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REPORT OF THE OFFICE OF INTERNAL AUDIT FOR 2022

Introduction

1. The Office of Internal Audit (OIA) provides this annual summary report for the calendar year 2022. The report gives an overview of OIA’s work in that year, including the office’s perspective on internal controls, risk management, and related matters in the Pan American Health Organization (PAHO).

2. OIA’s mission is to advise the Pan American Sanitary Bureau (PASB or the Bureau) on the economy, efficiency, and effectiveness of administrative and operational matters in order to facilitate the achievement of the Organization’s objectives. In particular, OIA provides independent views and advice on whether risk management processes and related internal controls are adequately designed and functioning effectively. OIA’s work covers all operational and institutional functions in PASB, including information technology systems.

3. OIA undertakes internal audits and, occasionally, consulting or advisory assignments. It also provides ad hoc advice on emerging risks to the Director of PASB and to other senior officials. OIA participates as an observer in PASB internal committees and working groups, such as *a)* the Asset Protection and Loss Prevention Committee; *b)* the Enterprise Risk Management and Compliance Standing Committee; *c)* the Integrity and Conflict Management Standing Committee; and *d)* the Property Survey Board. Through these activities, OIA provides timely advice to PASB and encourages knowledge sharing and the identification of emerging risks.

Independence, Professionalism, Resources, and the Three Lines Model

4. To guide the internal audit activity and to assist in maintaining its independent character, OIA follows the International Professional Practices Framework of the Institute of Internal Auditors (IIA).¹ To ensure maintenance of the highest professional standards for internal auditing, the Institute requires a five-yearly external quality assessment of the extent to which an internal audit function conforms to IIA standards. There is a scale of three ratings: “generally conforms,” “partially conforms,” and “does not conform.” OIA underwent an external validation by the Institute of Internal Auditors in 2022,

* This version includes an editorial adjustment in paragraph 21.

¹ Available at: <https://www.theiia.org/en/standards/international-professional-practices-framework/>.

and based upon its findings, the IIA concluded that OIA “generally conformed” to its standards. OIA therefore obtained the highest possible rating of conformance to the Institute’s professional practices for the period 2017 to 2022, a rating that reflects the OIA team’s commitment to excellence.

5. With respect to risk management and risk mitigating internal controls, the Institute of Internal Auditors offers the Three Lines Model (previously known as the Three Lines of Defense or Three Lines of Assurance). In the context of PAHO, the first and second lines are the responsibility of PASB officials: the first line relates to the operation of day-to-day internal controls, and the second line consists of monitoring and compliance. The third line is the independent assurance provided by internal audit. In other words, the first line refers to PASB functions that own risks and internal controls; the second line refers to PASB functions that oversee risks and internal controls; and the third line refers to the independent internal audit office that reviews and advises on risks and internal controls. The Three Lines concept thus differentiates OIA’s responsibilities from those of the personnel who administer PASB activities. The Bureau designs, maintains, and monitors systems of risk management and internal control, and OIA provides opinions on the effectiveness and efficiency of those systems. OIA is an independent function embedded within the Organization, and the strict maintenance of its independence is essential to enable OIA to avoid conflicts of interest with its advisory role. OIA’s internal audits and advisory services do not, therefore, replace the responsibilities of PASB in the discharge of its administrative and operational functions.

6. Two important institutional arrangements—OIA’s direct reporting line to the Director of PASB and its annual report to the Executive Committee—are intended to protect OIA from any potential interference in planning, undertaking, and reporting on its work. To further ensure the operational independence of OIA, the Auditor General has responsibility for OIA’s human and financial resources, which are administered in accordance with the regulations and rules of PAHO.

7. OIA’s personnel and other resources were sufficient to implement its 2022 work plan; no aspects of the planned work were curtailed or deferred because of resource constraints. In 2022, the personnel resources of OIA consisted of three professional posts and one general service post.

8. In the performance of its duties in 2022, OIA did not encounter any obstacles or interference in the scope of its work, its access to records and information, or the maintenance of its independence.

9. OIA responded to the challenges of the COVID-19 pandemic in recent years by modifying its working practices. For example, during PASB’s moratorium on duty travel and its period of full-time emergency teleworking, OIA used information technology tools to conduct desk-based audits. The PASB Management Information System (PMIS) facilitated remote auditing by centralizing the Organization’s financial and operational information, and teleconferencing software permitted the face-to-face discussions necessary for internal audits. With the return to duty travel in the second semester of 2022, OIA has resumed on-site auditing.

Development and Implementation of the Internal Audit Work Plan

10. In consultation with the Director of PASB, the Auditor General establishes a risk-focused, annual internal audit work plan. The work plan is intentionally flexible so that it can respond to emerging risks. The Director of PASB approves the initial internal audit work plan and all amendments to it.

11. OIA tailors the objectives of individual internal audit assignments through a planning process that includes assessments of relevant risks and circumstances. At the conclusion of each assignment, OIA prepares an internal audit report that is addressed to the Director of PASB and copied to appropriate personnel. The report contains findings on risk and internal control issues, along with PASB action plans to address the findings.

12. To ensure the periodic coverage of all PAHO/WHO Representative (PWR) Offices, the work plan includes visits on a cyclical basis to small offices that typically might not be selected on grounds of size or risk. At the time of this writing, the cyclical audit coverage of all PASB locations takes eight years: that is, every PWR Office and Pan American Center is audited at least once in an eight-year period. Larger, higher-risk offices are audited more frequently.

13. In 2022, OIA undertook seven internal audits, covering diverse operations and activities. Four assignments had a thematic focus, and three addressed country-level operations. The Annex to this report lists the assignments undertaken in 2022, with their ratings. For the fifth consecutive year, no individual internal audit was rated unsatisfactory. For country-level audits, 2022 was the sixth consecutive year without an unsatisfactory rating. The Annex includes a guide to the audit ratings.

Coordination with Other Sources of Assurance

14. In 2022, OIA continued to cooperate with other sources of assurance. OIA coordinated its planning activities with the PAHO external auditor (the National Audit Office of the United Kingdom of Great Britain and Northern Ireland) to avoid duplications and gaps in the overall audit coverage of PASB. OIA also provided copies of all its internal audit reports to the Geneva-based Office of Internal Oversight Services (OIOS) of the World Health Organization (WHO). WHO/OIOS has continued to rely on the work of OIA and therefore has not performed internal audit assignments in the Region of the Americas.

15. OIA also cooperated with the Bureau's second line (see paragraph 5 above) by reviewing PASB's internal control monitoring dashboards and following up on the results of its Enterprise Risk Management process. OIA links internal audit findings to relevant risks identified through the Enterprise Risk Management process.

16. OIA continued in 2022 to receive advice from the PAHO Audit Committee. It also participated in the network of Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions to assimilate guidance on good practices and new developments from the internal audit functions of other international organizations.

Principal Internal Audit Findings in 2022

17. Paragraphs 18 to 27 below summarize the main findings from internal audits in 2022. General observations on the PASB internal control environment are provided in paragraphs 34 to 38.

Thematic Assignments

18. The main objectives of the **Internal Audit of Payroll (OIA report no. 01/22)** were to assess the accuracy of the payroll and the effectiveness and efficiency of payroll-related, risk-mitigating internal controls. OIA found that the monthly payroll process had been consistently completed in an accurate and timely manner, supported by generally satisfactory internal controls and supervisory arrangements. Many of the controls over the payroll were embedded within PMIS. The digitization of personnel files, completed prior to the period of emergency telework during the COVID-19 pandemic, has been central to the uninterrupted continuation of the payroll process in recent years. In consequence, the supporting documentation for the internal audit of the payroll, including the details of staff members' personal status, dependents, and various allowances, was readily available.

19. Despite the audit's generally positive findings, OIA noted that for some aspects of the payroll process PASB had tended to over-rely on sole individuals, some of whom held temporary contracts. In addition, and despite a recent cross-functional effort to document all payroll procedures, OIA found that some policies, procedures, and job aids needed updating to reflect current practices. A balance of US \$75,000² in February 2022 for amounts owed by staff members (arising from payroll-related adjustments) contained elements dating back to 2013, some of which related to separated staff members. OIA estimated that approximately \$30,000 of the balance was likely to be written off as irrecoverable.

20. In the **Review of Business Continuity and Institutional Resilience Arrangements in PASB (OIA report no. 04/22)**, OIA assessed the comprehensiveness and effectiveness of procedures and internal controls in these two related areas. PASB had provided a practical demonstration of its institutional resilience by maintaining its program of work and administrative activities throughout the COVID-19 pandemic. Nonetheless, despite empirical evidence of the effectiveness and efficiency of the Bureau's response, OIA found that PASB faced the challenge of closing gaps in fundamental elements of the business continuity and resilience framework. The report's findings suggested that internal controls would be strengthened through *a)* the identification of a cross-Organization coordinator for business continuity, to mitigate the tendency toward "working in silos" in some aspects of the continuity arrangements; *b)* the strengthening of institutional memory through more rigorous and comprehensive business continuity documentation; *c)* the testing and analysis of continuity and resilience vulnerabilities in information technology; *d)* the enhancement of disaster recovery planning, especially at country level; and *e)* the development and use of performance indicators specific to business continuity.

² Unless otherwise indicated, all monetary figures in this report are expressed in United States dollars.

21. OIA undertook an **Internal Audit of the “Second Line of Defense” (Management Monitoring of Internal Controls) in PASB (OIA report no. 06/22)**. In this audit, OIA assessed the adequacy of past and present second line practices and the scope for future improvements. (On the concept of three lines, see paragraph 5 above.) Overall, OIA found that second line activities had yet to recover from the discontinuing in 2018 of the Country Accounting Services (CAS) unit in the department of Financial Resources Management. Following its creation in 2009, CAS acted for nearly a decade as PASB’s principal second line monitoring and compliance function. The CAS team’s duties then were taken over by a sole Headquarters-based post of Compliance Advisor. The reasoning for this change appeared to be that the more sophisticated data provided by the PMIS information system (implemented in 2017) made the existence of a compliance-focused team unnecessary. The identification of internal control exceptions would, it was argued, henceforth be systems-generated rather than manual. However, OIA found that the activities of the Compliance Advisor post, occupied from 2017 to 2022, had not ensured a sound succession to the work of CAS. Indeed, OIA found no evidence of systematic second line coverage from 2018 on. The approach instead focused on checklists and information system dashboards. Although monthly or quarterly internal control checklists had been required of cost center managers (the periodicity determined by the size of the reporting unit), there was no evidence of a systematic follow-up of exceptions reported in the checklist. As a consequence of the weak follow-up, several staff members informed OIA that they considered it futile to report internal control exceptions through the checklist. Similarly, the Headquarters second line activity had developed dashboards to highlight internal control exceptions, but OIA found little evidence of follow-up to the problems identified. OIA concluded that the years from 2018 to 2022, following the discontinuance of CAS, were a period of lost opportunities for second line activities in PASB. At the time of this writing, the Headquarters-based Compliance Advisor post had been vacant for the previous nine months.³

22. In considering how Headquarters-based second line activity might be made more effective in the future, OIA noted that PASB already possessed existing pockets of good practices in terms of second line activities (for example, for expenditure transactions and Letters of Agreement). Moreover, the Bureau had at its disposition useful monitoring information available through the PMIS system. PASB could build on these existing strengths by centrally *a)* overseeing the quality and findings of existing, decentralized second line monitoring; *b)* identifying and filling gaps in the second line arrangements; and *c)* ensuring adequate follow-up of problems identified through monitoring mechanisms. Such developments would assist in rebuilding the effectiveness of second line activities in PASB.

³ PASB also created a post of Compliance Officer in the Brazil PWR Office from 2015 to 2018. The Compliance Officer post focused mainly but not exclusively on the Mais Médicos project, and the post was abolished when that project ended. OIA did not find evidence of effective second line activities related to the activities of the Compliance Officer post in the years of its existence. The incumbent seems to have been used as an ad hoc administrative resource to assist in miscellaneous tasks, none of which were recognizably second line duties.

23. The main objectives of the **Internal Audit of the Administration of Inventories (Supplies) in PASB (OIA report no. 07/22)** were to review risk-mitigating financial and operational internal controls over inventories and to test the accuracy of inventory balances through sample counts. Inventories are defined here as medical supplies for short-term use, “short-term” being understood as intended for use within one year. PASB has held medical supplies for many years as part of its regular technical cooperation activities: examples include the Programme de Médicaments Essentiels (PROMESS) in Haiti and the zoonotic testing kits developed by the Pan American Center for Foot-and-Mouth Disease and Veterinary Public Health (PANAFTOSA), a Pan American Center located in Brazil. The level of inventories in PASB rose in the years 2020 to 2022 as a consequence of the Bureau’s response to the COVID-19 emergency. In early December 2022, at the time of the audit, the total balance of PASB inventories was \$9.8 million, of which \$8.2 million was emergency-related.

24. OIA undertook sample counts of emergency-related inventories in Colombia, Honduras, and four separate warehousing facilities in Panama; reviewed the results of third-party counts of inventories in Venezuela; and assessed on-site in Guatemala the internal control arrangements over inventory storage. The test counts did not indicate any material discrepancies between book records and physical quantities. OIA therefore found evidence of satisfactory de facto operational internal controls over the inventories in the locations reviewed. However, OIA also found that PASB was administering inventories without a formal policy and that lines of accountability for inventories were not yet clearly established. In addition, the Enterprise Risk Management register lacked a comprehensive analysis of inventory-related risks, and the information systems that recorded inventories were inconsistent across PASB. Overall, OIA found that the good de facto handling of inventories it had observed required a more robust institutional framework to ensure greater accountability, consistency, and reliability.

Internal Audits of PAHO/WHO Representative Offices and Pan American Centers

25. In 2022, OIA undertook three country-level audits: at the PWR Offices in Cuba and Mexico, and at the Latin American and Caribbean Center on Health Sciences Information (BIREME), a Pan American Center located in Brazil.⁴ The principal objective of the audits was to review the effectiveness and efficiency of the internal controls that mitigated administrative and financial risks. OIA rated the overall findings of the BIREME audit as partially satisfactory, with some improvement needed, while the Cuba and Mexico audits were rated as partially satisfactory, with major improvement needed. For the sixth consecutive year, OIA did not rate the findings of any country-level audit as unsatisfactory, which suggests the maintenance of a consistent standard of decentralized (non-Headquarters) internal controls.

⁴ The Center’s current name is the Centro Latino-Americano e do Caribe de Informação em Ciências da Saúde, but it continues to be known as BIREME, an abbreviation derived from its original name, the Biblioteca Regional de Medicina.

26. Recurring issues at country level included policy noncompliance in the hiring of consultants and in the documentation for local procurement, as well as a need to update local Country Cooperation Strategies. Matters specific to the offices audited in 2022 included a duplicate purchase of laptop computers by both BIREME and the Headquarters procurement function, owing to a communication error. This appeared to be a one-off matter and was resolved by relocating excess laptops for use elsewhere in PASB. Otherwise, BIREME's administrative processes were tightly controlled. For the Mexico PWR Office, OIA's main audit findings related to inadequate Enterprise Risk Management analysis for the office's operations, and OIA made suggestions for improving the efficiency and effectiveness of local procurement transactions. The personnel profile of the Cuban PWR Office is very different from that of its counterparts in other countries: in particular, its dependence on personnel of the Cuban Ministry of Public Health (MINSAP, Spanish acronym) is notable. Out of a total personnel headcount of 26 in the Cuba office at the time of the audit, there was only one fixed-term staff position, that of the Representative. There was one national PAHO consultant, while the remaining 24 personnel were all MINSAP employees. Having only one PAHO staff member hindered the implementation of adequate segregation of responsibilities and supervisory arrangements. OIA suggested that the Cuba PWR Office consider seeking support from other cost centers for some expenditure transactions, and that the office might participate in PASB's current shared services project. The Cuban office's MINSAP personnel received a PAHO subsidy in addition to their MINSAP salaries, and the subsidy was the major element of their total compensation. OIA understood that the most recent comprehensive cost-of-living review of the subsidy scale took place in 2015 (although the scales were partially revised in 2019 to take account of increases of local transport costs). A review of the subsidy scales, therefore, seemed advisable to ensure that the subsidy's purchasing power had kept up with the effects of inflation and with the subsidies in other international organizations.

27. PASB has taken steps to address the findings arising from OIA's 2022 audits, and at the time of writing, many of the findings have already been satisfactorily addressed.

Follow-up on Internal Audit Findings and Related Action Plans

28. Three times per year, OIA follows up with PASB on the implementation status of action plans related to internal audit findings. The objective of the follow-up exercises is to support management in improving risk-mitigating internal controls by addressing the concerns identified in the findings. OIA classifies the significance of its findings in three tiers: priority, standard, and low. The categories are summarized as follows:

- a) **Priority:** Prompt action is required to ensure that PAHO is not exposed to high risks. A failure to take action could result in major consequences.
- b) **Standard:** Action is required to ensure that PAHO is not exposed to risks that are considered moderate. A failure to take action could contribute to negative consequences for the Organization.
- c) **Low:** Action is desirable and might result in enhanced internal controls or better value for money. Low-priority findings are usually communicated verbally between OIA and PASB and are not included in internal audit reports.

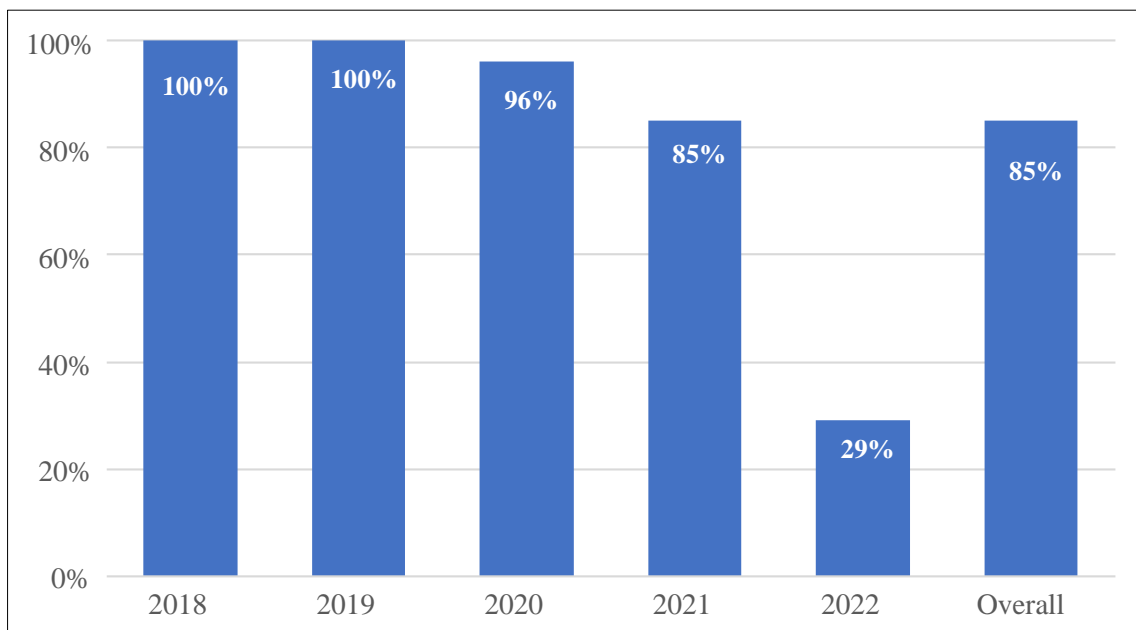
29. OIA includes priority and standard findings in the formal follow-up process only after the Director of PASB has accepted the findings in individual internal audit reports. The acceptance of an internal audit report by the Director of PASB usually takes place two months following issuance of the report.

30. In 2022, in the final year of her tenure, the Director of PASB continued her practice of chairing an annual meeting to discuss the status of pending internal audit findings with Executive Management, Departmental Directors, PWR Office Representatives, and Pan American Center Directors. These meetings have always conveyed a powerful “tone at the top” message, demonstrating the seriousness with which internal audit findings and PASB’s corrective action plans are viewed at the highest levels of the Organization. The meetings have accelerated the implementation of many corrective actions.

31. Figure 1 shows the implementation rates of corrective actions to address internal audit findings for the five-year period ending 31 December 2022. The relatively low implementation rate for the 2022 PASB action plans to address the findings reflects the normal time lag between the issuance of internal audit reports, their acceptance by the Director of PASB two months afterwards, and the subsequent implementation and follow-up processes. OIA found that the statistics in the table remain comparable to those in international organizations of similar size and complexity.

32. In the follow-up process, OIA pays special attention to the longest-pending findings awaiting corrective actions. As of 31 December 2022, there were no priority findings whose corrective actions had been pending for more than two years.

Figure 1. Implementation Rates of Corrective Actions to Address OIA Findings as of 31 December 2022



Other Areas of Internal Oversight

33. Regulation 12.1(d) of the Financial Regulations of PAHO states that the Director of PASB shall “maintain an internal oversight function reporting to the Director.” OIA performs the internal audit and advisory elements of the internal oversight function. The other oversight activities—investigations and evaluations—are performed by different offices in PASB. The Investigations Office (INV) undertakes and oversees investigations, and the office of Planning, Budget and Evaluation (PBE) undertakes and oversees evaluation assignments. OIA maintains a continuous dialogue with both INV and PBE to share information and any matters of mutual concern.

Opinion on the Overall Internal Control Environment in PASB

34. Internal controls are procedures, arrangements, and sometimes physical barriers that mitigate, transfer, or eliminate risks and thereby increase the likelihood of achievement of organizational objectives. Examples of internal controls include physical barriers to mitigate the risks of loss or theft of tangible assets and the pre-approval of expenditure in line with delegations of authority to mitigate the risks of irregular disbursements. The rationale for an internal control is the risk to institutional objectives that it purports to mitigate. The overall framework situates internal controls within an organization’s operating policies and practices.

35. The Bureau maintained an effective and efficient administrative response to the challenges of the COVID-19 pandemic through 2022, with the deployment of information technology tools to facilitate the control of decentralized administrative and operational activities. The Organization also maintained firm budgetary control over general operating costs and the costs of human resources. Following the resumption of duty travel in the second semester of 2022, PASB should pay close attention to future cost control and value for money in this area to apply a key lesson learned from the period of emergency telework, namely that virtual meetings can often obviate the need for travel.

36. OIA did not give an unsatisfactory rating to any of the internal audit assignments in 2022, as summarized in the Annex to this report. This is the fifth consecutive year with no unsatisfactory ratings overall and the sixth year with no unsatisfactory ratings for country-level audits. This suggests a continuing maintenance of adequate internal controls across PASB.

37. Based on the internal audit activity undertaken by OIA in 2022 and on its participation in the day-to-day life of the Organization (including the role of OIA staff members as observers in internal committees and working groups), OIA did not identify any significant weaknesses in internal controls that would seriously compromise the achievement of PAHO’s strategic and operational objectives. OIA’s opinion of the PASB internal control environment in 2022 is that it continued to provide reasonable assurance of the accuracy and timely recording of transactions, assets, and liabilities, and of the safeguarding of assets. However, with the ongoing weaknesses in second line activity (management monitoring of internal controls), it remains possible for officials to override internal controls. OIA therefore continues to draw attention to the desirability of enhancing

formal second line arrangements to protect PASB from related risks. Alongside the evolving assurance mapping and Enterprise Risk Management processes, a more effective second line should contribute to articulating more clearly the interconnections between the Organization's objectives, risks, and risk-mitigating internal controls while helping to identify internal control violations.

38. The duration of emergencies in recent years, including the COVID-19 and mpox emergencies, has impacted administrative arrangements in the Organization. "Special Emergency Procedures," which relax some important internal controls, have become normalized rather than exceptional since 2020. These special procedures are designed to encourage administrative agility during times of exceptional challenge, for example by increasing decentralized delegations of authority for the incurring of expenditure and by simplifying the hiring of temporary personnel. PASB may consider the implications of protracted periods of special procedures on the Organization's policies. In particular, if emergency conditions are prolonged further into the future, some revisions of PASB rules may be appropriate to normalize the ostensibly special arrangements.

Action by the Executive Committee

39. The Executive Committee is invited to take note of this report and provide any comments it deems pertinent.

Annex

Annex

INTERNAL AUDIT ASSIGNMENTS, 2022

Thematic assignments	Reference no.	Overall rating*
Internal Audit of Payroll	01/22	Partially satisfactory, with some improvement needed
Review of Business Continuity and Institutional Resilience Arrangements in PASB	04/22	Partially satisfactory, with major improvement needed
Internal Audit of the “Second Line of Defense” (Management Monitoring of Internal Controls) in PASB	06/22	Partially satisfactory, with major improvement needed
Internal Audit of the Administration of Inventories (Supplies) in PASB	07/22	Partially satisfactory, with major improvement needed
Country-specific assignments	Reference no.	Overall rating*
Internal Audit of the Latin American and Caribbean Center on Health Sciences Information (BIREME), Brazil	03/22	Partially satisfactory, with some improvement needed
Internal Audit of the Office of the PWR Cuba	05/22	Partially satisfactory, with major improvement needed
Internal Audit of the Office of the PWR Mexico	02/22	Partially satisfactory, with major improvement needed

* Rating scale:

Satisfactory: Risk management practices and internal controls were adequately established and functioning well. Issues identified by the audit, if any, were unlikely to affect the achievement of the objectives of the audited entity/area.

Partially satisfactory, with some improvement needed: Risk management practices and internal controls were generally established and functioning, but needed some improvement. Issues identified by the audit were unlikely to significantly affect the achievement of the objectives of the audited entity/area.

Partially satisfactory, with major improvement needed: Risk management practices and internal controls were established and functioning, but needed major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

Unsatisfactory: Risk management practices and internal controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area, or of the Organization.