



PAHO

FINANCIAL
REPORT OF THE
DIRECTOR
and
REPORT OF
THE EXTERNAL
AUDITOR

1 JANUARY 2019 – 31 DECEMBER 2019

PAHO



Pan American
Health
Organization



World Health
Organization
REGIONAL OFFICE FOR THE
Americas

OFFICIAL DOCUMENT OF THE PAN AMERICAN HEALTH ORGANIZATION NO.360

**FINANCIAL
REPORT
OF THE
DIRECTOR**

and

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THE EXTERNAL
AUDITOR**

1 January 2019 – 31 December 2019

Financial Report of the Director and Report of the External Auditor. 1 January 2019 – 31 December 2019. (Official Document: 360)

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ISBN: 978-92-75-17360-2

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Suggested citation. *Financial Report of the Director and Report of the External Auditor. 1 January 2019 – 31 December 2019.* (Official Document: 360). Washington, D.C.: Pan American Health Organization; 2020. License: CC BY-NC-SA 3.0 IGO.

Cataloguing-in-Publication (CIP) data. CIP data are available at <http://iris.paho.org>.

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The Annex with Unaudited Information for the year ended 31 December 2019 is available on the Governing Bodies web portal at:

<https://www.paho.org/od360-unaudited-annex>

DIRECTOR'S COMMENTS



In accordance with Financial Regulation 14.9 of the Pan American Health Organization (PAHO), I have the honor to present the Financial Report of the Pan American Health Organization for the financial reporting period 1 January 2019 through 31 December 2019.

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

Although PAHO has adopted an annual financial reporting period as stipulated in Financial Regulation 2.2, the budgetary period remains a biennium (Financial Regulation 2.1). Therefore, for the purposes of actual vs. budget comparisons in the Director's Comments, the annual budget figures represent one half of the 2018-2019 Biennial Program and Budget as an approximation of annual budgetary figures.

1. Main technical achievements from 2019

During 2019, PAHO exercised its leadership and role as a catalyst to improve the health and well-being of the peoples of the Americas, in collaboration with Member States and partners. The Organization continued to provide direct technical cooperation with an integrated and multisectoral approach, mobilize resources, strengthen partnerships and networks, build capacity, generate and provide evidence, and serve as an advocate for achieving the targets set in the PAHO Strategic Plan 2014-2019 during its final year of implementation. Important progress was made toward fulfilling the commitments in the Sustainable Health Agenda for the Americas 2018-2030 and the 2030 Agenda for Sustainable Development.

Highlights of the progress and achievements in technical cooperation during 2019 included:

- Following the launch of the Regional Compact on Primary Health Care for Universal Health (PHC 30-30-30) by the PAHO Director in Mexico City in April 2019, efforts to transform health systems toward equitable, comprehensive, and inclusive health care models based on Primary Health Care (PHC) have been accelerated. PAHO actively participated in the preparation of the Political Declaration of the High-level Meeting on Universal Health Coverage adopted during the UN High Level Meeting on Universal Health Coverage that took place on 23 September 2019. PAHO has also succeeded in fostering, and directly supporting, the development of comprehensive health strategies, plans and or policies for the advance toward universal health in countries. Work is ongoing in 34 Member States to transform health systems during the biennium, 26 of which include policy options to address health financing. PAHO is supporting the health and education sectors to work in the area of inter-professional education and collaborative practice in health in 19 countries.
- Timely and appropriate responses were mounted for all emergencies with potential health impacts in 20 countries and territories. This includes the response to the Venezuelan socio-political crisis and associated health effects such as outbreaks of measles, diphtheria, and malaria; operations for the migrant crisis and associated health effects in Brazil, Colombia, Ecuador, Guyana, Peru, Suriname, and Trinidad and Tobago;

Acute Neurological Syndrome investigation and response in Peru; Dengue outbreaks in Honduras, Nicaragua, and Jamaica; Floods in Bolivia and Paraguay; Hemorrhagic Fever Cases caused by Arenavirus and landfill overflow in the Alpacoma region in Bolivia; tornado in Cuba; investigation and control of malaria cases in the Darien Region in Panama; severe acute respiratory infections investigation and response in Guyana; Hurricane Dorian in The Bahamas; D8 measles outbreak in Argentina that was not related to the outbreaks in Venezuela and neighboring countries; severe drought caused by a prolonged heat wave in Guatemala; containment and prevention of health effects arising from poliomyelitis virus derived from the VDPV1 and 3 vaccines in water reservoirs from 2 municipalities in Guatemala; deadly intoxications due to adulterated alcoholic products in Costa Rica; and social unrest and violence in Bolivia, Chile, and Haiti. PAHO also supported WHO response to the Cyclone Idai in Mozambique and Ebola outbreak in the Democratic Republic of Congo. As of the end of 2019, with PAHO's support, 39 countries and territories have now introduced the Emergency Medical Teams (EMT) initiative, and 10 national EMTs and 23 international NGOs are enrolled in a mentoring process to achieve the WHO Global Classification.

- Response to multiple situations provided an opportunity to advance on many aspects of the program of work, particularly the control and prevention of epidemic and pandemic prone diseases, with an emphasis on vaccine-preventable diseases, as well as a wider agenda on mass migration and health. PAHO has supported increased surge capacity of health systems and services, and supported countries in the continued development of adaptive, responsive, and resilient health systems. The average regional scores registered in the Americas are now above the global average scores for 12 of 13 International Health Regulations (IHR) core capacities, as per State Party Annual Reports submitted to the 72nd World Health Assembly, 2019.
- Furthermore, four Caribbean countries now have 18 health facilities smartened, with improved resilience to disasters and reduced impact on the environment (Dominica, Grenada, Saint Lucia, and St. Vincent and the Grenadines).
- In 2019 with the support of PAHO, Argentina was certified by WHO as a malaria-free country, and Mexico became the first country in the world certified by WHO for eliminating human rabies transmitted by dogs as a public health problem. Colombia was confirmed as having interrupted the transmission of Chagas disease by *Rhodnius prolixus* in 34 additional municipalities of 7 endemic departments. In terms of access to treatment for neglected diseases, Guyana achieved the optimal treatment coverage (at least 65%) for lymphatic filariasis in the last years, reaching all the eight endemic regions. In 2019, the Region of the Americas celebrated 25 years of being certified as a Region free of polio transmission and was certificated free of wild polio virus 3. Additionally, 22 countries and territories increased their vaccination coverage from the 2017 levels. In Venezuela alone, 9 million children were vaccinated against measles and rubella in 2019.
- In addition, there have been no confirmed cases of cholera reported in Haiti since January 2019, a positive step in the direction of eliminating cholera from the island of Hispaniola, thanks to PAHO's continuous support (epidemiology, surveillance, laboratory, infection prevention and control, resource mobilization, vaccination) to the Haitian government.
- Countries in the region continue to see reductions in infant, child, and maternal mortality, as well as reduced social inequality. PAHO technical cooperation supported the development of plans and actions for maternal health in ten priority countries. 13 countries established congenital defects surveillance systems to reduce newborn and child mortality and more than 30 countries are implementing the Perinatal Information System (SIP). PAHO has also promoted the incorporation of youth into their own health planning with the establishment of the PAHO Youth Health group.
- With technical support from PAHO, Uruguay passed a presidential decree on front-of-package labeling of food and drink products high in critical nutrients, and Peru approved a regulation to put the healthy eating law into effect. Venezuela approved a regulation with a total ban for tobacco advertising, promotion, and sponsorship, and Brazil and Colombia raised tobacco taxes to comprise at least 75% of retail prices. Technical support was provided to twelve countries that are participating in the HEARTS initiative (aimed at improving hypertension control), which currently covers 5.2 million residents in the catchment areas.

- Additionally, eleven countries of the Americas endorsed the health commitments of the Climate Action Summit in September 2019, and 10 cities committed to implement actions toward achieving WHO Air Quality Guidelines by 2030. Twenty-seven national and subnational governments joined the Breathe-Life campaign promoted by PAHO, UNEP, and CCAC.
- Thirty four out of 35 PAHO Member States now have signed agreements to use the Strategic Fund: in 2019 there was a 17% increase in the procurement of essential medicines, diagnostic kits and vector control supplies over the previous year. Significant savings were obtained through price negotiations, including for antivirals for curing Hepatitis C infection. PAHO responded to increased demand for technical support in the pricing of medicines and health technologies with the launch of the Regional Initiative for Information Exchange on Prices, Coverage and Economic Regulation of Health Technologies, as well as with initiatives in the Caribbean and Central American subregions.
- Member States have committed to taking a holistic approach to strengthening information systems following the approval of the first-ever Plan of Action for Strengthening Information Systems for Health (2019-2023). In addition, a standardized tool for the maturity assessment of information systems for health has been developed and applied in eighteen countries and territories, supported in part by the Inter-American Development Bank.
- The report of the PAHO Independent Commission on Equity and Health Inequalities in the Americas was launched with a highly successful side event during the 57th PAHO Directing Council. The Directing Council approved the Strategy and Action Plan on Ethnicity and Health and the Strategy and Plan of Action on Health Promotion within the context of the Sustainable Development Goals 2019-2030. In addition, an analysis of the integration of health equity in national health policies and national development plans in 32 countries of the Americas was completed.

Throughout all these achievements, Member States increased their engagement with the Organization. The high level of interest in PAHO's work was evidenced by the participation of 21 Member States in the development of the PAHO Strategic Plan 2020-2025. High-level commitment to achieving universal health and equity in health has positioned the Organization's leadership role in defining country pathways for health policy and strategy formulation within a broader context of development. A more detailed review of PAHO's achievements can be found in the Annual Report of the Director. <https://www.paho.org/annual-report-of-the-director-2019/en/>

2. Total Revenue

Main components of PAHO Revenue ¹	(\$million)	
	2019	2018
Program Budget	284.8	266.8
Procurement Funds	833.7	678.3
National Voluntary Contributions ²	57.8	439.4
Other Special Funds ³	17.8	8.5
TOTAL	1,194.1	1,393.0

¹ There are presentational differences for revenue as compared to Note 15 of the financial statements.

² The decrease in National Voluntary Contributions revenue in 2019 is primarily due to the reduction of activities in the Mais Medicos project.

³ In 2019: Other Special Funds include the Tax Equalization Fund (\$14.9 million), PALTEX (\$2.3 million) and Provision for Termination and Repatriation Entitlements Fund (\$0.5 million). In 2018: Tax Equalization Fund (\$6.1 million) and PALTEX (\$2.5 million).

Program and Budget	(\$million)	
	2019	2018
Assessed Contributions ¹	97.1	97.1
PAHO Voluntary Contributions	56.7	52.1
WHO Voluntary Contributions	39.0	21.2
Other WHO Funds ²	45.4	48.1
Program Support Cost	18.8	34.5
Miscellaneous Revenue ³	24.0	9.5
Other	3.8	4.3
TOTAL REVENUE	284.8	266.8

¹ In 2019: Net of Tax Equalization of \$14.9 million and in 2018: \$6.1 million.

² In 2019: Other WHO Funds include WHO Assessed Contributions (\$37.9 million) and WHO Special Account for Servicing Costs (\$7.5 million). In 2018: \$42.5 million and \$5.6 million, respectively.

³ In 2019: investment interest earned (\$21.1 million), valuation gains (\$3.2 million), other revenue (-\$0.3 million). In 2018: investment interest earned (\$18.4 million), valuation loss (\$8.9 million).

3. PAHO Assessed Contributions and Budgeted Miscellaneous Revenue

The PAHO Assessed Contributions were \$97.1 million, net of the Tax Equalization Fund (\$14.9 million) for fiscal year 2019. Revenue from Assessed Contributions was recorded in full on 1 January 2019, the date it became due and payable. The cash receipts of current and prior years' Assessed Contributions in 2019 totaled \$30.3 million and \$35.6 million, respectively. In 2019, the rate of collection of current year Assessed Contributions was 27%, compared with 61% for 2018. During 2019, PAHO received payments towards current and prior years' Assessed Contributions from thirty-six Member States. Twenty-four Member States paid their 2019 assessments in full, eight Member States made partial payments toward their 2019 assessments, and ten Member States made no payment toward their 2019 assessments.

Total Assessed Contributions outstanding, including amounts due for previous financial periods, increased from \$42.7 million on 31 December 2018 to \$88.9 million on 31 December 2019. As a result of the delay in the receipt of Member States' Assessed Contributions, the Organization fully utilized the balance of cash in the Working Capital Fund, as well as an additional \$61.4 million in funds from other unrestricted internal sources. Therefore, the Organization will begin 2020 with a seriously reduced balance of resources to implement the 2020 - 2021 Program and Budget until such time as Member States meet their financial commitments to the Organization. PAHO has formally requested all Member States to pay their current assessment and arrears as early as possible in 2020 in order to alleviate this situation and ensure continuity of the organization's core activities. As of 30 July 2020, the pending balance of prior years assessed contributions has been reduced to \$22.6 million.

Each year the Delegates to the Directing Council or the Pan American Sanitary Conference review at length the financial circumstances of those Member States who are in arrears in their Assessed Contributions and subject to Article 6.B of the PAHO Constitution. As of 31 December 2019, there was one Associate Member subject to Article 6.B.

Miscellaneous Revenue includes a portion of investment revenue earned on the funds administered by the Organization, investment fees associated with the portfolios, net currency exchange gains and losses, savings on prior period obligations, and other miscellaneous revenue. Total Miscellaneous Revenue to the PAHO Program and Budget for 2019 was \$24.0 million and is comprised of \$21.1 million in investment revenue, investment management fees of \$0.7 million, and \$ 3.3 million of currency exchange gain, and \$ 0.3 million in other revenue.

4. Biennial Surpluses

At the end of each budgetary period, PAHO defines its Revenue Surplus and Budgetary Surplus according to the Financial Regulations. Revenue Surplus is the excess of revenue over the Budgeted Miscellaneous Revenue. The Budgetary Surplus is comprised of any balance of the Regular Budget appropriation not committed by the end of the current budgetary period, and shall be used to replenish the Working Capital Fund to its authorized level, after which any balance will be available for subsequent use in accordance with the resolutions adopted by the Conference or Directing Council.

PAHO Assessed Contributions and Miscellaneous Revenue: Financial Highlights (\$million)	Actual	Actual	Actual	Budgeted
	2019	2018	2018-2019	2018-2019
Net Assessed Contributions	97.1	97.1	194.2	194.2
Miscellaneous Revenue ¹	17.1	10.4	27.5	20.0
Total Revenue	114.2	107.5	221.7	214.2
Operating Expenses ¹	(102.7)	(106.0)	(208.7)	(107.2)
Transfer from closing of Funds ²	0.2		0.2	
Financial Net Surplus/(Deficit) from Operations for 2018-2019	11.7	1.5	13.2	
Budgetary Surplus ³		1.5	5.7	
Revenue Surplus			7.5	

¹ Non-budgetary items are excluded, mainly depreciation and unrealized gains and losses.

² Includes: Miscellaneous Sales and Services Fund, Visual Aid Materials Fund, Venezuela - Office Space Rental to UNISIDA Fund and Food Safety Five-Year Plan Fund.

³ 2018-2019 Actual: Budgetary Surplus fund (\$2.4 million), Working Capital Fund (\$3.3 million).

5. Working Capital Fund

As of 31 December 2019, the Organization's Working Capital Fund was \$25.0 million representing the maximum authorized level. The budgetary surplus was used to replenish the Working Capital Fund to its authorized level from its \$21.7 million previous balance.

6. WHO Assessed Contributions and Other WHO Funds

The Pan American Health Organization implemented \$76.9 million from the WHO Funding Allocation in support of the international health programs established by the World Health Assembly for the Region of the Americas. In addition, the Organization implemented \$7.5 million in Other Sources Funds from WHO. Therefore, total implementation of WHO funds during 2019 reached \$84.4 million. In comparison, during 2018, the Organization implemented \$63.7 million from the WHO Funding Allocation and \$5.6 million in Other Sources Funds from WHO for a total of \$69.3 million.

7. PAHO Voluntary Contributions

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

During 2019, PAHO's total (implemented) revenue from Voluntary Contributions net of Program Support Costs reached

\$56.6 million as compared to \$52.1 million in 2018. Deferred (not implemented) revenue totaled \$139.6 million in 2019 as compared to \$117.7 million in 2018, which is an increase of \$21.9 million.

In 2019, the largest donors of implemented Voluntary Contributions were: the United States of America (\$16.9 million), the United Kingdom (\$7.0 million), Brazil (\$3.2 million), Canada (\$2.7 million), and Gavi-the Vaccine Alliance (\$2.0 million). The largest donors for Emergency Preparedness and Disaster Relief were the European Commission (\$5.2 million) and the United States of America (\$3.7 million).

8. National Voluntary Contributions

National Voluntary Contributions (NVC) are financial resources provided by governments exclusively for projects benefiting their countries. During 2019, PAHO implemented \$57.8 million (2018: \$439.4 million) in NVC. The decrease in NVC revenue in 2019 is primarily due to the reduction of activities in the Mais Medicos project.

Revenue: National Voluntary Contributions			(\$million)
	2019	2018	2017
Mais Medicos Program	2.5	364.0	466.1
Other Brazil Programs	43.3	63.5	59.8
Other NVC	12.0	11.9	6.5
TOTAL NVC	57.8	439.4	532.4

9. Procurement on Behalf of Member States

During 2019, the total financial activity realized for procurement services on behalf of Member States increased to \$833.7 million, compared with \$678.3 million in 2018. Through extensive international bidding, PAHO is able to purchase vaccines, public health supplies and equipment on behalf of Member States and international institutions at affordable prices.

Revenue: Procurement Activities On Behalf of Member States			(\$million)
	2019	2018	2017
Revolving Fund for Vaccine Procurement	761.2	605.3	612.0
Revolving Fund for Strategic Public Health Supplies	70.5	68.3	69.0
Reimbursable Procurement	2.0	4.7	3.8
TOTAL	833.7	678.3	684.8

The Revolving Fund for Vaccine Procurement was established to facilitate timely access to vaccines of quality at lowest prices for national immunization programs in Member States. The revenue increased from \$605.3 million in 2018 to \$761.2 million in 2019, or, 26%.

In 2019, 41 countries and territories participated in the Fund. The 10 Member States with the largest demand were Argentina, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Panama, Peru and Paraguay. The Revolving Fund continued its efforts to support countries to improve the precision of the demand planning, identify acquisition opportunities, enhance operational efficiencies, and manage vaccine supply during constrained market conditions. Other contributing factors to increased revenue included 2018 procurement orders invoiced in 2019 and the advanced placement of 2020 procurement orders in 2019.

The Regional Revolving Fund for Strategic Public Health Supplies was created in 1999 in order to facilitate the procurement and improve access to strategic public health supplies with quality assurance at competitive, stable prices, and to enhance planning capacity at the national and regional levels for these products. As of December 2019, 25 countries in Latin American and the Caribbean participated in the Fund.

The Strategic Fund has historically focused on assisting Member States in increasing access to public health products to treat and prevent communicable diseases (HIV/AIDS, Malaria, Tuberculosis, Neglected Tropical Diseases and Hepatitis). Significant price reduction of 48% for Hepatitis C Antivirals medicine from last biennium, among others, was possible thanks to Strategic Fund's collaborative work with WHO in the promotion of generics for high cost medicines. Additionally, the Fund has made available In-Vitro Diagnostics (IVDs) products currently prequalified by WHO. The Secretariat has also targeted access to quality, essential medicines for Non-Communicable Diseases (NCDs) as a priority for the Strategic Fund and its participating countries, particularly for therapeutic areas like cardiovascular, diabetics, oncology and mental health. Countries are progressively increasing the utilization of the Strategic Fund to access such medicines and health supplies. The revenue increased from \$68.3 million in 2018 to \$70.5 million in 2019.

The overall monthly average use by Members States of the Revolving Funds' Lines of Credit increased by \$10.0 million in 2019 as compared to 2018, increasing from \$94.8 million to \$104.8 million for the Revolving Fund for Vaccine Procurement, and increasing from \$9.8 million to \$14.7 million for the Regional Revolving Fund for Strategic Public Health Supplies.

Funding for the purchase of medical supplies, medical equipment, and literature processed through **the Reimbursable Procurement on Behalf of Member States Fund** was \$2.0 million. In 2019, 7 Member States used this Fund.

10. Expenses by Category

PAHO's total expenses, reflecting disbursements and accrued liabilities, decreased to \$1,189.3 million in 2019 from \$1,368.8 million in 2018.

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

PAHO Expense Categories	(\$million)	
	2019	2018
Staff and Other Personnel Costs ¹	143.5	123.4
Supplies, Commodities, Materials ²	851.8	692.7
Depreciation and Amortization	2.0	1.4
Contractual Services	99.5	112.5
Travel ³	34.8	49.1
Transfers and Grants to Counterparts ⁴	20.1	365.8
General Operating Costs	37.6	23.9
Total PAHO Expenses	1,189.3	1,368.8

¹ Includes: salary costs (4.5 million increase vs 2018), ASHI actuarial impact (12.9 million increase) and Retirees Health Insurance (2.6 million increase).

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

³ Includes Technical Cooperation activities, Transportation and Per Diem.

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

11. Liquidity and Investments

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

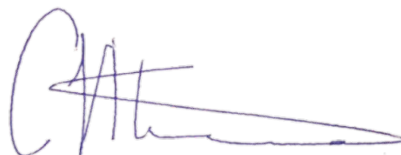
Investment revenue totaled \$21.1 million in 2019 and \$18.5 million in 2018. Total cash and investments for the Organization at 31 December 2019 were \$869.7 million, a decrease of \$3.2 million over the cash and investment balance as of 31 December 2018.

12. Accounting Policies and Basis of Preparation

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

These Financial Statements were prepared under the assumption that the Organization is a going concern and will continue in operation and will meet its mandate for the foreseeable future. The Governing Bodies of the Organization have not communicated through any means that there is an intention to terminate the Organization or to cease its operations. Furthermore, at the time of the preparation of these Financial Statements, the Executive Management of the Organization was not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the ability of the Organization to continue as a going concern. COVID-19 is a non-adjusting event which occurred after the reporting date and whose impact the Organization is not able to measure.

The Financial Statements of the Organization were authorized for issue by the Director of the Organization under the authority vested in her by the Pan American Sanitary Conference as stated in the Resolution CSP29.R10 in September 2017. The issuance approval is the date of the External Auditor's Report. No other authority has the power to amend the Financial Statements after issuance.



Carissa F. Etienne

Director

Pan American Health Organization

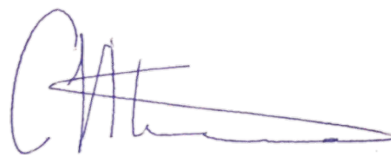
Certification of the Financial Statements for the year ended 31 December 2019

In accordance with the provisions of Regulation XIII of the Financial Regulations, attached are the Financial Statements for the year ended 31 December 2019. The financial statements, accounting policies and notes to the financial statements have been prepared in compliance with International Public Sector Accounting Standards (IPSAS). The Financial Statements and notes have been audited by the Organization's External Auditor, the National Audit Office whose opinion is included in this report.

The Financial Statements for the year ended 31 December 2019, together with the supporting notes to the statements have been reviewed and approved.



Xavier Puente Chaudé
Director
Financial Resources Management



Carissa F. Etienne
Director
Pan American Health Organization

30 July 2020

PAHO's 2019 Statement on Internal Control

Scope of responsibility

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

Financial Regulation 12.1 provides the context for my responsibilities. The Regulation states that *"the Director shall establish and maintain an effective internal control structure with operating policies and procedures based on best industry practice, in order to: a) ensure efficient and effective financial administration, b) safeguard assets, c) accomplish the strategic objectives and goals in line with the mission of the Organization, and d) maintain an internal oversight function reporting to the Director."*

Accountability is a critical component of any well-functioning organization that implements results-based management (RBM) and performance monitoring and assessment (PMA). PAHO is a leader in RBM and PMA, and the PASB has multiple mechanisms in place to ensure competent stewardship of partner funds and compliance with financial and human resources regulations and rules.

Purpose of internal control

Our current guidelines¹ consider **five elements** during any stage of the internal control process. The elements are:

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

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

¹ Based on the definitions and model provided by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control - Integrated Framework, May 2013.

² The Three Lines of Defense Model was published in a 2013 global position paper by the Institute of Internal Auditors and has gained prominence as the preferred model for managing operational risk. More details at <https://na.theiia.org/standards-guidance/Public%20Documents/PP%20The%20Three%20Lines%20of%20Defense%20in%20Effective%20Risk%20Management%20and%20Control.pdf>

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

PAHO's operating environment

The Organization operates through its Washington, D.C. headquarters, 27 country offices, and three specialized centers in the region. During 2019, the strategic policy instruments that provided direction and political vision for sustainable and equitable health development in the Region were the Sustainable Health Agenda for the Americas 2018-2030 (SHAA2030) and the Strategic Plan of the Pan American Health Organization 2014-2019, which are made operational through the Biennial Program and Budget. While continuing to improve managerial and administrative systems for greater transparency, efficiency, and effectiveness, PAHO closely aligns with the ongoing WHO planning process, given that the Organization also functions as the WHO Regional Office for the Americas. However, PAHO's status as an independent international organization is widely recognized and respected, and the Director is therefore directly accountable to PAHO Member States in the Americas.

During 2019 the PASB initiated the biennial operational planning process for 2020-2021, which included programmatic results in the framework of the Strategic Plan 2020-2025 and components related to human resources, resource mobilization planning to maximize funding, and risk management. This complex process took place at the same time that the PASB faced challenges due to delays in the receipt of assessed contributions from Member States. These delays prevented the Organization from implementing the full program of work, as the assessed contributions from Member States constitute a significant proportion of the resources supporting the Organization's Biennial Program and Budget. However, using the compliance mechanisms of the increasingly mature PMIS, the PASB was able to reduce expenditures in an orderly manner.

PAHO's operations are closely monitored using the following mechanisms:

- Financial monitoring.* The Departments of Financial Resources Management (FRM), Planning and Budget (PBU), and External Relations, Partnerships, and Resource Mobilization (ERP) submit monthly reports to Executive Management that cover the Organization's financial situation, the likelihood that financial and budgetary plans will be successfully implemented, and the associated risks.
- Review of implementation of the Biennial Program of Work (2018-2019) and the current Strategic Plan.* These organizational frameworks are reviewed at corporate level through the PMA process, which is conducted semiannually. The PMA determines progress and proposes adjustments for greater efficiency and effectiveness, and involves Executive Management, entity managers, and technical staff.
- Meetings of the Strategic Advisory Group (SAG).* The SAG meets monthly to discuss and review specific programmatic issues related to technical cooperation, health policies, and political challenges, with the purpose of increasing interprogrammatic coordination.
- Functioning of thematic committees.* These committees provide oversight of risk management and compliance; the conflict management system; asset protection and loss prevention; surveillance; and health insurance. By the end of the year a committee focusing on PAHO's human resource strategy was established, as well as a variety of working groups.
- Audit recommendations monitoring.* The Director of the PASB chairs an annual meeting with Executive Management, departmental directors, and PAHO/WHO Representatives in country offices to discuss the status of pending recommendations from the Office of Internal Oversight and Evaluation Services (IES) recommendations in their respective areas of work. These meetings have accelerated the implementation of many recommendations and set the "tone at the top", illustrating the seriousness and commitment of top levels of the Organization related to internal audit matters and management responsibilities.

In this context, for 2019³, IES set out its overall opinion on the Organization's internal control environment, noting steady and continuing improvements in the internal control environment of the PASB. This is reflected in the absence

³ REPORT OF THE OFFICE OF INTERNAL OVERSIGHT AND EVALUATION SERVICES FOR 2019. Document to be presented at 166th Session of the Executive Committee. June 2020.

of “unsatisfactory” ratings for any of the internal audit assignments, and the statement in the report that this is the second consecutive year with no “unsatisfactory” ratings. The improvements appear to derive in part from improved information technology systems, most notably those arising from the PMIS, and in part from an increased awareness among personnel of the importance of internal controls.

Based on the internal audit activity undertaken in 2019, IES did not identify any significant weaknesses in internal control that would seriously compromise the achievement of the strategic and operational objectives of PAHO. The overall opinion of IES was that the PASB internal control environment continued to provide reasonable assurance of the accuracy and timely recording of transactions, assets, and liabilities, and of the safeguarding of assets.

Informed by the activities of the internal and external auditors and the Audit Committee, PASB makes strategic decisions whenever it becomes necessary to adapt the Organization’s operations to better manage and mitigate risk exposure. The Auditor General also provides the Director with an overall opinion on PAHO’s internal control environment and for the financial reporting period 1 January 2019 through 31 December 2019, the Auditor General also found no significant weaknesses in internal control that would seriously compromise achievement of PAHO’s strategic and operational objectives.

The Internal Control Framework and Risk Management

The Report of the Audit Committee presented to the 164th Session of the Executive Committee in June 2019 highlighted compliance with the internal control standard operating procedures and with the COSO model internal control framework, as well as progress made in the compliance initiative, in conformity with the previous recommendation on the subject. The External Auditor noted that the developments in the compliance initiative were to be commended and stated that the PASB was moving in the right direction⁴.

In 2019, the new procedures for monthly monitoring of financial and administrative compliance, as well as the appointment of a designated compliance officer in the Procurement and Supply Management Department, enhanced compliance across the Organization. For instance, the policy and compliance officer has the role of updating chapter 6 of the PAHO Manual and relevant procurement standard operating procedures and tools. This function is also a resource for the procurement focal points and headquarters buyers, providing answers to questions on the applicability of policies and rules. Training was provided in Panama in September 2019 to all country procurement focal points, and there is regular training to enhance compliance throughout the Organization. Through the PMIS training module, more than 150 training activities were designed and produced during 2019 and are available to all personnel in different areas of administration and management using methods such as videos, digital platforms, lessons and programs.

The Enterprise Risk Management (ERM) program in PASB has continued to mature and demonstrate its usefulness⁵. PASB’s risk management policy provides for the identification and mitigation of risks that might negatively impact PAHO’s implementation of its programs. Risks at the cost center level are captured in the corporate risk register, which is subject to regular review by the Regional Advisor on Risk Management, the Standing Committee for Enterprise Risk Management and Compliance, and the Executive Management Team. The risk management process at cost center level is supported by an internal network of risk focal points who have access to training material and advice to build in-house capacity. Managers have a crucial role to play in ensuring that risk analysis is integrated into the managerial decision-making process, supported by the monthly compliance report and the operational risk mapping developed with the administrators. The PASB corporate risk register is the tool to gather the risks that require corporate attention, assessment, and monitoring, and to record the mitigation actions agreed.

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

The PASB continues to make improvements in the PMIS to support the first line of accountability—represented by managers and other personnel—and proactively enhance the second line of accountability, represented by the

⁴ Annual Report of the President of the Executive Committee. 57th Directive Council. 30 September-4 October 2019.

⁵ Annual Report of the Director, 2019

compliance, ethics, information security, legal, and risk management functions. These are complemented by PASB's oversight functions, evaluation, investigation, and independent reviews.

Review of Effectiveness

As Director of the PASB, I am responsible for reviewing the effectiveness of the system of internal control. My review is informed by the work of the IES, senior managers in the Organization with responsibility for developing and maintaining the internal control system, the Ethics Office, which leads the Internal Conflict Management System, the comments of the External Auditors in their management letters and audit reports, and PAHO's Audit Committee, which meets twice a year and serves in an independent expert advisory capacity. The Audit Committee assists me and the PAHO Member States through the provision of independent assessment and advice on the operation of the Organization's financial control and reporting structures, risk management processes, and compliance, and the adequacy of the Organization's systems of internal and external controls.

Significant risk issues noted

During 2019, with the understanding that risks also provide opportunities to the Organization to address potential threats, the Standing Committee for Enterprise Risk Management and Compliance and the Executive Management held several sessions to prioritize corporate risks and discussed them with the risk owners. The prioritized corporate risks are monitored on a regular basis and the risk register reports are presented in the PMA reporting sessions organized by the Department of Planning and Budget (PBU).

The table below summarizes the risks and mitigations actions.

Risk	Risk Description	Examples of ongoing and planned risk mitigation actions
Limited availability and flexibility of financial resources	This limitation included timely payment of assessed contributions by Member States and resource mobilization of voluntary contribution for the implementation of the PAHO Strategic Plan (SP) and current mandates.	<ul style="list-style-type: none"> - Monitor collection of assessed contributions⁶ - Continue to explore mechanisms that will increase the timeliness of collection of assessed contributions - Identify other resources and funding mechanisms available to the Organization - Advocate at the national level for financing for health - Generate efficiencies in budgetary implementation. - Monitor to ensure that donor agreements are fully timely implemented in a timely manner. - Manage local currency bank balances to minimize exchange rate impact.
Limited ability to react to and plan for shifts in health priorities	This limitation included inability to forecast political changes and advocate with national authorities for health as a pillar of social and economic development, in line with the 2030 Agenda for Sustainable Development and the Health Agenda for the Americas.	<ul style="list-style-type: none"> - Increase the role of PWRs and regional director departments to engage, advocate and support high-level political dialogue to ensure commitment of Member States and partners giving priority to health programs with a focus on health equity. - Promote regional cooperation among Member States, UN entities, and nongovernmental organizations - Promote and adopt intersectoral and multisectoral approaches at national and subnational level to address health conditions that are beyond the influence of the health sector and generate political

⁶ Some measures were included in resolution CD57.R1 Collection of Assessed Contribution approved 2019.

Risk	Risk Description	Examples of ongoing and planned risk mitigation actions
		and financial support PAHO's core mandate to reduce health inequities.
Impact of UN reform in PAHO's mandate and governance ⁷	UN reform has significant governance and managerial implications for WHO and for PAHO, especially for the role of PAHO/WHO Country Representatives in terms of governance structure, joint funding, and planning and delivery of country-level activities, including communications and resource mobilization.	<ul style="list-style-type: none"> - PAHO instructed PWR's to ensure that country national authorities and partners respect PAHO's constitutional status while collaborating with WHO in its implementation of UN reform. - PAHO continues implementing Region-wide specific mandates as dictated by its Member States, working directly with ministries of health and other ministries in carrying out its technical cooperation activities at country level. - PAHO personnel at country level remain solely accountable to the PAHO Director. PAHO PWR's provide information to the UN Resident Coordinator on PAHO technical activities implemented with WHO funds at country level. - Common UN business operations strategy continues to be evaluated by PAHO as needed, on a case-by-case basis.
Delay in response to Public Health Emergencies	This risk continues to be relevant for Member States and for PAHO's operations and personnel security due unpredictability of natural disasters, outbreaks and the increasing scale of humanitarian crises.	<ul style="list-style-type: none"> - Monitor, anticipate, and prepare to mitigate the health consequences of emergencies and disasters, improving national preparedness, response, and resilience. - Advocate to continuously strengthen and fund at national level the first line of response for emergencies. - Monitor the implementation at national level of the International Health Regulations (IHR). - Ensure that PASB standard operating procedures are in place to organize support teams in cases of outbreaks, disasters or other declared emergencies.
Cyber Risk	Breach of security of PAHO's information system may affect the integrity of data and availability of information for a significant period.	A detailed information security program has been developed, including industry-standard technological tools as well as training to raise staff awareness and compliance with information security procedures including monitoring end-user devices, networks, and servers in order to flag or block suspicious activity.
Potential for Fraud and Conflicts of Interest	This risk is related to potential conflicts of interest in projects involving non-state actors and the impact on PAHO's resources and credibility from fraud, corruption and other types of misconduct.	<ul style="list-style-type: none"> - PASB has developed a new policy on the prevention of fraud and corruption and mandatory staff training to raise staff awareness and vigilance. - There is strict enforcement of policies related to engagement with non-state actors, procurement, and whistle-blower protection. - Investigative capacity has been enhanced. - Decisive action is taken in case of fraud/corruption/misconduct.

⁷ Report on Strategic Issues between PAHO and WHO. CE164/INF/1. 12 April 2019.

Risk	Risk Description	Examples of ongoing and planned risk mitigation actions
Weak and fragmented Health Information Systems	This risk remains relevant because it affects the capability to monitor progress and make informed decisions for progress toward agreed health outcomes.	<ul style="list-style-type: none"> - Continued advocacy for investment and upgrading of integrated information systems for health with capacity to generate and analyze disaggregated health data for decision making and monitoring in the framework of the Plan of Action for Strengthening Information Systems for health 2019-2023.⁸ - PASB has allocated significant resources to improve technical cooperation in the area of information systems for health and strengthen data generation and analysis to improve health system management and support evidence-based decision-making.

Statement

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

I am confident that the Organization's system of internal control was effective throughout the financial reporting period 1 January 2019 through 31 December 2019 and remains so on the date I sign this statement.



Carissa F. Etienne

Director

Pan American Health Organization

⁸ Resolution CE164.R4. Plan of Action for Strengthening information Systems for Health 2019-2023. June 2019.

INDEPENDENT AUDITOR'S REPORT TO THE PAN AMERICAN SANITARY CONFERENCE

Opinion on financial statements

I have audited the financial statements of the Pan American Health Organization for the year ended 31 December 2019, which comprise the Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets, Cash Flow Statement, Statement of Comparison of Budget and Actual Amounts for the year ended, and the related notes.

In my opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Pan American Health Organization as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Opinion on regularity

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

Basis for opinions

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

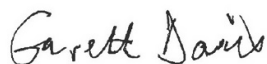
- obtain and understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.
- evaluate the appropriateness of accounting policies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

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

Other Information

Management is responsible for the other information. The other information comprises the Director's comments and PAHO's 2019 Statement on Internal Control. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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



Gareth Davis
Comptroller and Auditor General

7 August 2020

National Audit Office
157-197 Buckingham Palace Road
Victoria
London. SW1W 9SP
United Kingdom

Financial Statements

Pan American Health Organization Statement of Financial Position

As at 31 December 2019
(In thousands of US dollars)

Description	Reference	31 December 2019	31 December 2018
ASSETS			
Current Assets			
Cash and Cash Equivalents	Note 3	188 926	193 712
Short Term Investments	Note 4.1	247 034	288 320
Accounts Receivable	Note 6	250 317	201 688
Inventories	Note 7	1 763	7 824
Total Current Assets		688 040	691 544
Non-Current Assets			
Long Term Investments	Note 4.2	421 548	379 245
Accounts Receivable	Note 6	86 769	79 608
Property, Plant and Equipment	Note 8	109 195	106 143
Intangible Assets	Note 9	496	695
Total Non-Current Assets		618 008	565 691
TOTAL ASSETS		1 306 048	1 257 235
LIABILITIES			
Current Liabilities			
Accrued Liabilities	Note 10	26 979	25 398
Accounts Payable	Note 11	13 826	11 942
Employee Benefits	Note 12.3	3 368	2 759
Deferred Revenue	Note 13	563 322	556 170
Short Term Provision	Note 23	14 387	
Total Current Liabilities		621 882	596 269
Non-Current Liabilities			
Accounts Payable	Note 11	7 796	7 796
Employee Benefits	Note 12.3	274 173	200 468
Deferred Revenue	Note 13	161 349	150 501
Total Non-Current Liabilities		443 318	358 765
TOTAL LIABILITIES		1 065 200	955 034
Net Assets		240 848	302 201
NET ASSETS / EQUITY			
Fund Balances	Note 14	63 931	142 088
Reserves	Note 14	176 917	160 113
TOTAL NET ASSETS / EQUITY		240 848	302 201

Pan American Health Organization
Statement of Financial Performance

As at 31 December 2019
(In thousands of US dollars)

Description	Reference	31 December 2019	31 December 2018
REVENUE			
Revenue from Non-Exchange Transactions			
Assessed Contributions	Note 15	112 047	103 225
Voluntary Contributions	Note 15	122 782	518 279
WHO Allocations	Note 15	84 396	69 315
Revenue from Exchange Transactions			
Procurement of Public Health Supplies	Note 15	849 929	686 269
Other Revenue	Note 15	6 480	8 154
Miscellaneous Revenue	Note 15	18 482	8 193
TOTAL REVENUE		1 194 116	1 393 435
EXPENSES			
Staff and Other Personnel Costs	Note 16	143 507	123 426
Supplies, Commodities, Materials	Note 16	851 769	692 653
Equipment, Vehicles, Furniture, Intangible Assets, Depreciation and Amortization	Note 16	1 990	1 449
Contract Services	Note 16	99 487	112 459
Travel	Note 16	34 767	49 055
Transfers and Grants to Counterparts	Note 16	20 077	365 813
General Operating Costs	Note 16	37 720	23 940
TOTAL EXPENSES		1 189 317	1 368 795
NET SURPLUS / (DEFICIT)		4 799	24 640

Pan American Health Organization
Statement of Changes in Net Assets

As at 31 December 2019
(In thousands of US dollars)

Description	Reference	31 December 2019	31 December 2018
Net assets at the beginning of the year		302 201	248 780
Actuarial gain / (losses) on employee benefits liabilities	Note 12.6	(66 152)	28 781
Total of items (revenue/expenses) recognized directly in Net Assets		(66 152)	28 781
Surplus/(deficit) for the Financial Period		4 799	24 640
Total recognized revenue and expenses for the year		(61 353)	53 421
Net assets at the end of the year	Note 14	240 848	302 201

Pan American Health Organization
Cash Flow Statement

As at 31 December 2019
(In thousands of US dollars)

Description	Reference	31 December 2019	31 December 2018
Cash Flows from Operating Activities:			
Surplus / (Deficit) for the period		4 799	24 640
Non-Cash Movements			
Depreciation and Amortization	Note 8/9	1 990	1 962
(Increase) / Decrease in Accounts Receivable	Note 6	(55 790)	211 131
(Increase) / Decrease in Inventories	Note 7	6 061	186
Increase / (Decrease) in Accrued Liabilities	Note 10	1 581	2 460
Increase / (Decrease) in Accounts Payable	Note 11	1 884	3 599
Increase / (Decrease) in Employee Benefits	Note 12.3/12.6	8 162	(6 598)
Increase / (Decrease) in Deferred Revenue	Note 13	18 000	(174 099)
Increase / (Decrease) in Short Term Provision	Note 23	14 387	
Net Cash Flows from Operating Activities		1 074	63 281
Cash Flows from Investment and Financing Activities:			
(Increase) / Decrease in Short Term Investments	Note 4.1	41 286	71 475
(Increase) / Decrease in Long Term Investments	Note 4.2	(42 303)	(6 271)
Acquisition of Property, Plant and Equipment and Intangibles Assets	Note 8/9	(4 843)	(513)
Net Cash Flows from Investing Activities		(5 860)	64 691
Net Increase / (Decrease) in Cash and Cash Equivalents		(4 786)	127 972
Cash and Cash Equivalents at the beginning of the Year		193 712	65 740
Cash and Cash Equivalents at the end of the Year		188 926	193 712

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

As at 31 December 2019
(In thousands of US dollars)

Category/Program Area	Approved Budget 2018-2019	2018			2019			Budget for 18-19	Total Expenses	Expenses as % of Revised Budget
		AppORTIONED Budget	Expenses	% Expenses vs. Revised Budget	AppORTIONED Budget	Expenses	% Expenses vs. Revised Budget			
1. Communicable Diseases	114 600	57 300	49 878	87%	57 300	54 288	95%	114 600	104 166	91%
2. Non-communicable Diseases and Risk Factors	59 100	29 550	21 199	72%	29 550	20 310	69%	59 100	41 509	70%
3. Determinants of Health and Promoting Health throughout the Life Course	81 400	40 700	26 891	66%	40 700	26 600	65%	81 400	53 491	66%
4. Health Systems	118 400	59 200	43 983	74%	59 200	46 925	79%	118 400	90 908	77%
5. Preparedness, Surveillance, and Response	56 400	28 200	19 983	71%	28 200	20 703	73%	56 400	40 686	72%
6. Corporate Services/Enabling Functions	189 700	94 850	78 911	83%	94 850	85 515	90%	189 700	164 426	87%
Sub-total for Base Programs (Categories 1-6)	619 600	309 800	240 845	78%	309 800	254 341	82%	619 600	495 186	80%
Special Programs and Response to Emergencies	56 000	28 000	20 703	74%	28 000	30 271	108%	56 000	50 974	91%
TOTAL	675 600	337 800	261 548	77%	337 800	284 612	84%	675 600	546 160	81%

The PAHO Program and Budget was approved through Resolution CSP29.R6-e as an integrated budget, independent of sources of financing. The figures in column "Approved Budget, 2018-2019" indicate total resource requirements (often called "budget ceiling" or "envelopes") not funding. There were no budget transfers during the fiscal years 2018 and 2019; the resulting budget (apportioned for year and totaled for the biennium) is therefore the same as the originally approved budget. The 2019 expenses represent actual and accrued expenditures from all funding sources (Assessed Contributions and Miscellaneous Revenue, PAHO Voluntary Contributions, as well as special funds that are intended to finance the Program and Budget). The level of funding and expenses by funding source are presented in other reports in this document.

The approved PAHO biennial budget is in line with historical budget levels which are typically less than 90% funded. Although expenditures accelerated in the second year of the biennium, the rate of implementation shows in the last quarter 2019 due to institutional cost-containment measures implemented in response to cash-flow issues. In addition, low levels of financing shows had a consequent effect on expenditures in Category 3, and to a lesser extent in categories 2, 4 and 5.

Category 1 was well-funded and accordingly show high expenditure levels. Category 6 is funded almost entirely by flexible funds and receives most funding up-front, and thus also shows a high expenditure level vs approved budget ceiling. Not all funds available to budget during the biennium 2018-19 expired at the end of 2019 and some balances are carried forward to the 2020-21 budget period.

Further analysis of expenses vs actual funding levels at the end of December 2019 is presented as an annex to note 17.

Notes to the Financial Statements

1. Mission of the Pan American Health Organization

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

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

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

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

2. Accounting policies

2.1 Basis of Preparation

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

The Financial Statements of the Organization were certified and approved for issue by the Director of the Organization under the authority vested in her by the Pan American Sanitary Conference, as stated in Resolution CSP29.R10 in September 2017. The issuance approval is the date of the External Auditor's Report. No other authority has the power to amend the Financial Statements after issuance. (Reference: IPSAS 14, paragraph 26).

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

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

COVID-19 is a non-adjusting event which occurred after the reporting date and whose impact the Organization is not able to measure.

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

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

2.2 Cash and Cash Equivalents

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

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

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

2.3 Investments

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

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

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

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

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

2.4 Loans and Receivables

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

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

2.5 Risk Management Policies

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

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

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

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

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

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

2.6 Accounts Receivable

Accounts receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. Current receivables are for amounts due within 12 months of the reporting date, while non-current receivables are those that are due more than 12 months from the reporting date of the financial statements. Receivables are stated at amortized cost calculated using the effective interest method, less any impairment losses (which are recognized in the Statement of Financial Performance). However, for current receivables there is no material difference between the amortized costs; thus, these receivables have been recognized at cost less any impairment losses. The decision to impair a receivable is based upon an analysis of the age of the receivable and the circumstances surrounding the third-party relationship. The calculation of the impairment will be based on a percentage of the total receivable at risk.

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

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

The main types of receivables are:

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

To determine the current portion of accounts receivable from Voluntary Contributions as of 31 December 2019, the Organization classified all the accounts receivable balances of Voluntary Contributions expiring prior to 31 December 2020, as well as those Voluntary Contributions with an indefinite status, as current accounts receivable. In addition, accounts receivable balances of Voluntary Contributions agreements extending beyond 2020 were allocated between current and non-current accounts receivable using a straight-line calculation based on the number of years remaining. The non-current portion of accounts receivable will reflect the balance of the total accounts receivable amount for Voluntary Contributions, less the calculation of the current accounts receivable.

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

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

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

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

2.7 Inventories

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

The Expanded Textbook and Instructional Materials Program (PALTEX) was established by the Pan American Health Organization (PAHO) in the mid-1960s as a technical cooperation program aimed at improving the quality of health science educational processes in Latin America. PALTEX is a publishing program that acquires, produces, and distributes quality textbooks and instructional materials in Spanish and Portuguese at affordable prices. The PALTEX program ended on 31 December 2019.

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

2.8 Property, Plant and Equipment

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

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

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

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

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

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

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

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

2.9 Leases

The Organization was the lessor of the land parcel for the building at 2121 Virginia Avenue, N.W., Washington, D.C. and the lessee for the first two floors of the same building under an operating lease. Both lease arrangements ended on 30 December 2019 when the Organization purchased the building.

The Organization also leases various office premises for the Representative Offices throughout the Americas. These are all cancelable agreements. Total annual lease payments have been disclosed in Note 16 on Expenses as a footnote.

2.10 Intangible Assets

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

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

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

2.11 Accounts Payable

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

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

2.12 Accrued Liabilities

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

2.13 Deferred Revenue

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

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

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

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

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

To determine the current portion of deferred revenue from Voluntary Contributions as of 31 December 2019, the Organization classified all the deferred revenue balances of Voluntary Contributions expiring prior to 31 December 2020, as well as those grants with an indefinite status, as current deferred revenue. In addition, deferred revenue balances of Voluntary Contributions agreements extending beyond 2020 were allocated between current and non-current deferred

revenue using a straight-line calculation based on the number of years remaining. The non-current portion of deferred revenue will reflect the balance of the total deferred revenue amount for Voluntary Contributions, less the calculation of the current deferred revenue.

2.14 Employee Benefits

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

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

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

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

2.15 Provisions and Contingent Liabilities

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

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

2.16 Revenue

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

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

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

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

- **Revenue from Assessed Contributions (non-exchange transactions).** Revenue from assessed contributions is recognized as of 1 January of each year when the Member States' assessed contribution commitment to the Organization becomes due and payable.

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

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

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

2.17 Foreign Currency Transactions and Balances

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

2.18 Segment Reporting

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

In every financial period, the Organization processes internal transactions not involving the use of cash (transfers) within any given segment and between different segments (i.e., Program Support Cost, Provision for Termination and Repatriation Entitlements, After-Service Health Insurance Fund, Master Capital Investment Fund, etc.). The effect of these transfers is an over-statement (duplication) of both revenue and expense by the same amount, which are valued at the cost incurred at the time of the original transaction. The Inter-Party Transactions column in the Statement of Financial Performance allows for the elimination of such duplication.

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

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

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

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

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

2.19 Budget comparison

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

The Organization prepares the budget on the accrual basis excluding depreciation and amortization.

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

2.20 In-Kind Contributions

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

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

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

2.21 Potential Impact of IPSAS to be adopted in future periods

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

IPSAS 42 – Social Benefits, effective date 1 January 2022. The Organization will review this pronouncement to determine its applicability. This review will be done in cooperation with the United Nations Task Force on Accounting Standards.

3. Cash and Cash Equivalents

	31 December 2019	31 December 2018
Cash on Hand, US\$	136 479	96 638
Cash on Hand, Other Currencies	9 627	45 199
Money Market Funds	53 397	53 343
Less: Plan Assets	(10 577)	(1 468)
Total	188 926	193 712

4. Investments

4.1 Short-Term Investments

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

	31 December 2019	31 December 2018
Certificates of Deposit	247 034	288 320
Total	247 034	288 320

Accrued interest of \$680 607 (2018: \$1 174 017) is included in the balance of short-term investments in the Statement of Financial Position and recognized as Miscellaneous Revenue on the Statement of Financial Performance.

4.2 Long-Term Investments

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

	31 December 2019	31 December 2018
Net Increase in Long-term Investments		
Increase (decrease) in Long-term Investments	42 304	6 353
Unrealized Net (Gains)/Losses	(6 906)	287
Net Increase in Long-term Investments	35 397	6 066
Cash Flows from Long-term Investments		
Interest Revenue	10 163	7 840
Realized Net Gains/(Losses)	863	(1 690)
Cash Flows from Long-term Investments	11 026	6 150

Valuation of Long-term Investments	31 December 2019		31 December 2018	
	Cost	Market	Cost	Market
Fixed Income Notes	1 564	1 565	10 347	10 132
Managed Portfolios	417 771	421 548	382 373	379 245
Less: Plan Assets	(1 564)	(1 565)	(10 347)	(10 132)
Total	417 771	421 548	382 373	379 245

Long-term fixed income instruments held in the TAREP portfolio are issued by the U.S. Government. Accrued interest of \$2 382 has been included in the balance of long-term investments and recognized on the Statement of Financial Performance as Miscellaneous Revenue.

Managed Portfolios are classified as available for sale and stated at fair value. The market value above includes accrued interest of \$1 928 177 (2018: \$1 719 759) recognized on the Statement of Financial Performance as Miscellaneous Revenue. Total gains (losses) on managed portfolios are comprised of the cumulative gain or loss and the incremental change in value at the point of sale or maturity. Total gains (losses) are on the Statement of Financial Performance as Miscellaneous Revenue.

Within the managed portfolios, temporary cash balances are the result of repositioning, rebalancing or natural maturities. At 31 December 2019, the cash balance was \$72 658 224.

5. Financial Instruments

5.1 Nature of Financial Instruments

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

	2019 Amortized Cost	2019 Fair Market Value	2018 Amortized Cost	2018 Fair Market Value
Cash and Cash Equivalents				
Cash and Cash Equivalents	188 926		193 712	
Cash and Cash Equivalents (Plan Assets)	10 577		1 468	
Short-term Investments				
Certificates of Deposit (held to maturity)	247 034		288 320	
Long-term Investments				
Fixed Income Notes (Plan Assets)		1 565		10 132
Managed Portfolios (available for sale)		421 548		379 245
Accounts Receivable	329 687		274 796	
Accounts Payable	13 826		11 942	
Total	790 050	423 114	770 238	389 377

5.2 Interest Rate Risk

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

	Effective Maturity	Effective Interest Rate	Fixed Interest	Floating Interest	Non-Interest Bearing
Total Cash and Cash Equivalents	>90 days	1.41%	111 466	53 397	34 640
Short-term Investment					
Certificates of Deposit	44,38 days	2.25%	247 034		
Long-term Investments					
Plan Assets	2,93 years	2.14%	1 565		
Managed Portfolios	1,82 years	1.93%	421 548		
Total			781 613	53 397	34 640

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

Callable Instruments

Issuer	Principal	Rate	Maturity	Call Dates
Federal Home Loan Bank	1 563	2.14%	5-Dec-22	Continuous
Total				

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

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

Fair Market Value of fixed rate investments at 12-31-19	Increase of 100 basis points	Change in Fair Market Value	Decrease of 100 basis points	Change in Fair Market Value
421 726	414 181	(7 545)	429 334	7 608

5.3 Credit Risk

The maximum credit risk represents the carrying amount of loans and receivables. PAHO's investment guidelines stipulate limits on the amount of credit exposure to any one counterparty. However, there may be some counterparty risk associated with the concentration of financial instruments and cash deposits in the banking sector. These significant concentrations in the banking sector equal 65% of the total cash, short-term and long-term investments.

While there are no significant changes to the credit allocations within the portfolios, there is a slight increase toward cash holdings in 2019.

Credit Rating	2019		2018	
Cash and Cash Equivalents	83 202	19.3%	65 163	16.7%
AAA	194 677	45.1%	223 363	57.4%
AA	43 235	10.0%	41 072	10.6%
A	94 343	21.8%	45 235	11.6%
BBB	16 347	3.8%	14 233	3.7%
Other	100	0.0%	105	0.0%
Total	431 904	100%	389 171	100%

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

Cash and Cash Equivalents includes \$10 543 416 held in the TAREP Money Market.

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

Investment Type	2019	2018
Money Market Funds	19 476	3 810
Government & U.S. Agency Issues	202 030	211 918
Mortgage-backed and Asset-backed Securities	17 163	16 539
Corporate Notes	146 815	123 035
Bank Deposits	46 420	24 145
Other Fixed Income		9 724
Total Long Term Investments	431 904	389 171

The majority of accounts receivables are due from PAHO Member States for Assessed Contributions, Voluntary Contributions, and Member States participating in the Procurement Funds. In accordance with IPSAS and PAHO's accounting policy, all receivables have been reviewed to determine any counterparty risk. Impairments totaling \$6 331 458 have been recognized where such risk has been deemed significant.

5.4 Exchange Rate Risk

The Statement of Financial Position does not reflect significant exposure to exchange rate risk as foreign currency deposits at any given time are either immaterial or are designated for foreign currency expenditures. During the course of the year, a small percentage of expenditure (10%) is disbursed in currencies other than the United States dollar. These disbursements are not hedged but are met by local currency receipts and the purchase of local currency as needed in the market at the time of disbursement

Contributions may be received in foreign currency, provided the amount can be absorbed by country offices within a thirty day window. The majority of funds held in Brazilian accounts are committed to specific programs that stipulate disbursements in local currency within six months. An exception to the Cash Management Guidelines, which limit the balance of local currency maintained locally, has been approved by the Investment Committee for the Brazilian program to eliminate the need to enter the market to buy or sell local currency. These excess balances are invested locally in certificates of deposit scheduled to mature as the funds are required in order to mitigate the risk to the Organization.

Local currency deposits held in Cuba and Venezuela totaling approximately \$974 656 are subject to restrictions that make it difficult to repatriate those funds to PAHO headquarters. These restrictions may increase the exchange risk for the Organization. PAHO has taken the necessary steps to mitigate risk and continues to look for foreign exchange alternatives. PAHO local currency balances beyond those mentioned above are minimal.

Exchange risk associated with Accounts Receivables are mitigated through individual fund policy governing the acceptance of local currency. Exchange differences are either absorbed by the Member State or Donor or, in the case of the Procurement Funds, absorbed as administrative expense. Exchange Risk associated with material Accounts Payables is managed on a case by case basis to mitigate any negative impact on the Organization.

6. Accounts Receivable

	Total		Total	
	31 December 2019	31 December 2019	31 December 2018	31 December 2018
Current				
Assessed Contributions		88 872		42 769
Tax Equalization Fund		5		5
Voluntary Contributions		76 885		86 077
Voluntary Contributions - Emergency Preparedness and Disaster Relief	5 096		9 582	
Voluntary Contributions	37 539		42 454	
Voluntary Contributions - National Voluntary Contributions	34 250		34 041	
Procurement of Public Health Supplies *		73 430		55 674
Revolving Fund for Vaccine Procurement	67 835		53 910	
Regional Revolving Fund for Strategic Public Health Supplies	5 595		1 764	
Expanded Textbook and Instructional Materials Program				44
Advances to Staff		5 194		6 034
Prepaid Expenses		7 399		6 500
Miscellaneous Receivables		4 863		4 585
Allowance for Doubtful Accounts Receivable		(6 331)		
Total		250 317		201 688
Non-Current				
Voluntary Contributions		85 519		79 608
Voluntary Contributions	37 307		26 025	
Voluntary Contributions - National Voluntary Contributions	48 212		53 583	
Real Estate Maintenance and Improvement Contributions		1 250		
Total		86 769		79 608

* \$10 947 305 of the total receivables of \$73 430 144 million are more than one year past due as of 31 December 2019 compared to \$704 297 more than one year past due as of 31 December 2018.

6.1 Accounts Receivable from Assessed Contributions

	Arrears	2019	Total 2019	Total 2018
Argentina	1 308	2 915	4 223	2 914
Aruba		21	21	
Bahamas				46
Bolivia		68	68	
Brazil		12 102	12 102	12 102
Chile		687	687	
Colombia	1 591	1 591	3 183	1 591
Costa Rica				53
Curaçao	21	21	42	43
El Salvador				74
France		1	1	55
Haiti		21	21	
Mexico		766	766	459
Netherlands				21
Paraguay		17	17	
Peru		561	561	543
Puerto Rico	184	80	264	263
Saint Vincent and the Grenadines				21
Sint Maarten		21	21	43
Suriname				46
United Kingdom		6	6	12
United States		60 669	60 669	20 472
Uruguay		290	290	
Venezuela	4 011	1 920	5 930	4 011
TOTAL *	7 115	81 757	88 872	42 769

* Assessed Contributions outstanding totaled \$88.9 million, an increase of \$46.1 million over 2018. As a result, the Organization used the full balance of the Working Capital Fund, and \$61.4 million in funds from other unrestricted internal sources. PAHO has formally requested all Member States to pay their current assessment and arrears as early as possible in 2020 in order to ensure continuity of the Organization's operations.

7. Inventories

	31 December 2019	31 December 2018
PROMESS	1 110	1 080
Expanded Textbook and Instructional Materials Program *	652	6 744
Ending Balance of inventory	1 762	7 824

* 31 December 2019 balance correspond to donations in progress.

8. Property, Plant and Equipment

2019	Land	Buildings	Computer Equipment	Office Equipment	Office Fixture & Fittings	Motor Vehicles	Audio Visual Equipment	Leasehold Improvements	Mobile Buildings	Total
Cost as of 1 January	64 026	44 867	635	200		2 905	317	266	27	113 243
Additions		5 022		23		455				5 500
Disposals		(669)	(24)			(334)		(266)		(1 293)
Adjustments				(35)	35					
Cost as of 31 December	64 026	49 220	611	188	35	3 026	317		27	117 450
Depreciation as of 1 January		3 940	635	157		1 761	317	266	24	7 100
Charged in current period		1 357		16	5	411			3	1 792
Disposals		(59)	(24)			(288)		(266)		(637)
Adjustments				(4)	4					
Depreciation as of 31 December		5 238	611	169	9	1 884	317		27	8 255
Net book value as of 31 December 2019	64 026	43 982		19	26	1 142				109 195
2018	Land	Buildings	Computer Equipment	Office Equipment	Office Fixture & Fittings	Motor Vehicles	Audio Visual Equipment	Leasehold Improvements	Mobile Buildings	Total
Cost as of 1 January	64 026	44 867	657	165		2 532	317	266	27	112 857
Additions				35		478				513
Disposals			(22)			(105)				(127)
Adjustments										
Cost as of 31 December	64 026	44 867	635	200		2 905	317	266	27	113 243
Depreciation as of 1 January		2 626	657	117		1 498	317	266	19	5 500
Charged in current period		1 314		40		367			5	1 726
Disposals			(22)			(105)				(127)
Adjustments										
Depreciation as of 31 December		3 940	635	157		1 761	317	266	24	7 100
Net book value as of 31 December 2018	64 026	40 927		43		1 144			3	106 143

8.1 Transferred Assets with Conditions

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

8.2 Revaluation of Land and Buildings

Following the Organization's Accounting Policies (Note 2.8), a revaluation exercise is performed every five years. The last full revaluation occurred at the end of 2015 by independent valuer. In addition, a building in Guatemala was sold.

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

Buildings	1 January 2019	Acquisition	Sale	31 December 2019
Argentina	1 600			1 600
Barbados	2 332			2 332
Brazil	4 418			4 418
Jamaica	1 464			1 464
Guatemala	2 438		(669)	1 768
Guyana	614			614
Haiti	1 061			1 061
Washington DC	28 110	5 022		33 132
Paraguay	464			464
Peru	1 441			1 441
Venezuela	926			926
Sub-total Buildings	44 868	5 022	(669)	49 220
Land				
Brazil	7 796			7 796
Haiti	1 229			1 229
Washington DC	44 440			44 440
Peru	8 914			8 914
Venezuela	1 647			1 647
Sub-total Land	64 026			64 026
Total	108 894	5 022	(669)	113 246

	WDC - Land	WDC - Building
	November 2015	November 2015
Effective date of the revaluation	November 2015	November 2015
Independent valuer was involved	Yes	Yes
Methods and significant assumptions applied in estimating the assets' fair values	Method: Final value does not include any personal property or FF&E and is based on an estimated marketing time of 12-24 months. Assumption: This appraisal is based on the assumption that the site is free of hazardous material or contamination and that income and expense information provided by PAHO is in fact true.	
The extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques	Discounted Cashflow Analysis	Average: Income Approach, Sales Comparison Approach, Discounted Cashflow Analysis
The sum of all revaluation surpluses for individual items of property, plant and equipment within the class: Surplus/(Deficit)	5 440	(1 890)

9. Intangible Assets

The Organization separately discloses Intangible Assets that are:

- (a) Available for use and subject to amortization.
- (b) Under development and have not been completed. There are no intangible assets under development for 2019.

	31 December 2019	31 December 2018
Intangible Assets Available for use		
Cost as of 1 January	4 681	4 681
Additions		
Disposals	(429)	
Cost as of 31 December	4 252	4 681
Amortization as of 1 January	3 986	3 750
Charged in current period	199	236
Disposals	(429)	
Amortization as of 31 December	3 756	3 986
Total Intangible Assets	496	695

10. Accrued Liabilities

	Total		Total	
	31 December 2019	31 December 2019	31 December 2018	31 December 2018
Voluntary Contributions		16 251		17 325
Voluntary Contributions - Emergency Preparedness and Disaster Relief	677		15	
Voluntary Contributions	196		437	
Voluntary Contributions - National Voluntary Contributions	15 378		16 873	
Procurement of Public Health Supplies		2		1 666
WHO - Voluntary Contributions		3		701
Expanded Textbook and Instructional Materials Program		5		66
Staff Health Insurance		2 030		2 310
Income from Services		104		82
Special Fund for Program Support		456		351
Assessed Contribution and Miscellaneous Revenue		415		598
Post Occupancy Charge		5 780		678
Tax Equalization		1 772		1 613
Master Capital Investment		161		
Provision for Termination and Repatriation Entitlements				8
Total		26 979		25 398

11. Accounts Payable

	31 December 2019	31 December 2018
Current		
Assessed Contributions Received in Advance	106	9
Voluntary Contributions Expired Agreements	434	2 970
Procurement of Public Health Supplies	27	438
Balance due to the World Health Organization due to inter-agency transactions	9 151	5 751
Miscellaneous	4 108	2 774
Total	13 826	11 942
Non-Current		
Liability Restricted Assets-Land in Brasilia, Brazil (Note 8.2)	7 796	7 796
Total	7 796	7 796

12. Employee Benefits

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

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

12.1 The Staff Entitlements Fund

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

12.2 The After-Service Health Insurance Fund

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

PAHO reports all activity related to this Fund (i.e. revenue collected from contributions of the Organization) to the Staff Health Insurance (SHI) Secretariat. The SHI Secretariat annually discloses in the SHI Report the total Defined Benefit Obligation (DBO) of the Fund and discloses the portion of the DBO attributable to the active staff and retirees of each of the participating organizations. An agreement between WHO and PAHO established in 2016 delegated authority to WHO to administer PAHO's plan assets for the SHI. PAHO and WHO performed a census review and a study of criteria for allocation of the ASHI costs and liabilities in 2019 and, based on an agreement with the SHI Secretariat, reflected the results in the SHI financial reports available in <https://www.who.int/about/finances-accountability/reports/en>.

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

- 141(a) (i) The Staff Health Insurance (SHI) reimburses expenses related to health care, and associated administrative costs, for eligible active and retired staff and their dependents.
(ii) The SHI is not subject to any outside regulatory framework. PAHO's overall financing is governed by input from its Member States.
(iii) The Global Oversight Committee (GOC) governs the overall Staff Health Insurance. The GOC generally holds two meetings per year, which include monitoring of the historical experience and analysis of potential changes to plan design and administration.
- 141(b) The principal economic financial risks faced by the plan are changes to discount rates, rates of medical cost increases, and asset returns.
- 141(d) The discount rate is based on the yields on high-grade corporate bonds at the measurement date and the expected cash flows and assumed currency exposure. The U.N. Task Force recommends yield curves for the U.N. retiree medical valuations. PAHO applies these yield curves for its valuations.
- 149(a) As a participating organization of the SHI, PAHO is not legally obligated to set aside funds in advance for the plan. GOC's current intention is to accumulate funds to fully fund the accounting liability over time. In 2019, the Committee discussed the status of funding of the ASHI liability and made decisions to both increase the contributions to the Fund – by increasing the Organization and participant contribution rates by 2% annually beginning in 2020, with each year's surplus retained in the assets for the fund – and to contain or decrease costs and liability with measures such as:
- For participants residing in the United States of America, decreasing reimbursement of out-of-network treatment received in the United States of America to a maximum of 70% of their reimbursable medical expenses, and only considering the 70% reimbursement towards the calculation of supplementary benefit (catastrophic limit);
 - For participants residing in the United States of America, requiring enrollment in Medicare A and B for US eligible members born after 1944. Those who do not enroll will have reduced reimbursements as of 1 August 2020 (as if they were enrolled in Medicare).
- 150(b) SHI reports the assets and liabilities attributable to each of the participating entities in its annual financial report. Each entity is credited for the individual contributions of its members and its institutional contributions, plus interest earnings on accumulated assets, and each entity is debited for its respective administrative costs and claims. The net surplus (deficit) is added (deducted) to each entity accumulated assets after the year-end financial closure. These assets are compared to each entity's Defined Benefit Obligation, calculated for the purposes of the financial statements, yielding a net asset or liability. Entities show their net asset or liability figures in their respective financial statements and are legally liable only for their entity's DBO.
- 150(c) PAHO is liable only for its Defined Benefit Obligation, not those of other organizations. In the event of plan closure or PAHO withdrawal, PAHO would withdraw its accumulated assets and remain liable for its DBO in any new health insurance scheme established for PAHO active and inactive staff and dependents.

12.3 The Termination and Repatriation Entitlements Fund

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

- 141(a) (i) The Termination and Repatriation Entitlements Plan provides certain benefits upon separation, including: accrued leave payments; repatriation, disability, and death benefits; and termination indemnities.
(ii) The TAREP is not subject to any outside regulatory framework. PAHO's overall financing is governed by input from its Member states.
(iii) There is no formal governance committee for the TAREP. However, PAHO's management oversees the operations of the TAREP in accordance with the staff rules.
- 141(b) The principal economic financial risks faced by the plans are changes to discount rates and asset returns.
- 141(d) The discount rate is based on the market yields on high-grade corporate bonds at the measurement date and the expected cash flows and assumed currency exposure.
- 149(a) PAHO is not legally obligated to set aside funds in advance for the plan. Currently the TAREP has a balance of \$12 142 000 in assets. In addition, the Organization has a balance of \$8 947 545 in the Provision for Terminal Payments Fund, which is available to cover current and future termination indemnities. PAHO's current intention is to hold assets to approximately fully fund the accounting liability over time.

As of 31 December 2019, the status of the current and non-current defined benefit obligations per calculations of the actuarial consultants are as follows:

	After-Service Health Insurance Fund	Termination and Repatriation Entitlements Fund	Total 2019	Total 2018
Current Liability		3 368	3 368	2 759
Non-current Liability	270 249	3 924	274 173	200 468
Total	270 249	7 292	277 541	203 227

- Gain and losses (unexpected changes in surplus or deficit) are recognized immediately on the balance sheet and do not impact past or future expense.
- There is no reimbursement right.
- The expected Organization's contributions during 2020 are estimated at \$8 947 000 for After-Service Health Insurance Fund and \$3 414 826 for Termination and Repatriation Entitlements Fund.

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

During 2019, the rates of contribution to these two long-term funds were 5% of net base pay plus post adjustment being credited to the Termination and Repatriation Fund, and 4% of the base pay credited to the After-Service Health Insurance Fund.

12.5 Actuarial Assumptions and Methods

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

Assumption	After-Service Health Insurance Fund	Termination and Repatriation Entitlements Fund
Accounting Standard	International Public Sector Accounting Standard 39	
Measurement Date	31 December 2019	
Discount Rate	3.5 %	2.8 %
General Inflation	2.2 %	
Medical Costs Increases	U.S.—4.8% in 2020, decreasing gradually to 3.85% in 2032 and later years. Non-U.S. Americas—6% in 2019, decreasing gradually to 3.85% in 2035 and later years.	Not Applicable
Future Participant Contribution Rate Changes	2.0% per year through 2020, through 2049, and 0.0% per year thereafter.	Not Applicable
Life Expectancy	Mortality rates are based on those in the 31 December 2019 valuation of the United Nations Joint Staff Pension Fund.	
Average Medical Costs	U.S. and non-U.S. costs projected from recent experience, adjusted for market trends and for SHI cost savings measures	Not Applicable

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

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

Description	After-Service Health Insurance Fund	Termination and Repatriation Entitlements Fund	Total 2019	Total 2018
Reconciliation of Defined Benefit Obligation				
Defined Benefit Obligation (beginning balance)	262 574	16 036	278 610	315 332
Service Cost	5 371	1 996	7 367	10 818
Interest on Defined Benefit Obligation	11 606	587	12 193	11 697
Actual After Service Gross Benefit Payments and Medicare Reimbursements	(14 562)	(1 468)	(16 030)	(10 967)
Actual After Service Administrative Expenses	(769)		(769)	(310)
Actual Contributions by After Service Participants	2 661		2 661	1 983
Plan Amendments Adopted	(8 016)		(8 016)	(24 247)
Changes in Accounting Methods				6 168
(Gain)/Loss on DBO due to Financial Assumption Changes	44 994	1 327	46 321	(32 142)
(Gain)/Loss on DBO due to Other Assumption Changes	34 806	956	35 762	278
Defined Benefit Obligation as of 31 December 2019	338 665	19 434	358 099	278 610
Reconciliation of Plan Assets				
Market Value of Plan Assets (beginning balance)	63 782	11 600	75 382	76 723
Gross Benefit Payments and Medicare Reimbursements	(24 324)	(1 468)	(25 792)	(18 889)
SHI Administrative Expenses	(1 334)		(1 334)	(590)
SHI Contributions by Participants	6 966		6 966	5 435
Organization Contributions, Excluding 4% of Pay Contributions	13 929	1 468	15 397	13 054
Contributions to Increase Assets	2 225		2 225	1 988
Interest on Net Assets	2 840	464	3 304	2 859
Gain/(Loss) on Plan Assets	4 333	78	4 411	(5 198)
Plan Assets as of 31 December 2019	68 417	12 142	80 559	75 382
Reconciliation of Funded Status				
Defined Benefit Obligation				
Active	138 543	19 434	157 977	95 579
Incurred but not paid	8 553		8 553	
Inactive	191 571		191 571	183 031
Total Defined Benefit Obligation	338 667	19 434	358 101	278 610
Plan Assets				
Gross Plan Assets	68 417	12 142	80 559	75 382
Total plan assets	68 417	12 142	80 559	75 382
Current		3 368	3 368	2 759
Non-current	270 249	3 924	274 173	200 468
Net Liability (Asset) Recognized in Statement of Financial Position	270 249	7 292	277 541	203 227
Expenses for 2019				
Service Cost	5 371	1 996	7 367	10 818
Interest Cost	8 766	123	8 889	9 215
Plan Amendments Adopted	(8 016)		(8 016)	(24 247)
Total Expense Recognized in Statement of Financial Performance	6 121	2 119	8 240	(4 214)
Expected Contributions during 2020				
Contributions by / for Active Staff, Net of Claims / Admin Costs	3 256		3 256	6 476
Contributions by WHO for Inactives	5 691	3 415	9 106	4 362
Total expected contributions for 2020	8 947	3 415	12 362	10 838

Note: From the total annual actuarial activity totaling \$74 391 215 (2018: \$-32 994 454), \$66 152 117 (2018: \$-28 780 975) is disclosed in the Statement of Changes in Net Assets, and \$8 239 098 (2018: \$-4 213 479) is disclosed the Statement of Financial Performance.

In addition to the Plan Assets held in the TAREP trust, the Organization has a balance of \$8 947 545 in the Provision for Terminal Payments Fund, which is available to cover current and future termination indemnities.

The ASHI DBO changed from \$262 574 084 in 2018 to \$338 666 414 in 2019 primarily due to an increase of \$44 994 440 attributable to a change in the discount rate from 4.5% to 3.5%, and an increase of \$34 806 483 due to the impact of reflecting updated costs and census data for the current valuation.

The TAREP DBO changed from \$16 035 925 in 2018 to \$19 433 953 in 2019 due to changes in the discount rate from 4% to 2.8%, and an increase in the assumed utilization of termination indemnities.

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

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

	Defined Benefit Obligation as of 31 December 2019	Defined Benefit Obligation as of 31 December 2018
Medical Sensitivity Analysis		
Current Medical Inflation Assumption Minus 1%	287 814	223 254
Current Medical Inflation Assumption	338 666	256 406
Current Medical Inflation Assumption Plus 1%	404 490	297 781
Discount Rate Sensitivity Analysis		
Current Discount Rate Assumption Minus 1%	406 326	301 003
Current Discount Rate Assumption:	338 666	256 406
Current Discount Rate Assumption Plus 1%	287 194	221 362

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

12.8 United Nations Joint Staff Pension Fund

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

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

The Fund's Regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the Open Group Aggregate Method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Fund will be sufficient to meet its liabilities. PAHO's financial obligation to the Fund consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9% for participants and 15.8% for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

The latest actuarial valuation for the Fund was completed as of 31 December 2017, and the valuation as of 31 December 2019 is currently being performed. A roll forward of the participation data as of 31 December 2017 to 31 December 2018 was used by the Fund for its 2018 financial statements.

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

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

Should Article 26 be invoked due to an actuarial deficiency, either during the ongoing operation or due to the termination of the Fund, deficiency payments required from each member organization would be based upon the proportion of that member organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the Fund during the preceding three years (2016, 2017 and 2018) amounted to USD 23 550 073, 24 472 741, and 25 689 009, respectively, of which 67% was contributed by PAHO.

During 2019, contributions paid to the Fund amounted to USD 17 814 119 (2018 USD 17 120 012). Expected contributions due in 2020 are approximately USD 18 705 000.

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

The United Nations Board of Auditors carries out an annual audit of the Fund and reports to the Pension Board and to the United Nations General Assembly on the audit every year. The Fund publishes quarterly reports on its investments, and these can be viewed by visiting the Fund at www.unjspf.org.

13. Deferred Revenue

	31 December 2019	31 December 2018
Current		
Voluntary Contributions		
Voluntary Contributions - Emergency Preparedness and Disaster Relief	8 277	10 996
Voluntary Contributions	69 720	69 872
Voluntary Contributions - National Voluntary Contributions	111 182	96 788
Procurement of Public Health Supplies		
Revolving Fund for Vaccine Procurement	313 708	328 096
Regional Revolving Fund for Strategic Public Health Supplies	59 018	45 475
Reimbursable Procurement	925	4 305
Income from Services	492	638
Total	563 322	556 170
Non-Current		
Voluntary Contributions		
Voluntary Contributions	61 588	36 872
Voluntary Contributions - National Voluntary Contributions	99 761	113 629
Total	161 349	150 501

14. Fund Balances and Reserves

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

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

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

Summary of Fund Balances and Reserves

	Balance as of 31 December 2018	Revenue	Expenses	Transfers	Actuarial Valuation	Balance as of 31 December 2019
Fund Balances:						
Strategic Public Health Supplies-Capitalization	18 404	70 465	68 925			19 944
After-Service Health Insurance	(198 792)		6 120		(65 337)	(270 249)
Voluntary Contributions	36	45 683	45 682			37
Voluntary Contributions - National Voluntary Contributions	1	57 827	72 215			(14 387)
Income from Services	6 857	2 563	2 848	(179) ^{2/}		6 393
Provision for Staff Entitlements	2 488		(1 382)			3 870
Revolving Fund for Vaccine Procurement	195 640	761 191	746 967			209 864
Reimbursable Procurement		2 041	2 041			
PAHO Assessed Contributions and Miscellaneous Revenue	92 000	121 149	104 643	(13 062) ^{3/}		95 444
Provision for Termination and Repatriation Entitlements ^{1/}	4 077	542	132		(815)	3 672
PAHO Post Occupancy Charge	9 434		744			8 690
Expanded Textbook and Instructional Materials Program	11 943	2 325	8 289	(5 326) ^{4/}		653
AMRO Regular Budget		37 831	37 831			
AMRO Voluntary Funds for Health Promotion		39 048	39 048			
AMRO Special Account for Servicing Costs		7 517	7 517			
Subtotal	142 088	1 148 182	1 141 620	(18 567)	(66 152)	63 931
Reserves:						
Working Capital Fund	21 717			3 283 ^{5/}		25 000
Tax Equalization Fund	(5 571)	14 897	7 198			2 128
Master Capital Investment Fund	23 714	1 190	2 111	2 600 ^{4/}		25 393
Special Fund for Program Support	113 999	18 813	27 430	2 725 ^{4/}		108 107
Voluntary Contributions - Emergency Preparedness and Disaster Relief	2 679	11 015	10 938			2 756
Special Fund for Health Promotion	783	19				802
Budgetary Surplus Fund	132			2 455 ^{5/}		2 587
Epidemic Emergency Fund	557		20			537
Food Safety Five-Years Plan Fund	1			(1) ^{3/}		
PMIS Funding PAHO IPSAS Surplus Fund	2 102					2 102
Revenue Surplus Fund				7 505 ^{5/}		7 505
Subtotal	160 113	45 934	47 697	18 567		176 917
Total	302 201					240 848

^{1/} This 2019 Fund Balance is comprised by \$-7 291 915 for the Terminal & Repatriation Entitlement Plan (see note 12.6); \$8 947 545 for the PAHO Provision for Terminal Entitlements; and \$2 016 459 for the Local Non-UN Terminal Benefits Fund (LNTBF).

^{2/} It represents "transfers out" of inactive Income from Services funds to Assessed Contributions and Miscellaneous Revenue fund, such as: \$139 gain from Visual aid Materials Fund, \$21 gain from Venezuela Office Space Rental UNISIDA and \$19 gain from Miscellaneous Income from Services.

^{3/} It represents net of "transfers from" such as: \$179 gain from Income from inactive Income from Services Funds ^(2/) and \$1 gain from Food Safety Five-years Plan Fund and "transfers to", such as: \$7 505 gain to Revenue Surplus Fund \$2 455 gain to Budgetary Surplus Fund and \$3 283 gain to Working Capital Fund.

^{4/} It represents a transfer from PALTEX due to the closing of the fund: \$2 725 to Program Support Cost Fund and \$2 600 to Master Capital Investment Fund that contributed to the purchase of the 2121 Virginia Ave. building in Washington, D.C.

^{5/} It represents the 2018-2019 biennium gain transfer from Assessed Contribution and Miscellaneous Revenue Fund according to the PAHO Financial Regulations ^(3/).

14.1 Working Capital Fund

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

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

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

	Total as of 31 December 2018	Total as of 31 December 2019	Total as of 31 December Biennium 2018-2019	Total as of 31 December Biennium 2016-2017
Balance as of 1 January - Biennium	21 717		21 717	20 745
2016 Surplus / (Deficit)				11 263
2017 Surplus / (Deficit)				(7 359)
2018 Surplus / (Deficit)	(830)		(830)	
2019 Surplus / (Deficit)		16 506	16 506	
Surplus / (Deficit)	(830)	16 506	15 676	3 904
2016 Non-budgetary Items *				2 364
2017 Non-budgetary Items *				365
2018 Non-budgetary Items *	2 343		2 343	
2019 Non-budgetary Items *		(4 956)	(4 956)	
Non-budgetary items *	2 343	(4 956)	(2 613)	2 729
2017 Transfer to Revenue Surplus Fund				(5 661)
2019 Transfer from Closing of Funds ^{1/}		180	180	
2019 Transfer to Revenue Surplus Fund		(7 505)	(7 505)	
2019 Transfer to Budgetary Surplus Fund		(2 455)	(2 455)	
Total Transfers		(9 780)	(9 780)	(5 661)
Program and Budget Appropriation Surplus/(Deficit)	1 513	1 770	3 283	972
Balance as of 31 December ^{2/}			25 000	21 717

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

^{1/} Includes: Miscellaneous Sales and Services Fund, Visual Aid Materials Fund, Venezuela - Office Space Rental to UNISIDA Fund and Food Safety Five-Year Plan Fund.

^{2/} In Biennium 2018-2019 the full Working Capital Fund cash balance has been utilized to fund the implementation of the Program and Budget, as well as an additional \$61.4 million of other unrestricted funds, pending the receipt of assessed contributions, which had an outstanding receivable balance of \$88.9 million as of 31 December 2019.

14.2 Tax Equalization Fund

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

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

Member States	Balance 1 January 2019	Credits from the Tax Equalization Fund	Apportionment to Member States	Available to Cover Tax Reimbursements to Staff	Taxes Reimbursed to Staff	Balance 31 December 2019
Canada	22	801	761	40	42	20
Colombia	16	134	134			16
United States	(5 595)	4 857	(9 965)	14 822	7 155	2 072
Venezuela	(14)	158	123	35	1	20
Other		2 220	2 220			
Total	(5 571)	8 170	(6 727)	14 897	7 198	2 128

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

14.3 Master Capital Investment Fund

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

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

14.4 Special Fund for Program Support Costs

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

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

14.5 Special Fund for Natural Disaster Relief

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

14.6 Special Fund for Health Promotion

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

14.7 Epidemic Emergency Fund

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

14.8 Food Safety Five-Year Plan Fund

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

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

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

14.10 Budgetary Surplus

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

14.11 Revenue Surplus

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

15. Revenue

	Total 2019	Total 2018
Revenue from Non-Exchange Transactions		
Assessed Contributions		
PAHO Assessed Contributions and Miscellaneous	97 150	97 150
Tax Equalization Fund	14 897	6 075
Subtotal	112 047	103 225
Voluntary Contributions		
Voluntary Contributions	45 683	46 192
Voluntary Contributions - National Voluntary Contributions ^{1/}	57 828	439 396
Voluntary Contributions - Emergency Preparedness and Disaster Relief	11 015	5 915
Special Fund for Program Support	8 256	26 776
Subtotal	122 782	518 279
WHO Allocations		
AMRO Regular Budget	37 831	42 560
AMRO Voluntary Funds for Health Promotion	39 048	21 186
AMRO Special Account for Servicing Costs	7 517	5 569
Subtotal	84 396	69 315
Revenue from Exchange Transactions		
Procurement of Public Health Supplies		
Revolving Fund for Vaccine Procurement	767 162	605 326
Reimbursable Procurement on Behalf of Member States	2 041	4 655
Regional Revolving Fund for Strategic Public Health Supplies	70 825	68 280
Special Fund for Program Support	9 901	8 008
Subtotal	849 929	686 269
Other Revenue		
PAHO Assessed Contributions and Miscellaneous	1	39
Income for Services	2 563	3 141
Expanded Textbook and Instructional Materials Program	2 289	2 495
Special Fund for Health Promotion	19	17
Master Capital Investment Fund	1 190	1 190
Special Fund for Program Support	418	1 272
Subtotal	6 480	8 154
Miscellaneous Revenue		
PAHO Assessed Contributions and Miscellaneous		
Interest Earned	21 080	18 389
Valuation Gains and Losses	3 267	(8 919)
Investment Management Fees	(653)	(445)
Other Miscellaneous	304	447
Special Fund for Program Support	238	(1 521)
Expanded Textbook and Instructional Materials Program	36	54
Provision for Termination and Repatriation Entitlements	542	188
Voluntary Contributions - National Voluntary Contributions	(1)	
Decrease/(Increase) in Allowance for Doubtful Accounts	(6 331)	
Subtotal	18 482	8 193
Total	1 194 116	1 393 435

^{1/} The 2018 National Voluntary Contributions included \$364 850 591 related to the reduced Mais Medicos program.

16. Expenses

	Total 2019	Total 2018
Staff and Other Personnel Costs		
International and National Staff	134 268	114 526
Temporary Staff	9 239	8 900
Subtotal	143 507	123 426
Supplies, Commodities, Materials		
Vaccines / Syringes / Cold Chain	746 967	590 652
Medications and Medical Supplies	70 965	71 116
Other Goods and Supplies	33 837	30 885
Subtotal	851 769	692 653
Equipment, Vehicles, Furniture, Intangible Assets, Depreciation and Amortization		
Equipment, Vehicles, Furniture		(513)
Depreciation / Amortization	1 990	1 962
Subtotal	1 990	1 449
Contract Services		
Contracts	99 487	112 459
Subtotal	99 487	112 459
Travel		
Duty Travel	34 767	49 055
Subtotal	34 767	49 055
Transfers and Grants to Counterparts		
Letters of Agreements ^{2/}	20 077	365 813
Subtotal	20 077	365 813
General Operating Costs		
Maintenance, Security and Insurance ^{1/}	23 333	23 940
Increase in Provisions	14 387	
Subtotal	37 720	23 940
Total	1 189 317	1 368 795

^{1/} Includes lease payments for \$3 487 377 (2018: \$3 469 650)

^{2/} The 2018 letters of agreement included \$348 250 083 related to the reduced Mais Medicos program.

17. Comparison of Budget and Actual Amounts

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

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

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

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

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

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

The reconciliation between the actual amounts on a comparable basis in the Comparison of Budget and Actual Amounts and the actual amounts in the Cash Flow Statement for the year ended 31 December 2019 is presented below:

Activity	Investing and Financing		Total
	Operating		
Actual Amount on comparable basis from Statement of Budget and Actual Amounts	(284 612)		(284 612)
Basis Differences	(1 990)		(1 990)
Timing Differences			
Presentation Differences		(10 670)	(10 670)
Entity Differences	486 198		486 198
TOTAL	199 596	(10 670)	188 926

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

Activity	Total
Actual Amount on comparable basis from Statement of Budget and Actual Amounts	(284 612)
Basis Differences	(1 990)
Timing Differences	
Presentation Differences	
Entity Differences	1 461 532
TOTAL	1 174 930

17.3 2019 Expenses vs Funding

Category/Program Area	Funds			Total Expenses Biennium	% Expenses Vs Funds Budgeted
	Budgeted as of 31 Dec 2019	Actual expenses 2018	Actual expenses 2019		
1. Communicable Diseases	107 036	49 878	54 288	104 166	97%
2. Non-communicable Diseases and Risk Factors	41 864	21 199	20 310	41 509	99%
3. Determinants of Health and Promoting Health throughout the Life Course	53 609	26 891	26 600	53 491	100%
4. Health Systems	91 446	43 983	46 925	90 908	99%
5. Health Emergencies	41 546	19 983	20 703	40 686	98%
6. Leadership, Governance, and Enabling Functions	170 033	78 911	85 515	164 426	97%
Sub-total for Base Programs (Categories 1-6)	505 534	240 845	254 341	495 186	98%
Special Programs and response to emergencies	50 927	20 703	30 271	50 974	100%
TOTAL	556 461	261 548	284 612	546 160	98%

This Note serves as a supplement to the standardized information presented in the Comparison of Budget and Actual Amounts. Given that the approved PAHO budget is typically not fully funded, it is useful to compare expenses and accrued amounts vs. funding ("Funds Budgeted") as shown in the table above, as well as vs. approved budget (envelopes or ceilings) as shown in the Comparison of Budget and Actual Amounts. In addition to the budgeted amounts shown in the table, as of the date of the report there were \$77.3 million available to budget, most of which will be carried over to the following biennium (\$71.5 million).

18. Segment Reporting

18.1 Statement of Financial Position by Segments

	Total Core Activities Segment	Total Partnership Activities Segment	Total Enterprise Activities Segment	Total Special Activities Segment	Intra-Party Segment	Total 2019	Total 2018
ASSETS							
Current Assets							
Cash and Cash Equivalents	188 926					188 926	193 712
Short Term Investments	247 034					247 034	288 320
Owed From Other Segments *		206 898	645 355	49 035	(901 288)		
Accounts Receivable	94 760	79 558	72 106	3 893		250 317	201 688
Inventories			1 763			1 763	7 824
Total Current Assets	530 720	286 456	719 224	52 928	(901 288)	688 040	691 544
Non-Current Assets							
LongTerm Investments	421 548					421 548	379 245
Accounts Receivable		85 519		1 250		86 769	79 608
Net Fixed Assets	101 545			7 650		109 195	106 143
Intangible Assets			496			496	695
Total Non-Current Assets	523 093	85 519	496	8 900		618 008	565 691
TOTAL ASSETS	1 053 813	371 975	719 720	61 828	(901 288)	1 306 048	1 257 235
LIABILITIES							
Current Liabilities							
Accrued Liabilities	2 445	16 254	568	7 712		26 979	25 398
Owed To Other Segments *	901 288				(901 288)		
Accounts Payable	11 748	1 862	49	167		13 826	11 942
Employee Benefits				3 368		3 368	2 759
Deferred Revenue		189 180	374 142			563 322	556 170
Short Term Provision		14 387				14 387	
Total Current Liabilities	915 481	221 683	374 759	11 247	(901 288)	621 882	596 269
Non-Current Liabilities							
Accounts Payable	7 796					7 796	7 796
Employee Benefits				274 173		274 173	200 468
Deferred Revenue		161 349				161 349	150 501
Total Non-Current Liabilities	7 796	161 349		274 173		443 318	358 765
TOTAL LIABILITIES	923 277	383 032	374 759	285 420	(901 288)	1 065 200	955 034
NET ASSETS / EQUITY							
Fund Balances and Reserves							
Fund Balances	95 444	(14 350)	236 854	(254 017)		63 931	142 088
Reserves	35 092	3 293	108 107	30 425		176 917	160 113
TOTAL NET FUND BALANCES and RESERVES	130 536	(11 057)	344 961	(223 592)		240 848	302 201

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

18.2 Statement of Financial Performance by Segments

	Total Core Activities Segment	Total Partnership Activities Segment	Total Enterprise Activities Segment	Total Special Activities Segment	Intra-Party Segment	Total 2019	Total 2018
REVENUE							
Revenue from Non-Exchange Transactions							
Assessed Contributions	97 150			14 897		112 047	103 225
Voluntary Contributions		122 782	8 256		(8 256)	122 782	518 279
WHO Allocations	37 831	39 048	7 517			84 396	69 315
Revenue from Exchange Transactions							
Procurement of Public Health Supplies			859 830		(9 901)	849 929	686 269
Other Revenue	1		6 865	26 731	(27 117)	6 480	8 154
Miscellaneous Revenue	23 998	(1)	(6 057)	542		18 482	8 193
TOTAL REVENUE	158 980	161 829	876 411	42 170	(45 274)	1 194 116	1 393 435
EXPENSES							
Staff and Other Personnel Costs	98 753	21 632	17 571	30 474	(24 923)	143 507	123 426
Supplies, Commodities, Materials	2 090	21 148	837 945	1 362	(10 776)	851 769	692 653
Equipment, Vehicles, Furniture, Intangible Assets, Depreciation and Amortization	1 344		198	448		1 990	1 449
Contract Services	20 781	63 357	10 571	5 294	(516)	99 487	112 459
Travel	8 051	23 733	2 987	199	(203)	34 767	49 055
Transfers and Grants to Counterparts	2 618	16 799	660			20 077	365 813
General Operating Costs	8 838	21 234	5 581	2 667	(600)	37 720	23 940
Indirect Support Costs		8 256			(8 256)		
TOTAL EXPENSES	142 475	176 159	875 513	40 444	(45 274)	1 189 317	1 368 795
NET SURPLUS/ (DEFICIT)	16 505	(14 330)	898	1 726		4 799	24 640

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

In 2019 the Organization recorded the following accounting entries:

- \$76 582 were recorded as write-off for PALTEX program receivables(2018: \$51 452)
- \$ 42 100 were recorded as write-off for PROMESS program receivables(2018: \$0)
- No write-off was recorded for letters of agreement (2018: \$36 407)
- \$714 was recorded for small amount write-offs (2018: \$26)
- \$25 000 were recorded for the utilized balance of the postage meter in headquarters.
- No Ex-Gratia Payments were recorded (2018: \$444)

20. Cases of Fraud and Presumptive Fraud

In 2019, a total of 32 cases of fraud, theft and loss of property valued at \$79 049 were reported. PAHO recovered \$13 182 of this amount leaving an overall net loss to the Organization of \$65 866.

The PALTEX program had one case involving the loss or theft of textbooks totaling \$15 694. PAHO waived its indemnity, as the loss occurred amid political unrest in the country of the point of sales location. Thus, the Organization suffered a net loss of \$15 694 relating to the PALTEX program in 2019.

There were 22 cases involving the loss or theft of PAHO property from PAHO personnel in the country offices and Headquarters. The total net loss to the Organization of this lost or stolen property was \$4 697.

Seven cases involved alleged occupational fraud that resulted in investigations by the Investigations Office. The amount of the net loss to the Organization was \$45 474.

Finally, there were two cases involving the misuse of PAHO purchasing or travel credit cards committed by people outside the Organization. In these cases, the fraudulent charges, amounting to \$412, were reimbursed by the financial institutions concerned.

21. Related-Party and Other Senior Management Disclosure

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

The Agreement between the World Health Organization and the Pan American Health Organization and the PAHO Financial Regulations can be found in the Basic Documents of the Pan American Health Organization at the following link: <https://www.paho.org/hq/dmdocuments/2017/basic-documents-paho-2017.pdf>

Details of the transactions with WHO are set out in Note 14, AMRO Regular Budget, AMRO Voluntary Funds for Health Promotion, and AMRO Special Account for Servicing Costs.

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

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

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

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

21.1 Key Management Personnel

As of 31 December 2019, the number of key management personnel totaled 4 (2018: 4).

Key Management Personnel	2019	2018
Compensation and Post Adjustment	795	842
Entitlements	271	487
Pension and Health Plans	267	289
Total Remuneration	1 333	1 618

22. Events after Reporting Date

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

On January 30, 2020, the Director-General of the World Health Organization declared the outbreak of the COVID-19 coronavirus a public health emergency of international concern. This is a non-adjusting event for the 2019 financial statements, however, given the global effects of this pandemic, there may be significant impacts on the Organization's operations in 2020, the extent of which cannot be reliably estimated at this time. PAHO continues to closely monitor the impacts on its operations. The Organization has successfully moved to teleworking across the region, although some activities that require face to face meetings have been impacted. Despite the stress observed in many areas, the delivery of supplies is being ensured. The pandemic may also have relevant impacts on the economies and societies of Member States. To mitigate the impact of delays in payments of Assessed Contributions and to ensure continuity of operations, PAHO has increased the share of liquid investments or interest-bearing bank accounts and performs frequent reviews of all investment portfolios. As of 30 July 2020, the Organization has received \$66 228 409 in prior year assessments and \$33 729 375 in 2020 assessments.

23. Provisions

As at 31 December 2019, the Organization recognized a provision for \$14 386 948 (2018: nil). The provision reflects potential losses against revenues recognized in previous periods. The timing of any potential outflow of resources is uncertain. The Organization will continue to seek the most advantageous outcome.

24. Contingent Liability

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

25. In-Kind Contributions

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

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

Report of The External Auditor



AUGUST 2020

Pan American Health Organization

External Auditor's Report on the 2019

PAHO Financial Statements

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

The Comptroller and Auditor General is the head of the National Audit Office (NAO), the United Kingdom's Supreme Audit Institution. The Comptroller and Auditor General and the NAO are independent of the United Kingdom Government and ensure the proper and efficient spending of public funds and accountability to the United Kingdom's Parliament. The NAO provides external audit services to a number of international organizations, working independently of its role as the Supreme Audit Institution of the United Kingdom.

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Executive summary

Background

1. The Pan American Health Organization (PAHO) is the specialized international health agency for the Americas. It works with countries throughout the region of the Americas, to improve and protect people's health. PAHO engages in technical cooperation with its member states to fight communicable and noncommunicable diseases and their causes, to strengthen health systems, and to respond to emergencies and disasters. PAHO is committed to ensuring that all people have access to the health care they need, when they need it, with quality and without fear of falling into poverty. Through its work, PAHO promotes and supports the right of everyone to good health.
2. To advance these goals, PAHO promotes technical cooperation between countries and works in partnership with ministries of health and other government agencies, civil society organizations, other international agencies, universities, social security agencies, community groups, and other partners. PAHO promotes the inclusion of health in all public policies and the engagement of all sectors in efforts to ensure that people live longer, healthier lives, with good health as their most valuable resource.
3. In addition to our opinions on PAHO's financial statements, this report presents the key findings and recommendations arising from our work, including our observations on financial management and governance. These areas were considered important to cover in the first year of our audit mandate and in the current circumstances we believe they remain relevant. We have also followed up the progress made implementing our previous recommendations.
4. Our findings have been discussed with management and the results of our audit have been communicated to the Audit Committee by correspondence following completion of our work.

Key observations

Audit opinion on financial statements

5. Our audit comprised the examination of the 2019 financial statements and the associated transactions and events for that year. It was conducted in accordance with International Standards on Auditing and the Financial Regulations. We provided an unqualified audit opinion, without modification, on the financial statements. We have noted areas where controls could be further enhanced and make recommendations to enhance the content of the financial report and the financial statements.
6. In the circumstances of the Covid-19 Pandemic, and the curtailment of our on-site audit work, the attainment of an unqualified audit opinion represents a significant achievement by all involved in ensuring the availability and access to information to enable the audit to be finalised successfully.

Financial management

7. PAHO achieved an overall surplus (on an IPSAS basis) of \$4.8 million on its activities in 2019, with total revenues of \$1,194 million (2018: \$1,393 million) and expenses of \$1,189 million (2018: \$1,369 million). The reductions in revenues and expenditures arose primarily from a decline in project activity. PAHO's net asset position declined in 2019 to \$240.8 million (2018: \$302.2 million). This decline is primarily due to the increase in the employee benefit liabilities which are further explored below. During the period there was a significant shift in the sources of funding for PAHO activities, with procurement on behalf of Member States increasing to form 71.2 per cent of revenues and voluntary funding reducing to 10.3 per cent.
8. As we highlighted last year, while PAHO continues to have positive overall reserves and fund balances, supported by cash and investments, many of the reserves and fund balances are restricted for specific purposes. This has had significant impacts on the operations of PAHO and created significant uncertainties. As a consequence, PAHO has increasingly subsidised its cash requirements for regular activities from other sources as a result of the delayed payment of assessed contributions. At 31 December 2019, the total balance outstanding was \$88.9 million. The delays in payment continued into 2020 and the cashflow pressures worsened.
9. At the Special Session of the Executive Committee in May 2020, it was agreed that PAHO would review operating costs with a view to identifying additional cost savings through modifications to human resources structures and administrative processes. We believe that efficiency savings are important at this time, Covid-19 has created unprecedented pressures on Member State finances and has significantly increased the healthcare demands in the region. We will review the steps management has begun to take to act upon the outcomes from the Committee in our forthcoming audit.
10. As a consequence of these delays PAHO's Working Capital Fund, the primary purpose of which is to finance the Program and Budget pending receipt of contributions, was again completely exhausted throughout 2019. At 31 December, in addition to the \$25 million working capital fund, there was a requirement to internally borrow or fund \$61.4 million to finance core activities. This

scale of borrowing increased further in the first seven months of 2020 as a result of the pressures from late payment of contributions. The Director's Report provides the latest position on the status of contributions.

11. Our report highlights a number of areas relating to the financial statement preparation. Most notably we have commented upon the need for PAHO to review its approach to the accounting for receivable assets, to ensure that the financial statements reflect their underlying recoverability. The IPSAS standards do not differentiate between receivables due from Member States or any other receivable, but require an objective assessment based upon experience, known issues and the circumstances of the debtor to ensure that the statements report the fair value of the asset. We have made recommendations that PAHO should revisit its current policy and that Member States should not be involved in the accounting judgements around the valuation of outstanding debt. This does not change the nature of any legal obligations to meet contractual obligations.
12. We have reported on the significant liabilities which PAHO continues to recognise in respect of Employee Benefits, which remain the predominant liability of the Organization. These liabilities remain sensitive to changes in underlying assumptions, and the current economic turbulence may impact on these valuations during the course of 2020. We have highlighted the potential to further develop the content of the Director's Report which accompanies the Statements and to focus the financial statement disclosures on the more material elements. We believe this could provide a broader view of performance, more closely aligning the reporting of the use of resources and the key outcomes.
13. Building on our observations from last year, there remains scope for PAHO to adopt a more strategic approach towards its estate. At the end of 2019 PAHO acquired the residual interests in 2121 Virginia Avenue to consolidate Headquarters staff closer to the main building and take the opportunity under its leasing agreement. The Business Case set out various objectives underpinning the investment and, as with all projects, it is important that management report back to the Governing Bodies on how these objectives have been met. With the impacts of Covid-19 creating pressures for new ways of working, it is more important than ever that Estates Strategies are effective and updated. PAHO's strategy should factor in lessons learned from new ways of working and consider the future opportunity costs of refurbishing buildings, the availability of funds to renovate and maintain buildings in the medium to long term and the potential to realise the value of capital assets.

Governance and internal control

14. Governance and internal controls are the essential mechanisms on which Member States rely to ensure the proper stewardship of the resources given to the organisation. A central element of the internal control framework is the PAHO Management Information System (PMIS), through which transactions are controlled and recorded. This integrated system offers many opportunities to the Organization and it has clearly strengthened the control environment, enabling for example, the Organization to deal with the challenges of remote working.
15. We consider that greater use can be made of PMIS functionalities to enhance compliance and PAHO Administration are developing processes to strengthen the oversight of the control environment. We have recommended that compliance developments are prioritised and that a strategy is established to systematically report compliance issues to cost centre managers, underpinned by a sanction's regime. As part of this process PAHO needs to ensure continued

investment in the training needs of users to ensure the benefits of the system are maximised and ensure better engagement with core control processes.

16. Our Country Office visits have further reinforced our view that embedding Risk Management within PAHO remains in progress. Systematic risk management processes are not yet being used to inform local and operational decision making. Risk management continues to be seen as a central compliance process, rather than something which supports sound management and decision making. We have noted that effective risk management can add greater value to PAHO's project portfolio, to help manage and inform financial and delivery risks. It is also important to build in the management of risk at the onset of a project, including the approval process itself, to ensure this is embedded within project governance. Given the ongoing pandemic, systematic and effective risk management functions are increasingly critical in providing confidence to the Director and Member States.
17. We have noted further development of the Statement on Internal Control, which draws upon a stronger evidence base and provides more detail of how the environment has operated. We have highlighted areas for further enhancement, in particular to integrate the sources of assurance and better identify the themes emerging from audit and compliance functions. We remain concerned that PAHO has not yet operationalised policies it has developed in respect of anti-fraud risk assessment and response plans, and our prior recommendations remain outstanding in this area. The Audit Committee has an important role to play in supporting the Director in strengthening and enhancing internal control and reviewing the extent to which risk management is embedded in the Organization.

Human resources management

18. Human resources are PAHO's most important assets, and its performance is determined largely by how well it recruits, utilises and develops its people. Given this, we have focused on HR management and the Organization's progress in implementing its People Strategy 2015-19 as our performance audit topic for 2019. PAHO's People Strategy was designed to "attract, retain and motivate the best talent..." Implementation of the Strategy is managed by the Human Resources Management (HRM) function, and over the last few years it has transitioned from a transactional approach to a strategic one which supports the business in supporting the delivery of these objectives. The 2015-19 Strategy outlined five priorities:
 - Realign staffing to better meet programmatic and Member State needs
 - Foster talent at every level.
 - Drive performance of personnel.
 - Achieve inspiring leadership through investment in its managerial talent pool.
 - Create a world-class work environment and enabling HR function.
19. PAHO identified 58 workforce activities across the five themes, HRM has reported limited progress in implementing the People Strategy and at the time of our audit in February 2020, only 41 per cent of activities had been fully completed. In light of progress, PAHO has decided to refresh the existing strategy and reprioritise outstanding actions rather than to launch a new strategy. An effective strategy is vital in helping it address the increasingly challenging financial environment and the strategy should be kept under regular review to ensure it remains relevant.

20. Talent management is seen by PAHO as an important objective, our report highlights the importance of linking performance review processes with the competence-based approach which the Organization has adopted. Performance review is undermined by a reluctance to enforce compliance with the requirement to undertake regular staff appraisals. Where appraisals are undertaken the results suggest a failure to differentiate between the range of performance grades, making it harder to address performance issues.
21. PAHO has developed processes to support good talent management and development, but it has been constrained by the level of resources dedicated to training and has not invested in the 55 per cent of its non-staff workforce. Mandatory training is not enforced by PAHO, and evidence suggests more senior staff within PAHO need to place greater emphasis on compliance and engagement in learning processes, particularly in key areas such as communicating the organisational approach to harassment. Overall, staff surveys have clearly identified that training is seen as an area where the organisation needs to improve.
22. Training will be increasingly important to ensure an agile workforce which can adapt to changing needs and ways of working. Talent management is also important given the age profile of the organisation, and PAHO needs to engage in a careful consideration of succession plans in key areas of the Organization. In addition, it needs to consider and anticipate where it will have future operational needs to ensure it develops staff appropriately, this would include staff with project management, analytical and data analysis skills. Recruitment strategies need to be aligned to the changing characteristics of PAHO, the development of better information systems and the objectives of Member States.
23. In delivering the strategy it is important that the HRM function reports effectively both internally and to Member States. The metrics for reporting HRM results can be improved. In the 2018-2019 biennium, PAHO set a single indicator to measure HR performance as part of its formal results-based management, measuring the proportion of HR-related Service Level Agreements. Separately, HRM reported to the Executive Committee on workforce characteristics (category, grade, gender, age, location and service length). In our view PAHO can provide Member States with more informative and richer data on the strategic use of resources and of its effectiveness in managing people resources. Overall, we encourage the use of a more balanced scorecard of HR measures to better reflect the range of key objectives which are deemed essential to the delivery of the strategy. This will help support oversight of progress and support HRM in focusing its efforts. Reporting on HR should also focus on a clearer articulation of how PAHO is adapting its workforce and challenging the efficiency of its workforce costs. This includes the way in which it is using new technology and systems to streamline labour intensive processes and the further consideration of options such as outsourcing.
24. PAHO's overall workforce increased significantly between 2014 and 2019, with a greater use of contingent labour and, in particular, individual consultants. The range of 'non-staff' personnel categories is unusually broad and the boundary between staff and non-staff work lacked clarity and consistency. Some 'contingent' personnel have been in post for a long period of time with nearly a third (32 per cent) having worked for PAHO entities for five or more years, and 18 per cent for 10 or more. Turnover rates among some non-staff categories are broadly comparable with those for staff, further blurring the boundary. The recruitment processes for non-staff personnel are not as rigorous as for permanent staff and the range of contract modalities introduces administrative complexities and increases compliance risks. In practice, the increased use of consultants reflects shorter-term funding considerations rather than a fully

considered view on the needs of the Organization. There is scope to review the appropriateness of these modalities and their continued utility to PAHO.

Prior year recommendations

25. As at 31 March 2020, of the 22 recommendations made for 2018, eight (36 per cent) had not been implemented, 10 (45 per cent) were in progress and four (18 per cent) had been either implemented or closed. While there has been some progress, we are concerned about the overall pace of the implementation of our recommendations. While PAHO's financial position and Covid -19 have impacted on management capacity, we believe there is scope for a clearer articulation of how PAHO will respond and implement recommendations. Additionally we believe greater scrutiny of implementation plans by the Audit Committee can add value. This will provide important challenge and insight as well as an opportunity to critically review the continued relevance of recommendations.

Part One

Financial management

Overall audit result

1.1. Our audit of PAHO's financial statements revealed no weaknesses or errors which we considered material to their accuracy, completeness or validity. The audit opinion confirms that these financial statements present fairly, in all material respects, the financial position of PAHO as at 31 December 2019 and of its financial performance and cash flows for the year then ended. It also confirms their preparation in accordance with International Public Sector Accounting Standards. The audits also confirmed that, in all material respects, the transactions underlying the financial statements have been made in accordance with the Financial Regulations and applied to the purposes intended by the governing bodies.

1.2. The audit included a general review of PAHO's accounting procedures, an assessment of internal controls that impact on our audit opinions; and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. Our audit procedures were designed primarily for the purpose of forming those opinions. The audit did not involve a detailed review of all aspects of the budgetary and financial information systems, and the results should not be regarded as a comprehensive statement on them. Finally, an examination was carried out to ensure that the financial statements accurately reflected the accounting records and were fairly presented. Alongside our work at headquarters, we also undertook field visits to examine PAHO's operations in Haiti and at the Regional Office for the Eastern Caribbean Countries (ECC). As part of our work at the ECC, we examined the Smart Hospitals Project and visited several project sites.

1.3. As Member States will be aware, at the request of the Director we paused our audit to allow time for the Organization to take stock of its financial position in light of significant and unprecedented financial challenges arising from late payment of contributions. At the time we would normally certify the financial statements in April there was a lack of evidence to support the continuance of the going concern assumption, which could have resulted in an adverse audit opinion. Following the agreed suspension of the audit, as we reported to the Executive Committee in June 2020, management presented further evidence following the receipt of significant overdue contributions in July. This enabled us to conclude that the assumption remained appropriate.

1.4. While the immediate issues which caused the uncertainty around financial health have been eased, it has exposed two significant issues which PAHO needs to address. The first relates to the need to resolve inconsistencies in respect of the application of accounting policies for time delays in the receipt of contributions outstanding, which could result in an overstatement of resources immediately available to the Organization. The second, which was tabled by the Special Session of the Executive Committee in May 2020, is to review costs and to seek to identify efficiency savings. We believe that efficiency savings are important at this time as Covid-19 has created unprecedented pressures on Member State finances and has significantly increased the healthcare demands in the region. This makes it increasingly important for PAHO to demonstrate it is maximising the use of its resources to deliver to its frontline activities.

1.5. We understand that initial steps have been made to increase efficiency, with Management creating an internal steering committee to review operating costs and opportunities to identify cost savings through modifications to human resources structures and administrative processes. This will seek to take advantage of available tools within PMIS and PAHO's cloud platforms. PAHO Member States have established a parallel working group to review the Strategic Plan, with a view to reprioritizing programmatic areas to better fit with available resources. These are all important processes to help provide a stronger basis for the efficiency and financial sustainability of the Organization. We will review progress in these areas over the next year.

Financial commentary

1.6. PAHO reported an overall surplus of \$4.8 million (2018: surplus \$24.6 million), with total revenues of \$1,194 million (2018: \$1,393 million) and expenses of \$1,189 million (2018: \$1,369 million). Reductions in revenues and expenses were primarily driven by the significant changes and reductions in project activities funded by national voluntary contributions in Brazil, some of which were offset by increased activity through the revolving funds.

1.7. The Statement of Comparison of Budget and Actual Amounts (Statement V) shows final disbursements against the approved biennial budget, with actual biennium expenditure incurred of \$546.2 million against the biennium budget of \$675.6 million. The 2019 expenses were \$284.6 million (2018: \$261.5 million).

1.8. As we reported last year, PAHO manages its budget on a biennial basis and does not profile its expenditures over the period of the budget in line with expenditure plans and expectations. We continue to stress the importance of a more nuanced approach to annual budgeting and monitoring, and this is especially important given the financial pressures which PAHO has faced from delayed contribution receipts and the emerging health emergencies relating to the pandemic.

Table 1: Key revenue and expense streams: PAHO's activities are now increasingly dominated by the procurement services it provides directly to individual national governments.

Key revenue streams	2019	Percentage of total revenue (2018 in brackets)
Procurement activities on behalf of Member States	\$849.9m	71.2 (56.9)
Voluntary (including National) contributions	\$122.8m	10.3 (43.0)
Assessed contributions	\$112.0m	9.4 (8.6)
WHO revenue	\$84.4m	7.0 (5.7)
Other revenue	\$36.2m	2.1 (1.4)
Total revenue	\$1,194.1m	
Expense streams	2019	Per cent of total expenses (2018 in brackets)
Procurement activities on behalf of Member States	\$851.8m	71.6 (50.6)
Transfers and grants	\$20.1m	1.7 (26.7)
Staff and other personnel costs	\$143.5m	12.1 (9.0)
Contract services	\$99.5m	8.4 (8.2)
Other expenditure	\$74.4m	6.3 (5.4)
Total	\$1,189.3m	

Source: NAO analysis of PAHO financial statements

1.9 Overall, net assets have reduced from \$302.2 million as at 31 December 2018 to \$240.8 million at 31 December 2019. Total assets included property, plant and equipment holdings with a net value of \$109.2 million (2018: \$106.1 million) and cash and investments of \$857.5 million (2018: \$861.3 million). Total liabilities increased from \$955.0 to \$1,065.2 million an increase of \$110.2 million, including the total actuarial impact on the staff benefit liability in 2019 of \$74.6 million as shown in Note 12.6 to the financial statements,

1.10 PAHO's overall financial health has stayed broadly consistent over the past four years, but activities funded through core have faced greater cash pressures than the voluntary funded activities. We use ratio analysis to consider an organisation's financial health on all our international audits to show how financial positions change over time. They express the relationship of one item of account against another. For example, there are \$1.1 of current assets for every \$1 of current liabilities, demonstrating that current assets cover current liabilities by some 10 per cent. We have undertaken a review of the indicators of PAHO's financial health, using key financial ratios (Table 2). Overall, resources have remained broadly consistent over the last two biennia. Our analysis of overall and core activities shows that financial pressures have been more acute, with current assets relating to core activities matching only 60% of current liabilities, meaning that PAHO cannot meet its immediate obligations from core resources.

Table 2: Analysis of key financial health ratios for PAHO (core activities shown in brackets). The ratios show that core activities are under greater pressure than those funded by voluntary funds and PAHO does not have sufficient liquid assets to meet its current liabilities

Ratio	2019	2018	2017	2016
Current ratio				
Current assets:	1.1 (0.6)	1.2 (0.6)	1.1 (0.6)	1.2 (0.6)
Current liabilities				
Total assets: Total liabilities				
Assets: Liabilities	1.2 (1.1)	1.4 (1.1)	1.2 (1.1)	1.3 (1.2)
Cash ratio:				
Cash and short-term investments: Current liabilities	0.7 (-0.05)	0.8 (-0.02)	0.6 (-0.03)	0.6 (-0.02)
Investments ratio:				
Cash and investments: Total assets	0.7 (-0.04)	0.7 (-0.02)	0.6 (-0.02)	0.5 (-0.02)

Financial health pressures

1.11 There are three specific areas within the financial statements which we would highlight to Member States which have had a significant influence on financial health in 2019, these are the increase in the receivable assets due to PAHO in 2019; the impact this has had on cashflows; and the increase in the long-term liabilities accrued in respect of employee benefits.

Receivable assets

1.12 To have stable and predictable levels of resource it is important that Member States fulfil their obligations in full, and on a timely basis. At 31 December 2019, outstanding assessed contributions had increased to \$88.9 million (2018: \$42.8 million), and \$7.1million (2018: \$2.4 million) had been outstanding for more than 12 months. PAHO has a policy to allocate cash received to the oldest debt, which can obfuscate the reality that some debt may in substance be much older and may have been disputed by Member States over a long period of time; making settlement unlikely. Over the past two biennia, for the core activities segment, PAHO's "debtor days" has increased from 151 days in 2016 to 290 days in 2019. This ratio provides further insight to the cashflow pressures that late receipt of the Assessed Contributions brings as it measures how quickly it takes for the receivables to be recovered.

1.13 The growing level of outstanding receivables is exacerbated by the indication that some Member States may choose to withhold or be unable to honour their commitments. Alongside the significant financial burden on PAHO, this can create material uncertainty as to whether the balances reported will result in a future cash inflow. In June 2020, PAHO reported to the Executive Committee (CE166/7) that an unprecedented \$63.7 million of 2019 assessed contributions (57 per cent of the original total) were still outstanding almost halfway into 2020. At the date of finalising this report (August 2020), a further \$45.3 million had been received leaving a balance of \$18.4 million outstanding from 2019.

1.14 A key benefit of IPSAS financial reporting is that it provides transparency on the collectability of financial assets, meaning that financial statements provide an accurate account of resources available to the organisation at a point in time. This provides a reliable basis for decision making, reflecting the

economic reality of the underlying financial position. In 2007, PAHO's governing body passed a resolution (CSP27.R15) requiring that the Director identified the changes to the financial regulations and rules necessary to implement IPSAS. One area where we feel PAHO has not fully embraced the move to IPSAS is in the impairment of its receivables. An impairment reflects the fact that at a point in time the economic flows relating to the asset may be less than the expected value of the receivable. As a consequence, a temporary write down may be required to ensure that financial statements present fairly. This is an accounting adjustment and does not represent a write off, which would cancel the debt.

1.15 We have regularly challenged management on the need to consider the impairment of its receivables in line with IPSAS 29. In 2019, PAHO recognised an impairment for the first time, writing down \$6.3 million against various categories of receivables as shown in Note 6 to the financial statements. In contrast to most other international organisations PAHO has not considered any impairment of outstanding Assessed Contributions, it considers that this is the responsibility of PAHO's governing bodies as set out in Financial Regulation 13.7. A revised text of this Regulation was discussed at the 166th Session of the Executive Committee (June 2020) and a revision is to be presented to the 58th Directing Council for approval. The proposal maintains the authority of the governing bodies to establish the provision.

1.16 In our view it is central to accounting practice that accounts are based on an objective and neutral presentation of the economic circumstances of an organisation. It would be difficult for Member States to be truly objective in making decisions on what assets should be impaired, it would create an actual or perceived risk that accounting transactions would become biased. In most other international organisations objective criteria, in compliance with accounting standards, have been formulated into the relevant accounting policies of the entities. These typically incorporate the key requirements of the reporting standards in taking account of any known factors. This could include a Member State being precluded from making payment, such as a decision of a government or legislative body, the financial circumstances of a Member State, or loss of voting rights to the Governing Body. All of these factors would be strong indicators of impairment when assessed against the criteria of IPSAS 29.

1.17 Reporting standards are dynamic and consequently accounting policies need to be reviewed annually to ensure they remain relevant, appropriate and implemented in practice. Placing these responsibilities on Member States could become onerous to maintain as well as creating a potentially conflicted position. The Audit Committee could provide the Director with advice and guidance on proposed changes to accounting policies of this nature, and they can include such matters in their reports to the governing bodies.

1.18 We urge the governing bodies to review the proposed changes to Financial Regulations and ensure that changes enable full compliance with the requirements of International Public Sector Accounting Standards and for these to be within the purview of the Secretariat. In our view this would require these decisions to rest with management on the basis of its assessment of the objective evidence of impairment and its impact on estimated future cashflows. Impairment of assets does not in any way relieve or obviate the need for Member States and contributors to fulfil their obligations, and impairments can be written back as assets when the circumstances leading to the original impairment have changed, or when payment is made.

PAHO should:

R1: Ensure that decisions on impairment of receivable assets for both Assessed and other receivables are considered against the objective criteria and accounting judgements should not be subject to the decision or review processes of Member States.

Cashflows

1.19 Late and non-payment of assessed contribution is the main reason that PAHO continues to have fully utilised its Working Capital Fund. It borrowed some \$43.8 million (2018: \$22.2 million) from other Funds at 31 December 2019 to meet the cash needs of the activities it expected to be funded by assessed contributions and has additionally funded non-cash accrued amounts of a further \$17.6 million, totalling \$61.4 million. This is the difference between the total borrowed from other segments (\$901.3 million) and cash and investments held (\$857.5 million) which can be seen in Note 18 to the financial statements. While the Working Capital Fund is theoretically funded to its fully authorised level of \$25 million, this continues to be insufficient to meet the delayed payment of contributions by some Member States. As shown in Table 3, there has been a consistent utilisation of the cash within the Working Capital Fund for several years. While PAHO has emphasised this in a footnote to Note 14.1 of the financial statements, we believe it is important to further enhance the visibility of the utilisation of the working capital fund to enhance the transparency of the financial statements.

Table 3: PAHO Working Capital Fund 2016-2019: WCF Cash balances have been consistently depleted

	2019	2018	2017	2016
Working Capital Fund at 31 December	\$25.0	\$21.7m	\$21.7m	\$20.7m
Cash available / (required) for Assessed Contributions and Miscellaneous Revenue	\$(43.8m)	\$(19.4m)	\$(22.6m)	\$(6.1m)

Source: NAO analysis of PAHO funds and reserve balances

1.20 As we indicated last year, utilising cash resources from other funds does not represent good practice and doing this on a consistent basis is not a sustainable way to resource core activities. As cash pressures from unpaid contributions increases and the impacts are increasingly felt within the Organization it creates a risk that resources might not be available to replenish those funds which exist for other purposes. As we reported last year, the Financial Regulations place constraints on borrowing and the replenishment of cash funds, though the considered view of management after taking legal advice was that nothing in the Regulations prevented the internal borrowing. PAHO agreed that there was a need for clarification of Regulations in this regard and a proposal will be made to the Governing Bodies. **Our recommendation from last year therefore remains in progress.**

Employee benefit liabilities

1.21 The most significant liability which PAHO has in its financial statements is the employee benefit liability. During 2019 this liability has increased predominantly as a result of a change in the discount rate applied in the valuation of these future liabilities. PAHO based its discount rate on the yield curve from United States high-grade corporate bonds (AON AA above median curve) as agreed with its actuary. The rate on these bonds reduced from 4.5 per cent to 3.5 per cent, causing a significant increase (\$45.0 million) in the overall liability. PAHO has adopted the rate approved by the United Nations Task Force on Accounting Standards, believing that it is appropriate for PAHO's own circumstances. The rates and underlying assumptions are agreed between the Task Force and the Actuary.

1.22 The Task Force has been working to standardise the assumptions to enhance the comparability of liabilities between entities, and the rates applied by PAHO are those chosen for the United State of America. In our continued view, while within a tolerable range, the bond rate utilised by the Task Force - an above median rate - was at the upper end of expectations for the US corporate bond market. The

above median bond rate used by PAHO and the wider UN system has the impact of reducing the liability. Although within a tolerable range, the use of an above median discount rate will result in a lower overall liability. The financial statements provide details on the sensitivity of the main actuarial assumptions, including the discount rate, in note 12.7 to the financial statements. For example, a one per cent increase in the discount rate would reduce the liability by some \$51.5 million. Member States will need to continue to monitor the extent to which these liabilities grow as future commitments which will need to be met from regular funding.

Financial reporting

1.23 The Director's Report provides an overview of the financial position and performance of PAHO in 2019. Last year we highlighted that PAHO should consider further development of this commentary, utilising the IPSAS Board's guideline on presenting financial statement discussion and analysis, enhancing the disclosure of the underlying causes of variations. We believe it is increasingly important for the report which accompanies the financial statements to be accessible and comprehensive, covering performance and financial information. Audited figures in the financial statements offer stakeholders a wealth of information and PAHO should think about how they use the financial performance section to complement this and offer relevant insight.

Financial Report of the Director

1.24 We believe there is scope to enhance the current nature of the Director's Report to reflect the growing trend to match resources and performance and to provide a richer commentary on financial health. While noting that a separate report on technical performance is presented later in the year, we believe that financial and performance reporting should be closely linked, and this reflects best reporting practice. The current Director's Report is largely formulaic and is focused on fund-based accounting. There is limited analysis of outcomes and what has been spent and achieved in the period. We also believe that the report could focus more on financial trends and how any risks are being managed by the Organization. Member States should have an expectation that the commentary on financial statements is fair and balanced and provides a rounded picture of the overall performance of the organisation, its financial health and of the key outcomes arising from the resources used. More widely within the UN system there has been greater focus on using this type of commentary to show how resources have been used.

1.25 As resources become more stretched, it is increasingly important for the Member States to have a clear context for the movements and financial pressures which the organisation faces and the ways in which the Organization will respond and flex to adapt to the resourcing circumstances. This helps to support accountability and with better information linking resources to outcomes, improve financial decision making by the Member States. This is an area we will look at in greater detail in the coming years of our mandate.

Financial statements

1.26 The PAHO financial statements have evolved since the implementation of IPSAS in 2010. Since our appointment in 2018 we have encouraged the Secretariat to further enhance disclosures and financial reporting. In our view the presentation of PAHO's financial statements would benefit from a detailed review against the disclosure requirements of the reporting standards to ensure that they remain relevant for users and stakeholders. This should focus on the key material aspects relating to financial performance and health, focusing the attention of users and improving their engagement with the financial statements. Some areas we consider would benefit are set out in **Table 4** below:

Table 4: Example areas for review in the financial statements

Area for enhancement	Perceived benefit
Providing greater granularity of disclosures on material figures within the financial statements.	We believe the users of the financial statements would benefit from more granular reporting of material components reported in the financial statements, for example, a breakdown of the \$747.0 million of expenditure on vaccines/syringes/cold chain into those individual categories.
Consistently providing details on the nature of underlying revenues and expenses reported within the financial statements.	We believe consistent disclosure in the primary statements and notes to the financial statements (and the associated Financial Report) will enhance the readability and understandability of the information presented. For example, revenue is presented in different formats in the Financial Report, the revenue disclosures (Note 15) and the associated disclosures of accounts receivable (Note 6). Fund based disclosures should be separately derived from the segmental analysis (Note 18).
Enhancing the information available on the in-kind contributions from host governments.	Support from Member States can be significant, especially related to personnel and property. Such quantified information would enhance the reporting of the full costs of PAHO's operations and ensure the full contribution of Member States is recognised.
Reviewing the format of the cash flow statement to align it more fully with the presentational requirements set out in IPSAS 2.	Greater compliance with the reporting standards and enhances consistency with other entities reporting on the same basis.
Enhancing the explanations for variances between budget and actual amounts reported in Statement V.	Greater compliance with the reporting standards and provides the users of the financial statements' qualitative information on the reasons for variations from the original agreed budget.
Increasing transparency through the greater alignment of the various funds and reserves with their operating practices and the financial reporting.	<p>We believe the disclosure and presentation of the fund balances and reserves could be reviewed to enhance the consistency with other information presented to the governing bodies and to improve the readability and understandability of the information presented in the financial statements.</p> <p>Examples include:</p> <ul style="list-style-type: none"> <li data-bbox="841 1281 1390 1407">• the presentation of the working capital fund (Note 14) which indicates that the Fund has been replenished during 2019 and is fully funded at \$25 million - it has been fully depleted for several years. <li data-bbox="841 1428 1390 1661">• the reporting on the Master Capital Investment Fund to the Executive Committee (CE166/11) is not consistent with the reporting of the fund within the financial statements. We also consider that there can be better alignment of the use of the Master Capital Investment Fund and PAHO's accounting policies for property, plant and equipment and intangible assets.

PAHO should:

R2. Review the current composition of the Director's Report to ensure that it presents a fair, balanced and rounded view of the performance of the organisation, its financial health and of the key trends and outcomes arising from the use of resources.

R3: Review the financial statement presentation against the disclosure requirements of the reporting standards and ensure that they remain relevant for users and stakeholders and seek the views of the Audit Committee on the proposed changes.

Strategic use of funds

Capital investment strategy

1.27 In our 2018 report, we stressed the importance of strategic financial management. As the economic outlook becomes more uncertain PAHO needs to consider how its resources can be used to fund the longer-term objectives of the organisation. Member States are acutely aware of this and as highlighted in the May 2020, Special Session of the Executive Committee which requested that the Director prepare a broad package of austerity measures to be submitted for consideration by the next Directing Council. The Director was also requested to provide information on the measures implemented to effect cost savings. We will review the impact of the cost-saving measures during our 2020 audit and the Organization's overall approach to operating in the new financial environment.

1.28 As reported last year, we believe that PAHO would benefit from developing a more comprehensive strategy for its longer-term capital investments. PAHO had identified, through a real estate condition survey, that substantial investment was required as buildings were nearing the end of their design life and a detailed option appraisal that was presented to the Executive Committee in 2015. To assist with the financing of the future projects, elements of revenue surpluses were being credited to the Master Capital Investment Fund and we found that expenditure through the various sub funds had not been planned over a longer term. We considered that there was scope for a more strategic approach in the use of these funds.

Purchase of 2121 Virginia Avenue

1.29 In 1985, PAHO entered two lease agreements related to 2121 Virginia Avenue in Washington DC. PAHO owned the land and leased it until 2045 to a third-party for the purpose of constructing an office building. It also entered into a simultaneous agreement to lease two floors of that building. Under the terms of the ground lease, the office building would have reverted to PAHO in 2045. PAHO also had "first right of refusal" on the same basis as any "bone fide" offer accepted on the building. During 2019, the third-party received and accepted an offer for \$5 million for the purchase of the building. Consequently, PAHO exercised its first right of refusal and made an equivalent offer which was accepted.

1.30 In its business case, PAHO considered that acquiring the residual leasehold interest for \$5 million would represent good value, as the market value of the (now) freehold building would be significantly enhanced. PAHO also estimated that there would be recurrent net annual savings of between \$494,000 and \$1.7 million depending on the portion of building it could lease to tenants. Within the business case, PAHO also planned to terminate its lease of the third floor of the Organization of American States in June 2020 and move the staff currently located there to 2121 Virginia Avenue, although these plans have had to be revised as a result of the Pandemic and the move to remote working. PAHO considers that this will also provide a quality of life benefit to those personnel, moving them closer to headquarters' colleagues.

1.31 The purchase was funded by a combination of \$2.6 million from the Expanded Textbook and Instructional Materials Program (PALTEX) Fund, which had been terminated in December 2019 in accordance with Governing Body Resolution CD57.R15. The balance was funded from the Master Capital Investment Fund and its Revolving Strategic Real Estate sub-fund. Amongst other uses, this Fund is intended to provide funding sources for the purchase of premises or real estate.

1.32 While the business case for the purchase of 2121 Virginia Avenue indicated a positive return on the investment, PAHO should now monitor the additional costs, savings and future revenues associated over the medium term to validate the business case and demonstrate value for money. Given the significant increase in real estate holdings in Washington DC, PAHO should consider revisiting its real estate condition survey and establish a comprehensive property strategy for consideration by the governing body. There is evidence that 2121 Virginia Avenue requires work, for example, for the past two years Internal Oversight and Evaluation Service has reported to the Executive Committee that it has significant interruptions to its work due to deteriorating office conditions in the Virginia Avenue building, due to inadequate maintenance of the building by the former owner. Such a comprehensive property strategy should also factor in lessons learned from new ways of working resulting from Covid-19 and the changes to working practices which could result. It should also consider the future opportunity costs of refurbishing the building and the potential to realise the value of the capital asset.

1.33 PAHO has reported this purchase at cost in the 2019 financial statements (Note 8). PAHO will revalue all its land and buildings during 2020 as the last complete property valuation was performed in 2015 and IPSAS suggests a revaluation every three or five years. Such asset values are usually determined from market-based evidence by an appraisal undertaken by a member of the valuation profession, who holds a recognized and relevant professional qualification.

PAHO should:

R4: develop a methodology to monitor actual costs, savings and revenues against the 2121 Virginia Avenue business case and report as appropriate to the governing body to demonstrate the business case aims have been met.

R5: revisit its real estate condition survey to assess risks and future costs and establish a comprehensive property strategy for consideration by the governing bodies which reflects lessons learned from the ways of working adopted following the pandemic and the impact this may have on the demand for office space.

R6: engage professional valuers to perform a comprehensive IPSAS compliant valuation of PAHO's land and buildings as at 31 December 2020 to ensure that the financial statements continue to report the fair value of assets held.

Governance and internal control

1.34 The Director is responsible for ensuring effective financial administration of the Organization in accordance with the Financial Regulations. To affect this the Director has established and maintains systems of internal control and delegation which are important in providing a framework of assurance for Member States to rely upon. In our financial audit we have identified further areas for improvement to these controls, but in general we found no control weaknesses which impacted on our audit opinion overall. Given the importance of internal control, and with our further knowledge and understanding of PAHO's control environment, we have again focused attention on some of these issues, focusing on the use of PMIS and its role in enhancing compliance.

PAHO's Management Information System

1.35 PMIS provides a suite of business processes with embedded controls. PMIS was implemented in 2016 and PAHO continues to optimise the system in line with its strategic roadmap which has been further developed following the independent review of the PMIS implementation. The review identified lessons to be learned and made recommendations to:

- enhance internal processes, such as the automation of financial and budget reporting;
- optimise PAHO's use of the system, for example by exploring the use of automation, or robotics, to perform simple repeatable tasks - this includes aspects of travel management; and
- undertake elements of organisational realignment to maximise the benefits. In this regard, PAHO has undertaken a modest shared service pilot, which began in November 2019.

1.36 PAHO prepared a report on lessons learned for the cancelled 14th Session of the Subcommittee on Program, Budget and Administration (SPBA14/INF/2). This report concluded that PAHO has fully implemented PMIS based on the four guiding principles to: strengthen management; streamline administrative processes; operate multilingually and partnership arrangements.

1.37 Overall PAHO concluded that the consolidation of the legacy systems into one fully integrated system eliminated manual processes to validate data, provided better data transparency, more consistent reports and improved analytics for decision making. PAHO cites the streamlining of administrative processes with better access controls, a reduction of manual approvals and reduced transaction steps. Such improvement is supported by PAHO's Auditor General in the conclusions within his 2019 annual report. Internal audit has observed continuing improvements in the internal control environment derived most notably from the PMIS system and has also found an increased awareness among personnel of the importance of internal controls. The ability to work within PMIS has better facilitated the administrative processes, provided greater visibility and access to underlying data and has enabled PAHO to continue its operation of the control environment while operating remotely.

1.38 However, the lessons learned report lacks quantitative measures other than reference to the number of fixed-term posts in the administrative departments decreasing by 16 per cent between January 2015 and January 2020. While we have not validated this claim over the same period, as we note in Section 2 of this report, total personnel have increased substantially, although PAHO has informed us that these were not in administrative functions. We will perform a more detailed review of the implementation of the roadmap and PAHO's governance and oversight arrangements in 2020.

1.39 While PMIS has supported improvements within the internal control environment over the past few years, such powerful systems need to be carefully configured and users need to be trained. This training should go beyond the use of the systems, and include the wider appreciation of how logical controls, such as the use of passwords and the delegation of responsibilities impact on the control environment. During 2019, we found that PAHO personnel could fully delegate their full PMIS profile and responsibilities to anyone within the organisation. While such a delegation may be appropriate in certain circumstances, it can undermine authorisation controls and the fundamental separation of duties that underpins internal control arrangements in PAHO.

1.40 In November 2019, for example, we identified that five PAHO Representatives had delegated all roles, including their ability to create and approve transactions, to their personal assistants. Despite reporting this to PAHO, at the time of finalising our audit six months later, three of these delegations remained in place. More generally, in 65 per cent of cases where personnel had made delegations to others, all business processes were delegated. We extended our audit testing in this area to ensure that the transactions we examined had been appropriately approved, we evidenced no cases of impropriety from the items tested.

Compliance

1.41 In 2018 we reported on positive developments in the compliance function in exploring the reporting capabilities of the PMIS system. PAHO's compliance advisor has continued to explore these and there now exists a suite of dashboards covering many business processes, providing snapshot management information to highlight compliance issues and to identify unexpected results. While some of this new management information, such as the "Administrator dashboard" - designed to assist cost centre managers complete their monthly compliance report - has been integrated into routine second line oversight, many of the new reports have been developed to address needs of specific users rather than to form a comprehensive suite of prioritised and focused exception reports.

1.42 Coupled with our **previous outstanding recommendation** on the development of an overarching assurance map (2018 R21) we see an opportunity for PAHO to harness the power of PMIS and develop a strategy of compliance reports to monitor key controls and business processes in support of the second line of defence. This should be based on a systematic assessment of the core processes and those which carry the greatest compliance risks, and which would have then most significant impact in the event of a control failure. To be truly effective this compliance monitoring function needs to be enhanced through improvements in the accountability process with a sanctions regime which might, for example, result in the withdrawal of delegations and responsibilities.

PAHO should:

R7: establish a roadmap for the development of prioritised compliance reporting and provide managers with the tools to monitor internal controls and business processes under their responsibility.

R8: develop a strategy for monitoring and reporting compliance with key internal controls and business processes to senior management by cost centre and budget managers, underpinned by a compliance sanctions regime to hold managers to account.

Risk management

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

1.44 Risk management should be systematic, built up through the organisation and be subject to regular challenge and scrutiny. Risk management should be a key focus for senior management attention and to support decision making and resource allocation. Internal controls should be appropriately aligned to mitigate risk.

1.45 In our 2018 report, we highlighted the need for greater embedding of risk management at the field level with limited correlation of the corporate risks to the reality of the management of the operational risks to the achievement of local objectives. **Our recommendations remain in progress** and from our fieldwork in Haiti, the Office of the Eastern Caribbean Countries and in our examination of the Smart Hospitals projects this year, we continue to identify weak risk management processes and inadequate mitigations. In Haiti, for example, while risk is discussed regularly by the management team the risks and mitigations were not being systematically documented to track effectiveness over time or to provide a comprehensive view of the key risks being managed. The formal risk management

managed. The formal risk management arrangements and processes were designed purely to service the population of the corporate risk register, with limited value to local management.

1.46 The Smart Hospitals project was cited by PAHO as an exemplar project with good embedded risk management practices. We found that the programme risk register did identify the main categories of risk facing the overall project, but it was only periodically updated when the HQ risk advisor visited the project and had not been considered for 11 months at the time of our visit in January 2020. In our view, the mitigation measures identified were weak and ineffective. We consider that some risks could have been better managed collectively with the donor, for example in respect of the potential adverse movements in exchange rates (the donor funds were provided in Pounds Sterling). As the nature and scale of the project changed (currently GBP 43.8 million donor contribution) initial hedging assumptions could have been revisited more formally in conjunction with the donor, to mitigate exchange rate risk. Future projects should build in a more formal process of regular review for currency risk. We also considered that risks relating to delays in the rollout of the project which we felt were understated and we found that operational risks at individual facilities were not tracked. Since our visit we expect these issues to have become more significant as a result of the pandemic.

1.47 As part of an overall review of the project's governance and oversight we considered more active management of risk was required. Weaknesses in project risk management need to be addressed by PAHO as a matter of priority, we also cite findings in Haiti where project activity commenced in 2019 without any formal agreement with the partner. We also noted similar themes in the arrangements for other projects, where comprehensive risk assessments were not performed in advance of signing agreements.

1.48 Given the impacts of Covid-19 in 2020 it is imperative that risk management is real, agile and responsive, that risks are frequently reviewed and updated and that the discussions around the effectiveness of mitigations are an integral part of senior management meetings and decision making. Operational risk management provides a documented way in which management can evidence how risks are being managed, strengthening local governance processes. Consequently, it can provide the centre with greater assurance around local risk management and greater visibility of the impacts on operations. We continue to feel that systematic risk management has not been fully embedded within operational or senior management decision making, and that this carries significant risks for the organisation, especially in relation to its major projects and functions. Our recommendations in this area remain outstanding from our 2018 Report.

Fraud detection and prevention

1.49 A strong commitment to fraud prevention and a zero tolerance of fraudulent activity are considered by many donors when making partnering decisions, and Member States have high expectations of propriety. However, within international organisations fraud measures can be weak and instances of reported fraud are low. We reported last year that we believe that reported fraud in PAHO is low when considering the nature and location of many of PAHO's activities. In Haiti, for example, we found there was no record of staff who had undertaken related training and there was no proactivity in fraud or whistleblowing actions. Given local circumstances and the history of NGO operations in country, we feel local management need greater training and support tools to ensure the Organization can demonstrate its due diligence and minimise risks to staff and reputation. Overall PAHO reported a total of 32 cases of fraud (56 cases in 2018), largely relating to theft and loss of property totalling \$79,000. Details of these losses are set out in Note 20 to the financial statements.

1.50 We made some **robust recommendations last year on the need to finalise and operationalise its draft anti-fraud policy as a matter of priority**. Disappointingly this has not yet happened and as set out in our follow-up on previous recommendations, there has been some inertia within the Organization, and these are issues which we consider have not been sufficiently prioritised by management. In an environment where staff may be under increasing financial or personal pressures it becomes even more incumbent to take these actions.

The Statement on Internal Control

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

1.52 Following our observations last year, PAHO has enhanced the quality of the assurance underpinning the Statement on Internal Control, providing greater insight over the internal control environment. However, we believe that the Statement should go further in providing a more balanced view of the internal control environment and the risk management framework. For example, as highlighted previously, in our view risk management is not embedded throughout the organisation and remains overly focused on the main corporate rather than operational risks. We also believe that the Statement should better integrate the sources of assurance used by the Director, drawing upon a more systematic process. While advances have been made by the compliance unit, there remains, as we reported last year, a lack of an overarching strategy to ensure assurance is co-ordinated, themes are identified, and that intelligence informs more integrated work plans for assurance providers.

1.53 PAHO's Member States have also recognised the need to further strengthen the controls over the management of technical cooperation projects and have requested that the Director review and refine the risk assessment and management framework covering these activities and to keep the Executive Committee apprised of work in this area. This latter issue on risk management aligns with our **outstanding recommendation** from 2018 (R17) on a need for a more systematic approach to risk management for PAHO's project approval and monitoring processes.

PAHO Audit Committee

1.54 In 2009, PAHO's Directing Council established an Audit Committee, it exists to serve the Director and PAHO's Member States in an independent expert advisory capacity. Through the Executive Committee, the Audit Committee advises on the operation of the Organization's financial controls, reporting structures, risk management processes, and other audit-related controls. As a consequence of Covid-19, the Committee has not met since December 2019.

1.55 We continue to believe that an Audit Committee has an important role in the governance of PAHO. From our experience this year there were a number of aspects of PAHO's operations where we believe the Committee has more of a role to play in advising the Director and Member States. This would include reviewing the Director's consideration of financial sustainability and advising on changes to accounting policies and financial disclosures. The Committee can also add value by enhancing its scrutiny over the progress in implementing recommendations, including helping the Director to assess the need to prioritise or, in some instances, to reject recommendations which are no longer considered relevant or beneficial. To facilitate this, there is scope for the Committee to review the frequency,

timing and modalities of its meetings, to ensure that it can continue to provide critical scrutiny in these uncertain times. This could include opportunities for the Committee to meet remotely outside the formal cycle should circumstances require it.

1.56 Given the operational and financial risks that PAHO now faces, the external scrutiny and challenge the Audit Committee can bring is more important than ever. This would serve to enhance the governance of the Organization and provide Member States with greater assurance over the proper operation of the control environment. We will continue to attend Committee sessions and provide them with our reports and observations. We would also be happy to support a review of how the Committee supports PAHO's governance.

Part Two

Human Resources Management

2.1 Human resources are PAHO's most important asset, and its performance as an organization is determined largely by how well it recruits, utilises and develops its people. PAHO's personnel represent a significant cost to the Organization and for these reasons we considered it important to focus on this area in the second year of our mandate. Our work has focused on HR as a strategic function of PAHO and how it reports and supports managers in achieving key aims of the organisation. Over time the HR function has migrated from a transactional function to a more strategic one which facilitates and enables managers to deliver the workforce objectives agreed by the Organization.

2.2 In 2019, personnel costs were \$143.5 million, 12 per cent of total expenses. At October 2019, the workforce was comprised of 889 staff subject to PAHO staff rules and regulations, 88 staff on local contracts and 1,192 other 'contingent' personnel secured through agencies, secondments from host countries and consultancy contracts. For every 26 personnel, there was one senior manager of P5 grade or above. Women occupied 41 per cent of senior management positions compared with 35 per cent in the UN Secretariat.

Structure of HRM

2.3 An HR function provides compliance and support services to help managers in the utilisation of personnel resources. It will have specific workforce objectives which it delivers on behalf of the organisation covering policies and practices relating to recruitment, entitlements, employee relations and well-being, learning and development and talent management. A strategic HR function will play a core role in change management and organizational design. All HR teams gather and report intelligence on HR matters and trends to senior management and the wider business.

2.4 In PAHO, HR services are delivered by the HR Management Department (HRM) which reports to the Director of Administration, a member of the Executive Management team (EXM). In addition to a strategy and policy function, HRM has units covering employee management (recruitment and classification) and temporary resourcing, compensation and entitlements, health well-being and career development. It comprises 33 posts and is led by a D1-grade staff member. For the 2018-19 biennium, HRM had an indicative budget of \$14 million, two per cent of the overall base budget for PAHO. Of the 33 posts, six were vacant in October 2019.

Strategic workforce planning

2.5 Strategic workforce planning is about ensuring that PAHO has people with the right skills in the right positions at the right time to meet business objectives. In 2015, PAHO launched a four-year People Strategy (the Strategy) "to attract, retain and motivate the best talent..." The Strategy outlined five workforce priorities, to:

- Realign staffing to better meet programmatic and Member State needs
- Foster talent at every level.
- Drive performance of personnel.
- Achieve inspiring leadership through investment in its managerial talent pool.
- Create a world-class work environment and enabling HR function.

2.6 In 2015, PAHO identified 58 workforce activities across the five themes. The Organization has continued to monitor its progress in implementing these measures. Its assessment is set out in Table 5 below. Our overall assessment is that the Organization has made limited progress in implementing its People Strategy since 2014. As at February 2020 only 41 per cent of activities had been fully completed.

Table 5: People Strategy 2015-19: Progress in implementing activities (October 2019)

Status of workforce activity	Number
Implemented	10
In progress	26
Postponed	22
TOTAL	58

NOTES

1. PAHO assessment of progress at October 2019 (final implementation year)
2. In February 2020, PAHO provided an updated assessment of its progress at December 2019. It stated that it had reviewed progress and, of 58 activities, determined that 15 were postponed, 19 were on-going and 24 (around 41%) were completed. We have not validated this account.

Realigning staff to better meet programmatic and Member State needs

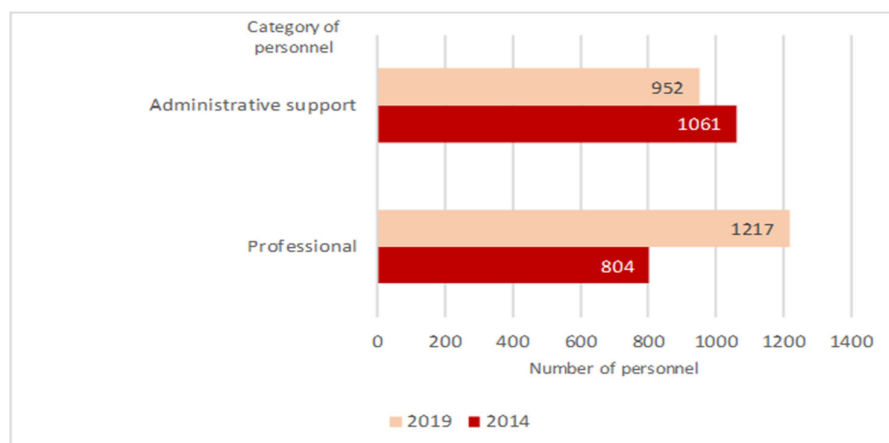
2.7 The People Strategy has an objective to reduce the number of administrative, non-technical personnel and to increase numbers in professional roles working on the front-line, to be achieved through simplified administrative processes and greater delegation of workforce management. The Strategy also describes measures to improve recruitment of talent. While HR is the owner of the strategy and provides an overall framework, it remains dependent on-line management and Directorates to deliver proposals to help meet the aims which have been established. PAHO has not set a target for the precise balance of technical and non-technical skills it is seeking to achieve. We believe targets set ambition and provide a mechanism against which performance can be measured and plans and priorities adapted.

2.8 Between 2014 and 2019, PAHO reduced the proportion of personnel performing non-technical administrative support roles from 57 per cent to 44 per cent. Most of this rebalancing has been achieved by increasing the number of professional personnel - in particular consultants - rather than by significantly reducing the number of administrative support personnel (Figure 1). It is now four years since PAHO implemented PMIS as the enabler of this change, and we believe that there remains opportunity to review processes to drive further administrative efficiencies. This has been supported by other external review findings. PAHO did not determine an initial baseline prior to the implementation of PMIS and therefore it is difficult to measure the level of efficiencies achieved with the new ways of working.

2.9 It is important that ambitious targets are set over a time period to further reduce costs and increase efficiency. PAHO should also consider further expansion of areas such as outsourcing as part of a workforce strategy to focus personnel on frontline activity. This is particularly important given PAHO's current financial situation.

Figure 1: Professional and administrative support personnel in PAHO

The number of professional personnel has increased markedly in the last few years while the reduction in administrative support personnel has been more modest



NOTES

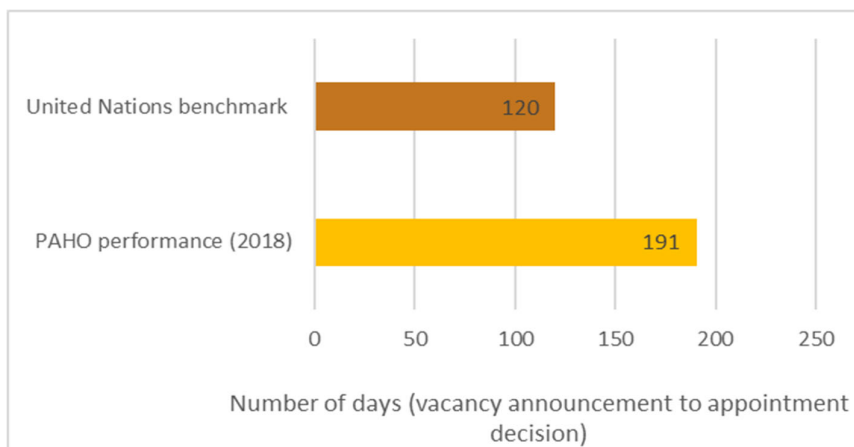
1. Position at 31 December 2014 and 31 October 2019 when our audit took place, combines 'staff' and 'non-staff' positions including consultancies
2. The volume of administrative support personnel fell by 10% between 2014 and 2019. The volume of professional personnel increased by 51% between 2014 and 2019.
3. Figure 4 –shows the breakdown of the staffing categories

Source: National Audit Office analysis of PAHO information

2.10 Bringing in new talent as efficiently as possible once workforce gaps are identified is a core function of HR managers. Minimising the time between the date a vacancy is first advertised, and the appointment decision is a significant part of this and requires good collaboration between HRM and operational entities. The United Nations has established a recruitment benchmark target of 120 days from the issue of a vacancy notice through to an appointment decision. At the time of our audit the only complete data series was for 2018, during that period it took 191 days to recruit to posts.

2.11 Data analysis can provide useful information to track performance in areas such as recruitment to identify potential causes of delay or nugatory recruitment, not all elements of the process are within the control of HRM. HRM have informed us that the delays to fill positions are as a result of PAHO's financial situation. It is important that recruitment campaigns are aligned with strategic need and the availability of cash resources to fund the posts.

2.12 PAHO adopted the World Health Organization's cloud-based talent management system in 2018 which it says has led to improved recruitment processing, and new processes to support a more standardised approach to staff recruitment have been adopted. However, PAHO's performance against the United Nations processing benchmark target remains poor (Figure 2).

Figure 2: Recruitment processing days, vacancy announcement to appointment decision**NOTES**

1. Staff appointments only. PAHO measures its performance from the date a vacancy announcement closes to an appointment decision. To ensure its data is comparable with the United Nations benchmark, an allowance for the vacancy notice period is added. NAO has assumed a 21 days vacancy advertising period. In practice, a slightly longer vacancy advertising period is typically used by PAHO for professional staff appointments.
2. United Nations benchmark is referred to : <https://careers.un.org/lbw/attachments/ManualfortheHiringManager.pdf>
3. Source: National Audit Office analysis of PAHO information

PAHO should:

R9: identify opportunities to further re-align the workforce as part of changes to business processes and wider strategic planning.

R10: review the root causes of recruitment times through analysis of PMIS data to inform future recruitment practice.

R11: ensure that recruitment does not commence unless agreed cash resources for the post is secure.

Fostering talent at every level

2.13 The People Strategy states that PAHO will introduce a comprehensive competency-based approach to assessing the skills its people need and, in turn, the focus of investment in learning and development. The Strategy also committed PAHO to a more sustained investment in learning and development by creating a learning fund of “2 per cent of the base pay and post allowance for all PAHO staff and persons on non-staff contracts.” PAHO personnel receive training through entity level provision and an organization-wide corporate learning priority program. PAHO elected not to participate in the World Health Organization's Global Learning Funds program in 2016, instead managing its own learning program from this time. A corporate learning program is agreed by a twice-yearly Learning and Development Board, chaired by the Assistant Director with support from HRM.

2.14 PAHO adopted the World Health Organization's competency-based model in 2018 for the purposes of job descriptions and selection processes. The Organization has not yet applied this model to the performance management process. As a consequence, we believe that there is a disconnect between the roles people are expected to deliver and the management of their performance and development in these roles. Without the discipline of a competency-based assessment process it is

hard to see how managers can be empowered to ensure the workforce responds and develops according to changed business needs.

2.15 PAHO undertook a thorough learning needs assessment and training needs analysis between 2013 and 2014. It has not updated its analysis since. PAHO should use the performance assessment to identify training needs and develop personal development plans to address those deficiencies. Such plans should also include mandatory training appropriate to the individual's roles. Performance against training plans should then be monitored as part of the appraisal process. HRM should also maintain data on the impact of training.

2.16 Our assessment is that while the 2018-19 biennium has seen the introduction of several positive corporate training developments, including revisions to induction training, peer-led provision enabled by PMIS and use of the World Health Organization's iLearn Learning Management System, PAHO has not implemented the sustained approach to learning and development called for in its People Strategy:

- Allocation of funding for corporate learning and development in 2019 was ad hoc with money provided late in the year reducing scope to commission provision.
- Spending on corporate learning in the 2018-19 biennium was \$0.8 million which was just half of the \$1.5 million allocated; and equivalent to 0.3 per cent of personnel costs for the biennium, well short of the 2 per cent ambition in the People Strategy
- The training offer to non-staff personnel is limited despite this group representing around 55 per cent of the workforce.
- Staff feedback on learning provision is decidedly negative with responses to the PAHO 2019 People Engagement Survey among the worst of organizations surveyed - PAHO's score ranked within the lowest quartile compared with other organizations surveyed by Gallup
- Senior staff participation in *mandatory* provision is low, a significant organizational risk. There are few sanctions which the Organization applies to those staff who do not participate in mandatory training, and it does not form part of the performance management process. For example, we were provided with a PMIS report that indicated that only four staff in the P5 and above grades had completed the mandatory course on "Code of Ethical Principles and Conduct" and ten staff in those grades had completed the UN Course on "Prevention of Harassment". The 2019 report on PASB Human Resources Management (SPBA 14/12) indicated that there were 34 staff in these grades during the year.

2.17 We have noted that current practice in learning and development fails to pay sufficient attention to the training and development of contingent labour. Given the dependency on this category of personnel and the fact that contracts are regularly rolled over after their break clause, we believe that the current practice means a substantial element of human resources are not sufficiently developed to ensure their skills meet the current and future needs of PAHO.

2.18 As the Organization adapts and faces budget pressures it is essential that staff are trained to maximise the potential of new technology and ways of working. It is important that senior management encourage a culture of learning and development across the organisation, underpinned by better monitoring and compliance processes, especially with regard to mandatory training.

PAHO should:

R12: ensure that it invests in development of all human resources across all the staffing modalities. This need should be underpinned by an updated 'skills needs analysis' and a reliable funding stream; and routinely monitored and evaluated to assess take-up and impact.

R13: ensure that the delivery and take up of training is appropriately monitored and that mandatory training is enforced and appropriately reflected through the performance measurement system.

Driving performance of personnel

2.19 As part of its People Strategy, PAHO said it would redesign its performance management system to ensure greater differentiation and drive better management of performance. Developing staff through performance management so they continue to grow and take on different and more challenging roles in line with changing organisational priorities, is a key part of workforce planning. HRM has a role in setting the minimum requirements for performance management and sponsoring best practice, but effective arrangements also depend on the behaviours of managers across the Organization who set the tone for managing and appraising performance.

2.20 PAHO staff are required to complete a PAHO performance appraisal, PAHO data for 2018 shows that 63 per cent of staff did so (75 per cent in 2017). For these personnel, the current arrangements do not give a consistent basis for either identifying the very best performers or managing underperformance. Our review of PAHO's data on completed appraisals for 2018 found that 45 per cent of personnel achieved the highest 'outstanding' ratings while just 1 per cent received a 'below expectation' score. A performance system which differentiates clearly between levels of performance will provide greater support to management, enabling identification of staff who can be further developed to meet more challenging or changed roles. While non-staff personnel in PAHO perform very similar, if not identical roles to staff, their performance is not evaluated to the same degree. Given the organisation's heavy reliance on non-staff personnel, there is a risk that over half the human resources used by the organisation have no comprehensive assessment of their performance or training needs.

2.21 An effective performance management system is essential to underpin the delivery of successful change. Feedback from personnel on the way PAHO's managers manage performance is unusually negative. Respondents to its 2019 Personnel Engagement Survey gave PAHO scores which were below most other organizations surveyed by Gallup on measures covering levels of recognition for work done, whether managers cared about them and whether they talked to them about their progress and development (scores were between the 8th and 12th percentiles compared with other organizations Gallup surveys). PAHO has responded by asking each entity to develop an action plan to address concerns raised. However, it is crucial that changes are also made by senior management to foster an environment and culture which promote performance improvement, underpinned by supportive and relevant development. HRM has informed us that as of May 2020, 47 per cent of entities (27 out of 57) have submitted their plans to HRM.

2.22 The performance of personnel is also influenced by the extent to which they feel safe in their working environment. Results from the 2018 UN Survey: Safe spaces: survey on sexual harassment showed that 36 per cent of PAHO respondents had experienced sexual harassment behaviours in the last two years, compared with 33 per cent across the United Nations as a whole. This rate was higher for younger workers and suggests there is more PAHO needs to do to create an environment in which all personnel can perform their roles effectively. We understand that the results of this survey have not been communicated to personnel - an essential first step to addressing the issues raised by it. Our

visits to local Offices identified that more could be done to train and raise awareness of staff of these issues and to publicise the arrangements for staff to raise concerns. We also noted that mandatory training on these issues was not enforced by the Organization, consequently it has not been undertaken by all personnel, including those at the senior levels within PAHO.

2.23 Good practice recognises that staff engagement surveys should be regularly undertaken on an annual basis. This allows organisations to track their performance over time and to measure improvements which result from actions that have been put in place. PAHO has informed us that it does not intend to undertake a repeat of its engagement survey in 2020. Measurement of progress between surveys can form a useful indicator of both HRM and individual directorate performance and provide a focus to adjust planned actions.

PAHO should:

R14: undertake regular repeat surveys of staff engagement to mirror key elements of its delivery of the people strategy and to provide a focus to address areas of staff concern.

R15: strengthen the overall performance management regime for personnel in ways that increase its value to individuals and managers, permit accurate and fair differentiation of performance and potential, and help to address under-performance. Completing an appraisal process should be mandatory for line managers, compliance should be monitored, and action taken as necessary.

R16: ensure its response to system wide issues relating to sexual harassment form a clear part of mandatory training and staff awareness sessions and that the Organization should ensure that a culture of zero tolerance is clearly communicated by senior management.

Achieving inspiring leadership

2.24 PAHO's People Strategy committed to "a sustained investment in its managerial talent pool" with measures to include an executive coaching program and a new approach to succession planning. The latter is an important part of business continuity planning and can help strengthen staff engagement and target personnel development. The development of talent programmes is in line with good HR practice. In 2018, PAHO launched a management and leadership program utilising existing provision from the United Nations System Staff College. Some 60 middle and senior managers have participated in this program to date. An evaluation of the program and each of its modules was undertaken and the results were shared with participants and the HRM Director. HRM should evaluate the effectiveness of the programme against its needs.

2.25 Talent management is particularly important where a significant proportion of the workforce are approaching retirement - in PAHO, nearly two thirds of professional fixed term staff are over 50 years of age and almost one in five is over 60 years old. This is an age profile which presents risks and opportunities for PAHO which need to be carefully managed. PAHO has not yet implemented a systematic approach to succession planning. Proposals put forward to date have not been approved by the Organization's executive management. We understand a revised approach is currently being developed. In the meantime, succession planning in PAHO is informal and localised, and targets personnel in middle management positions. As part of the solution to enhance its talent management and succession planning, PAHO are considering the implementation of a talent management module within PMIS.

2.26 No formal mentoring scheme operates to support personnel in more junior positions, though PAHO does intend to play a more active role in the Junior Professional Officer program in the future.

Many organisations see this mentoring process as a valuable way of developing staff and can be a relatively cost-effective way to develop staff internally into managerial positions.

2.27 Our visits to field office so far have evidenced that there can be particular resourcing pressures which need careful management, and where targeted training could have an impact. We identified specific issues in relation to recruitment to the Haiti Office, which is a specific and difficult duty station given the language requirements and the difficult circumstances attached to this location. Consideration should be given to identify training and development of staff who would be willing to accept these more specialist posting earlier in their careers, to allow appropriate succession planning in sufficient time to meet future needs.

PAHO should:

R17: formulate a structured, simple and transparent approach to succession planning across the organization, recognising the current age profile of professional staff and specific needs of the Organization. This is important and relevant across all the different staffing modalities

Status of PAHO's People Strategy

2.28 During 2019, an Advisory Committee on the Implementation of the People Strategy (ACIPS) was established to advise on the ongoing work and prioritise activities and initiatives set out in the People Strategy. The ACIPS was also tasked with making recommendations to Executive Management on adjustments to the People Strategy required to support the new Strategic Plan of the Pan American Health Organization 2020-2025.

2.29 The ACIPS met to discuss a roadmap and it identified the needs for the current biennium. It assessed the activities outstanding from the previous strategy and prioritised them taking account of the resource requirements and potential impact. As part of this prioritisation exercise, some activities were further postponed. PAHO does not, however, have an overarching People Strategy for 2020-2025. We believe a refreshed People Strategy is important to recognise and support organisational change resulting from the current financial situation.

PAHO's HR performance measures

Results based management

2.30 PAHO sees itself as being at the forefront of Results Based Management (RBM). RBM envisages that there are clear input and output measures to enable Member States to assess the results which flow from the contributions made and that they are linked to a clear strategy. Commonly, this is achieved through the presentation of a suite of indicators to assess and measure performance. In our view, PAHO's HR metrics for reporting results need significant enhancement. This is particularly important as the organisation refreshes its people strategies and as it faces financial pressures which may demand a move to more agile and flexible working practices and skills.

2.31 In the previous and current biennium PAHO has set a single indicator to measure HRM's performance. In 2018-19 this was to measure effective and efficient human resource management and coordination. The output measure established was the proportion of HR-related Service Level Agreements reached. In 2020-21 the indicator is framed as progress in attracting, recruiting and retaining the talent needed to deliver its programs. The output indicator to demonstrate this has been selected as the volume of changes to post descriptions. We do not believe these indicators provide a sufficiently nuanced measure of HR performance or achievements in implementing the People Strategy and they will provide little valuable data to manage the organisation or to enhance accountability. We also noted that there is a substantial delay in reporting to Member States on the

performance of the indicator further undermines its utility as an accountability mechanism. The 2020-21 Program Budget anticipates that a full assessment of performance won't be made until 2022, which in our view further reduces the accountability value of these RBM measures. We will look in further detail at PAHO's RBM arrangements in our future reporting.

PAHO should:

R18: consider more granular performance measures in its output indicators which provide more measurable indicators linked to the key organisation and people strategy objectives.

Reporting HRM's Divisional performance

2.32 It is important that systems are in place for reporting progress against objectives to provide accountability to managers and Member States; to increase transparency and to inform decision-making, learning and improvement. The performance of HRM is reported annually to Member States through the Subcommittee on Program, Budget, and Administration and the Executive Council, and at the end of biennia, as part of Program Budget reporting.

2.33 Internally, HRM reports its performance to the EXM every six months through the corporate performance assessment process. HRM also provides a dashboard of information to six monthly performance review meetings involving EXM and entity managers. Since 2019, the HRM Director has attended EXM meetings every two months to report on HR matters including progress in implementing PAHO's People Strategy. Reporting of HR information to senior management improved in 2019 through HRM's regular attendance at EXM meetings. Nevertheless, there is scope to standardise the range and regularity of information provided using a balanced scorecard approach, drawing on the reporting potential of PMIS.

2.34 HRM's 2019 report to Member States of the Executive Committee gave an overview of progress in implementing the People Strategy and describes essential characteristics of workforce (category, grade, gender, age, location and service length). However, the information provided is limited and, in our view, does not give a complete assessment of PAHO's progress in managing its people resources. It can be improved by:

- Utilising cost information alongside performance data, drawing on personnel productivity measures where practical.
- Providing information on the allocation of personnel resources in relation to the business priorities set out in PAHO's Strategic Plan.
- Benchmarking key HR data against targets and other comparable organizations.
- Presenting a wider range of HR information covering HRM performance, vacancy rates, recruitment (applications volumes and their origin), personnel motivation, performance and development, sickness, turnover and grievance.
- Using simple infographics to promote clearer and more concise presentation.

2.35 In our view the HRM annual reporting to Member States could give a more fulsome picture of progress against the strategy by closer alignment of the results to the agreed actions set out in the Strategy on an annual basis. Currently the report is structured in line with the main strategy themes but there is no systematic assessment of progress in implementing the actions listed under each theme.

PAHO should:

R19: strengthen the governance around HR by:

- **devise more comprehensive and clear reporting to Member States on HR and the HRM function, providing a broader range of financial, performance and data and using benchmarking techniques; and**
- **develop a systematic suite of HR management information and cost data for reporting to all Executive Management meetings using PMIS functionality.**

Strategic staff planning

2.36 An effective HR function acts as a business partner, both supporting and challenging the wider organization in the best utilisation of its workforce. HRM's day-to-day support is valued by PAHO's business entities. HRM works jointly with the Planning and Budget Unit to oversee biennial operational planning, providing guidance and challenge to entities on their HR plans. HRM has also recently worked with country offices like Haiti to help re-design entity structures but this work is occasional and limited in scope. HRM can do more to challenge the information it receives from managers: IES has frequently observed a tendency for HRM to accept entitlement information without adequate review.

2.37 As PAHO's business priorities evolve and it adapts to a more constrained funding environment, it is important to evaluate the skills needed from its HR function to support senior management in the change process. As part of this process it is important that HR has sufficient skills and capabilities to effectively mine and analyse the data within PMIS to more effectively use data to improve compliance by line management and to report this data to improve overall control.

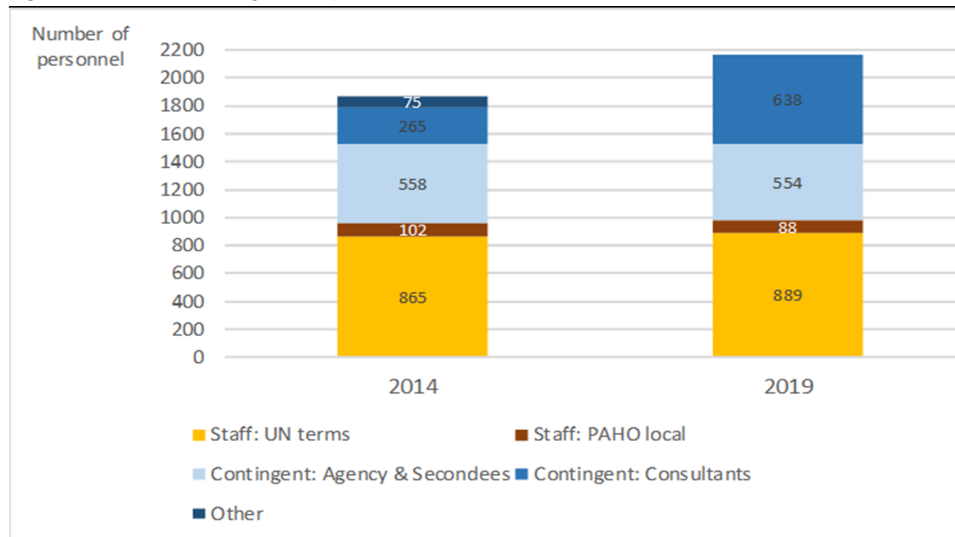
PAHO should:

R20: consider whether optimum use is being made of the HR function to contribute systematically to change management and organizational re-design in PAHO.

R21: review HRM's resourcing and skills capacity to fully utilise PMIS to ensure greater focus online management compliance with HR rules and investigate a suite of reports which could be used to hold managers to account for their HR activity. Data analytics should also be utilised to identify root causes of regular non-compliance to inform policy and controls.

PAHO's Workforce characteristics

2.38 PAHO's workforce increased between 2014 and 2019. A key driver of this has been PAHO's greater use of contingent labour and, in particular, individual consultants (Figure 3).

Figure 3: Number and categories of personnel, 2014 and 2019**NOTES**

1. UN terms staff includes professional and general service personnel, both fixed term and temporary.
2. Consultants are professional personnel on either national or international contracts
3. PAHO also uses personnel through agencies and has arrangements with host governments in which personnel from host government Ministries of Health are seconded to it.
4. Other is defined by PAHO as personnel who are employed by other organizations

Source: National Audit Office analysis of PAHO's information

Use of contingent labour

2.39 PAHO's use of contingent labour - or 'non-staff' personnel as they are also called - gives it additional flexibility to fulfil its objectives, without incurring some of the costs and liabilities associated with the United Nations staff model (including dependency and mobility allowances, pensions and after-service medical insurance). However, the range of 'non-staff' personnel categories is unusually broad in our experience. PAHO's disparate workforce model creates challenges:

- Non-staff personnel are performing a range of functions, such that the boundary between staff and non-staff work is vague at times. Some 'contingent' personnel have been in post for a long time with nearly a third (32 per cent) having worked for PAHO entities for five or more years, and 18 per cent for 10 or more years⁹. Turnover rates among some non-staff categories are broadly comparable with those for staff, further blurring the boundary.
- Whilst guidance exists on the use of all personnel modalities, central oversight of the recruitment of non-staff personnel by individual entities is relatively limited, despite some process improvements targeting consultants in 2019 and high-level review of HR resourcing plans during biennial work planning.
- The range of contract modalities, each with their own terms, introduces administrative complexities and increases compliance risks.

⁹ Data includes mandatory short breaks for consultant contracts

- Increased reliance on consultants whose contracts are time-limited means that mechanisms for transferring technical knowledge need to be robust. PAHO told us that the 'knowledge loss' risk is, currently, at least partly managed through requests to amend contract types and requests to Executive Management to extend engagements 'by exception'.

2.40 In practice, the increased use of consultants by entities often reflects shorter-term funding considerations rather than whether the nature of the task or function is a core activity better suited to an appointment on staff terms. PAHO should review the range of personnel modalities and consider, strategically, the optimum mix to deliver its objectives. It should take account of the need for accountability and appraise the costs and benefits of using contingent workers on a long-term basis. In our view use of contingent labour should not be a mechanism used to cover long term staffing needs, and the use of these contracts should be both controlled and well considered rather than through default renewals. We have not seen evidence that full analysis has been undertaken before renewing existing contingent labour contracts to assess whether there are more cost-effective means of delivery (a situation we evidenced in the previous year with the significant reliance on Agency staffing in Brasilia being just one example).

2.41 The Internal Oversight and Evaluation Department (IES) has completed an audit of PAHO's use of consultants. It concluded that major improvements were needed to risk management practices and internal controls highlighting, in particular, a lack of clarity in the definition and use of the consultant contracting mechanism and a need to improve the transparency and competitive selection process for hiring consultants given an over-reliance on personal connections and on PAHO retirees and interns. We believe this audit raises significant issues about the management, oversight and cost effectiveness of consultants and we will monitor the actions which management are putting in place to identify the weaknesses in controls.

2.42 PAHO informed us that many of these issues have been addressed in a draft policy that has yet to be issued.

PAHO should:

R22: undertake a wider review of the use of non-staff contracts to consider the scope for reviewing the cost-effectiveness of the contracting mechanism and to more carefully consider the need for renewal of consultancy contracts, considering the balance between longer-term business need and shorter-term demands.

R23: establish clear mechanisms to centrally monitor and review the use of contracting arrangements to ensure compliance of cost centres with any new policies which emerge following the April 2020 IES review. These should include more frequent reporting on key metrics and compliance aspects to senior management.

Part Three

Prior year recommendations

3.1 As at 31 March 2020, of the 22 recommendations made for 2018, 8 (36 per cent) had not been implemented, 10 (45 per cent) were in progress and 4 (18 per cent) had been either implemented or closed.

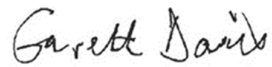
3.2 While there has been some progress, we have noted that progress in the implementation of recommendations has been slow. While there are inevitable impacts as a result of Covid-19 and cashflow pressures, we believe some of our previous recommendations offer important improvement opportunities. We would encourage senior management to adopt more detailed plans around implementation of recommendations to demonstrate progress and intent. There is scope for these plans to be subject to greater scrutiny from the Audit Committee, and for them to also take a view on their continued relevance as situations and circumstances evolve. Management should draw upon the expertise of the Audit Committee to advise the Director on progress and prioritisation.

3.3 In our substantive report this year, we have reviewed PAHO's approach to risk management, we have also looked further at aspects of PAHO's fund management and have reiterated relevant recommendations where we consider that progress has been slow.

3.4 In our view, PAHO should be more pro-active in taking forward many of the recommendations we made in 2018. In particular we would highlight financial management issues related to strategic fund management and programme support. More crucially, PAHO has made little progress on improving counter-fraud measures. Comprehensive fraud risk assessments have not been performed and the revised anti-fraud policy still has not been issued. We believe that in the current environment it is important to have these key frameworks in place to ensure the Organization can respond appropriately to the increasing risks of fraud during this period of economic instability.

Acknowledgments

3.5 We would like to thank the Director and her staff for their co-operation in facilitating our audit engagement, particularly in light of the significant financial and operational pressures the organisation has faced during 2020 and the need to conduct the majority of our final audit remotely.

A handwritten signature in black ink that reads "Gareth Davis". The signature is written in a cursive, slightly slanted style.

Gareth Davis

Comptroller and Auditor General, United Kingdom - External Auditor

7 August 2020

Prior year recommendations

Previous reference	Summary of recommendation	Administration's comments on status: March 2020	External Auditor's view	Status
2018 Long Form Report Rec 1	Undertake an analysis of the Working Capital Fund utilisation and consider the need to review its capitalisation level.	<p>PAHO monitors the Working Capital Fund on a monthly basis. The current level of \$25.0 million was established by Member States at the 53rd Directing Council meeting in 2014 and is only funded at \$21.7 million, which has periodically proven to be insufficient to cover the delay in the receipt of assessed contributions. PAHO will submit a proposal, including a plan to fund the Working Capital Fund in a reasonable period of time, to be included in the 2020 Governing Bodies schedule of topics.</p> <p>Update March 2020 The Working Capital Fund was fully funded (\$25 million) and fully used at the end of 2019. A proposal to increase the Working Capital Fund to \$50 million has been submitted to the Governing Bodies.</p>	<p>We note management's response and will consider the governing bodies response to PAHO's proposal.</p> <p>We have commented further on the status and presentation of the Working Capital Fund in this year's report.</p>	In progress.
2018 Long Form Report Rec 2	Clarify the ability to borrow cash between funds in the Financial Regulations and Rules and should introduce a process for the Director to authorise and report all borrowed funds.	PAHO reported the level of internal borrowing to the Directing Council in 2019. A proposal to amend the Financial Rules will be presented to the Governing Bodies.	We note management's response and will consider the governing bodies response to PAHO's proposal.	In progress.
2018 Long Form Report Rec 3	Analyse costs to assess the extent to which full cost is recovered on voluntary-funded activity and develop an equitable, consistent	A UN-wide assessment in 2005-2006 established the 13% PSC rate, while acknowledging it was not sufficient. PAHO tries to follow this, but many donors including Member States do not accept it. Costing analysis will be conducted as time allows, and any change to PSC policy will be submitted to Member States for concurrence.	PAHO has not made any progress in assessing whether it recovers costs on voluntary-funded activity, or in developing an equitable, consistent and	Not implemented.

Previous reference	Summary of recommendation	Administration's comments on status: March 2020	External Auditor's view	Status
	and transparent cost recovery policy.		transparent cost recovery policy.	
2018 Long Form Report Rec 4	Review its accumulated programme support reserves and consider whether additional funds should be utilised to meet costs that have previously been borne by core resources.	The practice for programme support funds (PSC) in PAHO is to accumulate the income received during a biennium. When the biennium ends, the total balance is made available to finance the Program and Budget (PB) for the subsequent biennium. In cases where the Organization is not able to implement 100% of the available balance, these funds are carried over to finance the following PB biennium. PAHO will review the policy on the governance and management of these funds in order to reflect the current use of these funds.	While we understand the practice adopted by PAHO as outlined in their comments, PAHO has not yet reviewed the policy on the governance and management of these funds as set out in its response.	Not implemented.
2018 Long Form Report Rec 5	Underpin any long-term strategy approved by Member States with supporting financial detail, such as a comprehensive Resource Mobilisation Strategy covering the period of the Strategic Plan.	Following the approval, the Strategic Plan 20-25 in September 2019, the Organization embarked on the development of the new Resource Mobilization (RM) Strategy to align with this long-term guiding document. Initial steps included the assessment of the RM Strategy 16-19 to build upon lessons learned and an update of the SWOT analysis to accurately present the current climate. In parallel, the development of the BWP 20-21 included RM planning as a new component of institutional efforts, which allowed all entities to clearly define targets for voluntary contribution mobilization. A mandatory Product/Service was also incorporated to ensure these efforts continue in subsequent operational planning. The first version of the RM Strategy will be shared in focus groups, including internal stakeholders from all functional levels. It is expected that the final version will be completed by the beginning of second semester 2020.	We note management's response and will review the Resource Mobilisation Strategy supporting the current Strategic Plan as part of our 2020 audit.	In progress.
2018 Long Form Report Rec 6	Develop a comprehensive long-term capital investment strategy that is reviewed annually and linked to detailed procurement plans, and align the financial reporting policies for property, plant and equipment and the use of capital	1) A comprehensive Organization-wide condition assessment survey of PAHO owned real estate was conducted in 2014. The results were reported in document CE156/24, Rev 1. Country Offices have been following up this plan to request the use of funds from the MCIF. Ad-hoc projects (not included in this plan) have also been funded as needed. The Condition assessment will be updated during biennium 2020-2021. PBU will assist GSO in preparing a funding strategy to accompany the investment plan. 2) GSO will require country offices to include capital investment plan in the procurement plan and the budget, and 3) GSO will work with FRM to align financial reporting policies with the Master Capital Investment Plan.	We note the various strands in management's response. However, we see little evidence of PAHO having a comprehensive capital investment strategy. We have commented further on the acquisition of 2121 Virginia Avenue in this year's report.	Not implemented.

Previous reference	Summary of recommendation	Administration's comments on status: March 2020	External Auditor's view	Status
	funds to ensure efficient, consistent and harmonised reporting on the use of funds to Member States.	Update March 2020 In 2019, PAHO prioritized the acquisition of the 2121 Virginia Avenue Annex as a means of reducing the Organization's recurrent office rental costs and accelerate the accumulation of resources in the Master Capital Investment Fund. The acquisition was completed on 30 December 2019 and PAHO expects to complete transfer of staff and termination of all office leases in Washington DC by June 2020. Update of the 2015 Condition Assessment is underway.		
2018 Long Form Report Rec 7	Review all its current fund and reserve balances and consider the scope for rationalisation and simplification, reviewing whether balances continue to be relevant to the organisation's financial plans. This should be in the context of an overall strategy for the maintenance of reserves and funds, aligned to the development of the longer-term strategic plans of PAHO.	PAHO reviews the balances of these funds in accordance to the Financial Regulations and Rules, and takes appropriate action as necessary. Regular review of open funds will be conducted with the close of each biennium, as per SOP Perform Biennium Closure. Update March 2020 In accordance with the SOP, PBU advised FRM regarding the closure of five funds, which have been inactivated in PMIS.	We note management's response. Our recommendation was made in the context of a strategic review of the various fund and reserve balances linked to the longer-term strategic plans of PAHO. In this context we do not consider the recommendation implemented.	Not implemented.
2018 Long Form Report Rec 8	In consultation with Member States the funding plan being adopted by management should be approved by the Governing Body, to	ASHI was included on the Governing Bodies agenda in 2017 (SPBA11/10, Rev. 1) and the Member States took note of the plan to fund the liabilities and decided to consider this matter in future years under the agenda item for the annual Financial Report of the Director. AM and FRM will review with LEG how to present the ASHI funding plan developed by the Global Oversight Committee.	We note management's response. We will review how PAHO present this to the Directing Council and subsequent discussions as relevant.	In progress.

Previous reference	Summary of recommendation	Administration's comments on status: March 2020	External Auditor's view	Status
	formalise the funding approach for Staff Health Insurance benefits.	Update March 2020 FRM has included in the Notes to the Financial Report of the Director for 2019 a reference to the funding plan approved by the GOC. PAHO Member States review the Report during the Governing Body cycle and officially approve it during the Directing Council. All PAHO member states are also members of the WHO's World Health Assembly, and as such are presented the global annual financial report on Staff Health Insurance, which includes the global plan for managing SHI liabilities.		
2018 Long Form Report Rec 9	Consider the benefits of a formal annual budget (which could be within a biennium approval) and the benefits of adopting a full IPSAS based budget.	PAHO and WHO program budgets are submitted and approved by Governing Bodies every two years, as per Member State decision. The process of development and approval of the program budget is long and involves the participation of internal and external parties including Member States. PAHO has discussed the option of preparing annual budgets and there is lack of interest in this option both internally and among Member States.	We have closed this recommendation on the basis that PAHO has stated its Member States have a lack of interest in this proposal.	Closed.
2018 Long Form Report Rec 10	Review the basis on which it monitors its expenditures against its available budget and develop an improved basis to monitor funds against a meaningful measure of expected use of resources at cost centre level. This should draw upon the PMIS functionality as far as possible and support a process that can enforce real-time budget	PAHO will continue exploring the capabilities on the use of PMIS to improve the cycle of Budget monitoring, assessment and reporting. The Organization has clear procedures and tools developed to monitor, assess and report both, off-line and within PMIS by cost centers. With the upcoming operational planning for 2020-2021, PBU will take advantage to automate Budget reports according to the user's needs. The new programmatic structure for the SP20-25 will facilitate a more efficient budgetary monitoring at cost center level in PMIS.	We note management's response and will revisit budget monitoring at the cost centre's during the 2020 audit to understand how the new programmatic structure facilitates more efficient budgetary monitoring.	In progress.

Previous reference	Summary of recommendation	Administration's comments on status: March 2020	External Auditor's view	Status
	accountabilities on cost-centre managers.			
2018 Long Form Report Rec 11	Consider the current internal structures to ensure good integration of budget and financial reporting to support the recommended budget monitoring improvements.	<p>The Department of Program and Budget (PBU) leads the Organization's strategic and operational planning, as well as performance monitoring and assessment, a scope that is much broader than financial or budgetary management. PBU was transferred from the Office of Administration to the Office of the Deputy Director in 2003 in recognition of its critical role in developing and reporting on the Organization's Program of Work.</p> <p>PBU and FRM work closely together to ensure comprehensive financial monitoring, and they meet regularly with EXM, as well as cost center directors, to review the overall budgetary and financial status of the Organization. Furthermore, PMIS has provided the opportunity for a comprehensive solution to financial and budgetary management and reporting, which the Secretariat continues to explore and adapt. While there are clear procedures and tools for cost centers to monitor and report within PMIS, PAHO will continue leveraging the capabilities within PMIS to improve the cycle of Budget monitoring, assessment and reporting.</p>	We reported on the inherent tensions within the organisation structure and made recommendations which PAHO management have considered and rejected. We have therefore closed this recommendation.	Closed.
2018 Long Form Report Rec 12	Management should obtain and review independent assurance reports from the third-party provider and undertake a risk analysis to consider ways in which it will oversee the validation of its administrator's claims.	<p>The Republic of the Philippines, Commission on Audit, has performed the external audit of the Staff Health Insurance Fund sampling claims from the Third-Party Administrators. In addition, PAHO and WHO will develop controls to address issues identified in the audit report.</p> <p>Update March 2020 In March a PAHO / WHO team visited AETNA and reviewed the claim processes and the report and monitoring issues.</p>	<p>The External Audit of the Staff Health Insurance Fund is not designed to provide management assurance over its service providers.</p> <p>We reviewed the outcome of the meeting with the third-party provider, this now needs to be developed into a strategy for managing and validating the work of its third-party administrator.</p>	In progress.

Previous reference	Summary of recommendation	Administration's comments on status: March 2020	External Auditor's view	Status
2018 Long Form Report Rec 13	PAHO should consider undertaking an open-book audit of the accuracy of reported costs and to confirm they have complied with their contractual obligations. Such inspection rights should be exercised regularly in future.	PAHO will coordinate with Aetna to exercise periodically the audit rights specified in the contract to confirm the accuracy of records. Update March 2020 In March a PAHO team visited AETNA and reviewed the claim process and the report and monitoring issues.	The response provided does not address the recommendation.	Not implemented.
2018 Long Form Report Rec 14	PAHO should review its current procedures and processes against the benefits of the services and capacity that can be offered externally and consider the relative cost differences.	PAHO will contract an external consultant to review the costs and benefits of the third-party administrator contract/s and continue the ongoing consultations with WHO/SHI on the next TPA contract/s. Update March 2020 Discussion of this topic is expected during the GOC cycle in 2021.	We note management's comments.	In progress.
2018 Long Form Report Rec 15	Review the effectiveness of risk management procedures at the cost centre level; develop an action plan to embed a culture of risk awareness throughout the Organization and promote the use of risk registers at cost centre level to inform decision making and monitoring of risk mitigation.	PAHO ERM Adviser reviews the risk management procedures in the 2nd year of each biennium with a view to developing an action plan for the next biennium. During the 2019 review additional enhancements will be reviewed to further embed risk awareness at all levels of management and an updated risk register procedure will be released in the 4th quarter of 2019. Update March 2020 RM procedures were reviewed and enhanced for the 2020-2021 Risk Register and released together with the launch of a new training process for cost center managers and Risk Focal Points.	We note management's comments and we will review the impact of the new training for cost centre managers and risk focal points during our 2020 audit. We have made further observations on risk management resulting from our work at the PAHO country offices in this year's report.	In progress.

Previous reference	Summary of recommendation	Administration's comments on status: March 2020	External Auditor's view	Status
2018 Long Form Report Rec 16	Require cost centres to generate a full and complete list of risks, emphasising the need to capture all relevant risks from the lower levels within cost centres. Those of greatest significance should be escalated to the corporate risk register, to keep the number of escalated risks to a manageable level.	<p>Based on prior recommendations of PAHO's Audit Committee, ERM guidance to cost centers identifies commonly cited risks from prior cycles and requests that cost centers list the five or so most significant risks that are specific to the cost center for management attention. During the 2019 review of the risk management program, this guidance will be reviewed in the context of the risk approach embedded in the planning and program monitoring process.</p> <p>Update March 2020 Management does not contemplate requiring an exhaustive list of all risks at the cost center level, due to the diminishing marginal value added from listing risks beyond the top five and the common shared risks of all cost centers. Most significant risks from cost centers are already escalated to the corporate risk register.</p>	<p>Risk management should not be a purely strategic exercise to inform the corporate risk register. It needs to be relevant for managers at every level of the organisation and embedded within day-to-day activities.</p> <p>We have made further observations in this regard resulting from our work at the PAHO country offices in this year's report.</p>	Not implemented.
2018 Long Form Report Rec 17	Build a more systematic approach to risk management into its project approval and monitoring processes, so it becomes an integral part of project due diligence. These risks assessment should be scalable to reflect the size and scope of a project and draw upon good practice examples within PAHO.	<p>As a part of PAHO's Project Management Framework the Organization addresses risk management across projects' phases. In this regard, the Organization provided guidance for risk identification and assessment during the project design phase, included risk assessment within project review checklist, and provided guidance regarding risk mitigation during the implementation phase. With this in mind, the Organization considers that risk management is already addressed in a systematic approach. To reinforce these actions, ERP will:</p> <p>a) continue to include risk management within project development/project management capacity development;</p> <p>b) continue to include risk assessment in the project review process; and,</p> <p>c) develop criteria for determining those voluntary contribution proposals that should undergo additional risk assessment. This criteria will include scale and scope of the proposals.</p> <p>Update March 2020 PAHO has in place a corporate Project Management Framework (PMF) and complementary SOP for voluntary contributions that integrate the discipline of risk management across the project life cycle (identification, assessment, monitoring and mitigation). The inclusion of risks in project approvals is further reinforced through a corporate project review process, guided by a</p>	<p>We note management's response.</p> <p>During our audit we reviewed risk management for the SMART hospitals project and identified areas for improvement.</p> <p>In our view, PAHO does not have sufficiently robust risk management arrangements in its project approval and monitoring processes.</p>	In progress.

Previous reference	Summary of recommendation	Administration's comments on status: March 2020	External Auditor's view	Status
		<p>review checklist, to verify that risks were identified and incorporated into the project design and results framework to be adequately addressed, particularly for complex projects (i.e. SMART Hospitals, EU funded) (https://intra.paho.org/departments-offices/dd/erp/Pages/proj-sup.aspx). The integration of risks into corporate project management approaches and processes has been completed in close collaboration with the Enterprise Risk Management (ERM) Program, with additional guidance provided on the ERM intranet site (https://paho.sharepoint.com/:p:r/Tools/RM/_layouts/15/Doc.aspx?sourcedoc=%7B404E9FB9-E2C3-4564-BBD8-9E8F616FB7AD%7D&file=Gestion%20de%20Proyectos.%20Presentacion.pptx&action=edit&mobileredirect=true).</p> <p>ERM: In relation to the recommendation of the reference, we had the opportunity to review it with AM and we believe that it should be considered closed since the risk inclusion procedure exists in the analysis of projects financed by voluntary contributions. ERP which is the BO of the project review policy involving VC, and also the project management of policy clearly indicates the progress in this regard, and these advances have been made in coordination with our ERM program.</p>		
<p>2018 Long Form Report Rec 18</p>	<p>Operationalise its anti-fraud policy as a matter of priority and use the opportunity of the launch to raise awareness of the policy, responsibility of staff and to cite examples of zero tolerance of fraudulent behaviour. From this any identifying training needs should be considered.</p>	<p>The anti-fraud policy was reviewed and discussed at the Audit Committee meeting held in April 2019. The Committee endorsed the policy and offered a few comments and suggestions for the Bureau's consideration. These comments were considered and, following the final internal review process, the policy will be issued in June 2019. The implementation of this policy will be accompanied by an awareness campaign and focused training activities. The policy is currently pending clearance by the E-Manual Standing Committee.</p> <p>Update March 2020 The new anti-fraud and corruption policy has yet to be issued and is still pending approval by the E-Manual review committee. We expect that the policy can be approved before the next meeting of the Audit Committee.</p>	<p>We reiterate the importance of this recommendation and have further commented on the slow progress in this important area in the current report.</p>	<p>Not implemented.</p>

Previous reference	Summary of recommendation	Administration's comments on status: March 2020	External Auditor's view	Status
2018 Long Form Report Rec 19	Perform a systematic analysis of its exposure to fraud risks throughout the organisation and consider whether current control sufficiently mitigate these risks.	A draft policy to combat fraud and misconduct has been completed, including a listing of the most significant fraud risks facing PAHO. The ETH office is responsible for rolling out an awareness program to mitigate these risks.	We have seen no evidence of a systematic analysis of the fraud risks facing PAHO. We reiterate the importance of this recommendation and have further commented on the slow progress in this important area in the current report.	Not implemented.
2018 Long Form Report Rec 20	PAHO should further develop its SIC processes to draw upon the full range of assurances, with a focus on the outcomes from those processes and how the weaknesses identified will be addressed.	After consultation with internal stakeholders, a revised Statement of Internal Control has been completed and will be included in the Financial Report of the Director for 2019.	We provided feedback on the draft 2019 Statement on Internal Control and further changes were made to the final version. PAHO should actively review the compilation of the Statement on Internal Control each year building on changes and developments in the control environment as they occur.	Closed.
2018 Long Form Report Rec 21	The good practice of annual assurance letters should be reviewed, to ensure that they become more qualitative in providing disclosure of how controls have been assured locally, and to highlight issues identified, they should be consistent with IES and Compliance Unit and other assurance provider observations.	The annual Letters of Assurance from cost center managers have been configured as a workflow within PMIS and linked to the monthly Cost Center Manager compliance process.	We note the changes made which should provide a more transparent link between the annual assurances provided by cost centre managers and the compliance reviews performed.	Closed.

Previous reference	Summary of recommendation	Administration's comments on status: March 2020	External Auditor's view	Status
2018 Long Form Report Rec 22	PAHO should consider developing an overarching assurance map and a formal process for the assurance and compliance providers to share Plans, findings and risks to ensure assurance is co-ordinated, themes are identified, and that intelligence informs future more integrated work plans.	The Compliance and Risk Management teams will continue development of the compliance program toward a comprehensive assurance map. Update March 2020 Preparation of assurance map remains in progress.	We note management's comments.	In progress.