations and its Specialized Agencies. During 2007, the Secretariat implemented the new Expenditure Recognition Policy based on the delivery principle, which supports the direct alignment of expenditure with the implementation of activities, and the provision of services and/or delivery of goods. The implementation of this new policy was a significant step in the transition to accrual accounting. Furthermore, the Secretariat has also implemented the monthly accrual of salaries and entitlements, which is also a significant requirement of IPSAS accounting standards. Finally, a 2008-2009 budget was approved by the Member States to fund IPSAS development and training, as well as to provide funding for an actuarial evaluation to determine any unfunded liabilities of the Organization with regard to staff entitlements and benefits.</p>	<p>We again welcome the progress made in this regard and comment further on the areas to be addressed for IPSAS compliance and more specifically on the implementation of the revised expenditure recognition policy in this report.</p> <p>We are pleased to see that PAHO has the approval for a budget to fund staff training and development and to undertake an actuarial valuation in relation unfunded liabilities for staff benefits. We continue to conduct further work in this area during the next biennium.</p>
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ANNEX B**AUDIT SCOPE AND APPROACH****Audit scope**

The audit covers the examination of the Financial Statements of the Pan American Health Organization (PAHO) for the financial period ended 31 December 2007 in accordance with Regulation XIV of the Financial Regulations.

In accordance with the agreed arrangements, the External Auditor has provided a separate audit opinion and report on the Financial Statements of the Institute of Nutrition of Central America and Panama (INCAP) for the financial period ended 31 December 2007.

Audit Objectives

The main purpose of the audit was to enable us to form an opinion as to whether the expenditure recorded in the biennium had been incurred for the purposes approved by the PAHO governing bodies; whether income and expenditure were properly classified and recorded in accordance with the Financial Regulations; and whether the Financial Statements presented fairly the financial position as at 31 December 2007.

Audit Standards

Our audit of the Organization's Financial Statements for 2006-2007 was carried out in accordance with International Standards on Auditing. These standards require us to plan the audit so as to obtain reasonable assurance that the Organization's Financial Statements are free of material misstatement. The Organization's management was responsible for preparing these Financial Statements, and we are responsible for expressing an opinion on the statements, based on evidence collected in the audit.

Audit Approach

In accordance with auditing standards, our audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. This included:

- a general review of the organisation's accounting procedures;

- a broad assessment of the internal controls for income and expenditure; bank accounts; accounts receivable and payable; and supplies and equipment;
- substantive testing of transactions of all types;
- substantive testing of year end balances; and
- a final examination to ensure that the Financial Statements accurately reflected the organisation's accounting records and were fairly presented.

These audit procedures are designed primarily for the purpose of forming an opinion on PAHO's Financial Statements. Consequently the work did not involve a detailed review of all aspects of financial and budgetary systems and the results should not therefore be regarded as a comprehensive statement on them.

Internal Audit

As in previous audits, we continued to liaise with the department of Internal Oversight Services on matters of joint interest. Where we consider that we can place reliance on the work of internal audit it is our practice to do so, particularly in circumstances where such reliance avoids unnecessary duplication of audit procedures.

Reporting

Observations on matters which we consider should be brought to the attention of the Directing Council are set out in this report. In accordance with normal professional audit practice, we also provide the Organization with management letters setting out the detailed findings arising from our examination.

Audit Results

During the audit, we sought explanations as we considered necessary in the circumstances on matters arising from the examination of the internal controls, accounting records and financial statements. None of these matters materially affected our audit opinion on the Organization's financial statements for the biennium and, notwithstanding the observations in this report, our examination revealed no weaknesses or errors that we considered material to the accuracy, completeness and validity of the financial statements as a whole. Accordingly the External Auditor has placed an unqualified opinion on the financial statements of the Organization for 2006-2007.