
REPORT OF THE OFFICE OF INTERNAL AUDIT FOR 2023

Introduction

1. The Office of Internal Audit (OIA) provides this annual summary report for calendar year 2023. The report gives an overview of OIA's work in that year, including the office's perspective on internal controls and related matters in the Pan American Sanitary Bureau (PASB or the Bureau).
2. OIA's mission is to advise the Bureau on the economy, effectiveness, and efficiency of administrative and operational matters in order to facilitate the achievement of organizational objectives. In particular, OIA provides independent views and advice on whether internal controls and related risk management processes are adequately designed and functioning effectively. OIA's work covers all operational and institutional functions in PASB, including information technology (IT) systems.
3. OIA undertakes internal audits and, occasionally, advisory assignments. It also provides ad hoc advice on emerging risks to the Director of PASB and other senior officials. OIA participates as an observer in the Bureau's 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; *d)* the Property Survey Board; and *e)* the Network of Administrators. Through these activities, OIA provides timely advice to PASB and encourages knowledge sharing, assessments of the quality of internal controls, and the timely identification of emerging risks.
4. Financial Regulation 12.1(d) of the Pan American health Organization (PAHO) states that the Director of PASB shall "maintain an internal oversight function reporting to the Director." OIA performs the internal audit and related advisory elements of the internal oversight function. The other oversight activities—investigations and evaluations—are undertaken by different offices in PASB. The Investigations Office (INV) undertakes and oversees investigations, and Planning, Budget, and Evaluation (PBE) is responsible for evaluations. OIA maintains a continuous dialogue with both INV and PBE to share information and any matters of mutual concern.

Independence, Professionalism, Resources, and the Three Lines Model

5. To guide the internal audit activity and to assist in maintaining its independent character, OIA in 2023 continued to follow the International Professional Practices Framework of the Institute of Internal Auditors (IIA).¹ All OIA staff members hold IIA membership.

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

6. With respect to internal controls and the mitigation of risks, the IIA has defined a Three Lines Model (previously known as the Three Lines of Defense or Three Lines of Assurance), to clarify the distribution of responsibilities within organizations. The first and second lines are the responsibility of management: the first line refers to PASB's functions that are responsible for day-to-day activities relating to risks and internal controls; the second line refers to PASB's functions that monitor risks and internal controls; and the third line refers to OIA's activities in overseeing and advising on these matters. The Three Lines concept thus differentiates OIA's responsibilities from those of the personnel who administer PASB's activities: it is the Bureau that designs, maintains, and monitors systems of risk management and internal control, and OIA provides opinions on the economy, effectiveness, and efficiency of those systems. OIA is therefore an independent function embedded within the Organization, and the strict maintenance of OIA's impartiality is essential to avoid conflicts of interest with OIA's advisory role. OIA's internal audits and advisory services do not replace the responsibilities of PASB in discharging its administrative and operational functions.

7. 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's objectivity and impartiality from any potential interference in its activities and its reporting on its work. To further ensure the operational independence of OIA, the Auditor General has responsibility for its human and financial resources, which are administered in accordance with the regulations and rules of PAHO.

8. OIA's personnel and other resources were sufficient to implement its 2023 work plan; no aspects of the planned work were curtailed or deferred because of resource constraints. In 2023, the personnel resources of OIA consisted of 3 professional posts and 1 general service post. The Director of PASB provided additional funding to OIA for hiring contingent personnel to cope with the extra workload arising from the expansion of the OIA work plan in 2023 (see paragraph 11 below).

9. In the performance of its duties in 2023, OIA did not encounter any obstacles or interference in the scope or detail of its work, its access to records and information, and the maintenance of its independence.

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. In 2023, the Director requested 2 related innovations to the OIA work plan for PAHO/WHO country offices. The first was an increase in the frequency of audits at country offices, adding three audits to OIA's historical, annual activity levels. The second was the undertaking of "desk audits" (i.e. without an on-site visit) for country offices deemed, in the judgment of the Auditor General, to be of low to moderate internal control risk. OIA therefore expanded its country-level work plan in 2023 and included the performance of desk audits.

12. The increase in the number of country level internal audits and the undertaking of desk audits had 2 specific purposes (in addition to the general aim of maximizing internal auditing activity levels while controlling costs). First, to reduce the frequency of the cyclical audit coverage of country offices.

Every country office and Pan American Center has been audited at least once in an 8-year period. Larger, higher-risk offices are audited far more frequently. OIA's work plan will continue to audit the smaller country offices that typically might not be selected on the grounds of size or risk on a cyclical basis. The Auditor General expects that the additional audits will reduce the complete cycle coverage of all country offices from 8 to around 5 years.

13. The second purpose of increased country level internal audit coverage arose from PASB's revision, in 2023, of country office delegations of authority. The typical delegation of authority to the country offices doubled from US\$ 50 000² to \$100 000. The expanded internal audit work plan for country-level activities was intended, in part, to increase the auditing of this greater decentralization of expenditure decisions and approvals.

14. Starting formal desk audits has brought OIA into line with internal auditing practices at the World Health Organization (WHO), where desk audits have been performed for many years. OIA has already had extensive de facto experience of desk audits during PASB's full-time emergency teleworking during the COVID-19 pandemic. OIA found that the PASB Management Information System (PMIS) permitted the efficient and effective performance of remote audits, and teleconferencing software facilitated the face-to-face discussions necessary for internal auditing. As of 2023, OIA decided to conduct desk audits only for smaller country offices that it deemed to be of low to moderate internal control risk. For its audits, OIA will continue to visit on-site the larger country offices, and those perceived to be of high internal control risk.

15. OIA tailors the objectives of individual internal audit assignments to 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 the Bureau's action plans to address the findings. Starting from January 2023, the Director of PASB decided to make OIA's final internal audit reports available to Member States, on request. The process for a country delegation to request a copy of an OIA internal audit report is included in the PAHO internet website.³

16. In 2023, OIA undertook 11 internal audits, covering diverse operations and activities: 3 assignments had a cross-organizational thematic focus, and 8 addressed country-level operations. The Annex to this report lists the assignments undertaken in 2023, with their ratings and a guide to the ratings. For the sixth consecutive year, no individual internal audit was rated "unsatisfactory." For country-level audits, 2023 was the seventh consecutive year without an "unsatisfactory" rating.

Coordination with Other Sources of Assurance

17. The IIA's professional standards require internal auditors to cooperate with other sources of assurance. In 2023, OIA therefore continued to communicate its planned activities and internal audit reports to the PAHO External Auditor (the National Audit Office of the United Kingdom of Great Britain and Northern Ireland) to assist in avoiding duplications and gaps in the overall audit coverage of PASB. It also provided copies of all its internal audit reports to the WHO's Geneva-based Office of

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

³ Available at: <https://www.paho.org/en/oia>.

Internal Oversight Services (IOS). WHO's internal audit function has continued to rely on the work of OIA and for that reason has not performed internal audit assignments in the Region of the Americas.

18. OIA also cooperated with the Bureau's second line (see paragraph 6 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.

19. In 2023, OIA continued 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 2023

20. Paragraphs 21 to 34 below summarize the main findings from internal audits in 2023. General observations on PASB's internal control environment are provided in paragraphs 40 to 42.

Thematic Assignments

21. The main objectives of the **Internal Audit of Resource Mobilization in PASB (OIA report no. 07/23)** were to assess the efficiency and effectiveness of risk-mitigating administrative and financial internal controls in PASB's mobilization of new resources and its maximizing of existing resources, beyond the assessed contributions paid by Member States. OIA reviewed the implementation status of the 4 key approaches set out in the Resource Mobilization Strategy, 2020–2025: Advancing toward Health Equity, which are *a)* increasing the quantity of resources, *b)* improving the quality of resources, *c)* increasing the efficiency and productivity of resource mobilization, and *d)* piloting effective and innovative resource mobilization approaches.

22. With the passage of time, resource mobilization has become increasingly important in the context of PASB's budget and financing. The level of assessed contributions remained unchanged from the 2012–2013 biennium at a fixed nominal amount of \$194 million per biennium. This amounts to approximately one quarter of the funding for the program budget of \$700 million for base programs for the 2024–2025 biennium (*Official Document 369*, p.22). The zero nominal growth in assessed contributions over the last decade has led to a reduction in their value in real terms (i.e., after adjustments for inflation) of approximately \$50 million. This erosion of the purchasing power of assessed contributions has led to the increasing importance of voluntary contributions in maintaining stable and sustainable financing for PAHO's work.

23. OIA gave an overall rating to the audit's findings as "partially satisfactory with some improvement needed." It found that PASB's monitoring of the technical and financial status of grants was strong; that it was satisfactorily meeting external funding partners' reporting requirements; and that it was seeking innovative approaches to resource mobilization. OIA raised two findings for the Bureau's attention. The first finding related to PASB's information systems used to monitor the grants it receives. The Bureau's tight control over the monitoring of grants had been achieved at the time of the audit, with the use of spreadsheets, which are inherently risky and prone to error. A more robust

IT platform would provide greater comfort in relation to the completeness and integrity of information, and would free management time from report preparation to analysis, thereby enhancing the efficiency and productivity of the resource mobilization process. PASB agreed with this finding: it is seeking a more robust digital platform to reduce the opportunity for errors, and to enhance efficiencies and more rapid decision-making.

24. The Department of External Relations, Partnerships & Resource Mobilization (ERP) oversees resource mobilization in PASB, but “[a]ll individuals at all levels in the Organization have a role to play in, and a certain level of responsibility for, resource mobilization.”⁴ Given the important role of all personnel in resource mobilization, training is essential. At the time of the audit, ERP was developing a suite of training courses titled “Resource Mobilization in 7 Steps”, and the first 3 steps were already available to personnel, with the remaining steps to be implemented in the following months. OIA found that the available training courses provided a sound foundation for decentralized resource mobilization. To encourage the widest possible take-up of the training, OIA suggested that PASB make the training mandatory for a clearly defined target audience of staff members, and monitor, through surveys, the levels of user satisfaction. The Bureau welcomed these suggestions.

25. The main objective of the **Internal Audit of Letters of Agreement (LOA) (OIA report no. 09/23)** was to review risk-mitigating financial and administrative internal controls over LOA, and OIA assessed the results of the audit as “partially satisfactory with some improvement needed”. The LOA is a contractual mechanism through which the Organization transfers financial resources to an external entity (the “beneficiary institution”) for technical cooperation activities. LOA operations are undertaken both at Headquarters and at the country level, and from January 2020 to September 2023, the time period covered by this audit, PAHO granted 972 LOAs for a total amount of \$58.1 million.

26. OIA raised 3 priority findings in the internal audit report. The first concerned the widespread consensus OIA found in PASB (through a survey) for a reconsideration of the LOA’s administrative and technical framework, to enhance the efficiency and effectiveness of its use as a technical cooperation instrument. Currently, with Financial Resources Management in charge of LOA internally, there has perhaps been an over-emphasis on the financial and accounting aspects, and a focus on Headquarters perspectives, with a consequent lower emphasis on technical considerations and on country-level perspectives. OIA suggested that the Bureau review the “internal ownership” of LOA to promote a broader dialogue on LOA matters. This review might also cover the LOA process, which is often perceived as cumbersome and time-consuming. Six country offices indicated to OIA that they were not using LOA, owing to perceptions of, for example, the complexities of LOA reporting requirements.

27. OIA’s second main finding was that second line activities for LOA were limited in scope, and a comprehensive risk analysis of the LOA process for Enterprise Risk Management purposes was pending. OIA therefore encouraged greater second line involvement with LOAs. The third finding related to the need for greater automation of the LOA process. At the time of the audit, OIA estimated that around 50% of the overall LOA process was undertaken off-line, including due diligence related to the Framework of Engagement with Non-State Actors. Additional digitalization could likely improve internal controls and boost the efficiency and effectiveness of the LOA process.

⁴ Resource Mobilization Strategy, 2020-2025: Advancing toward Health Equity, p.12.

28. At its 21st session in 2021, the PAHO Audit Committee recommended that OIA facilitate an impartial assessment of IT security, including cyber security, by external experts. It recommended that OIA undertake the role of overseeing the assurance assignment to safeguard the independence and objectivity of the external experts' work. This recommendation led to the **Internal Audit of Information Technology (IT) Security (including Cybersecurity) (OIA report no. 11/23)**. After undertaking a competitive tendering process, OIA selected S2 Grupo, experts in the security of computerized systems who have worked extensively on such matters with other United Nations organizations. OIA tasked S2 Grupo with assessing PASB's framework for IT security and third-party risk management; this included the performance of "ethical hacking" exercises, using simulated "attacks" to test the robustness of both the perimeters of the Bureau's cybersecurity infrastructure and security-related controls within its internal networks.

29. OIA assessed the results of the audit as "partially satisfactory, with some improvement needed." S2 Grupo's findings provided a valuable snapshot of relevant issues at a fixed point in time. Systems security, however, evolves contemporaneously with PASB's operations. Security issues are often in flux and the ongoing, risk-mitigating activities of PASB's first and second lines are therefore crucial. The audit gave rise to 3 priority findings, reflecting both immediate and longer-term concerns.

30. The first finding was that no critical vulnerabilities were found that would have required immediate remediation to avoid jeopardizing the integrity of the Bureau's IT infrastructure and the availability of the Bureau's information. However, several weaknesses were identified that required corrective measures to enhance PAHO's overall protection. For example, S2 Grupo's penetration testing indicated vulnerabilities to the perimeters of the Bureau's IT infrastructure due to inadequate controls over access to various PAHO networks, and S2 Grupo therefore recommended related improvements in PASB password policy. OIA flagged these matters as warranting timely attention by PASB.

31. The second finding related to the crucial importance of the roles of the Bureau's first and second lines in IT security and cyber security, and the third finding related to suggested enhancements to data protection and privacy management. Overall, the S2 Grupo's findings complemented recent internal measures undertaken by PASB to protect the Bureau's information, including an Information Security Program established in 2023 that addressed, among other things, threat and vulnerability management, user awareness, and training initiatives. OIA concluded that S2 Grupo's work highlighted a reasonably robust security position, spanning areas such as information management, access control, data classification, and the use of mobile devices. However, the nature of this topic will continue to require ongoing vigilance by PASB.

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

32. In 2023, OIA undertook 8 country-level audits. This was the highest number of country office internal audits it had undertaken in a single year, and was a direct consequence of OIA's response to the request from the Director of PASB to expand the coverage of country-level auditing (paragraph 11 above). For the seventh consecutive year, OIA did not rate the overall findings of any country-level audit as unsatisfactory, as summarized in the Annex to this report. This suggests a continuing maintenance of satisfactory standards of decentralized (non-Headquarters) internal controls.

33. Recurring issues at country level included policy noncompliance in the competitive hiring of consultants; gaps in the supporting documentation for local procurement transactions; and issues over the safe custody of small but “attractive” fixed assets like laptop computers. In 2024 OIA will undertake a root cause analysis of these and related recurring internal audit issues across PASB. An important, country-specific issue identified by OIA in 2023 was the need to formalize the Bureau’s policy for contracting independent, contingent workers on activities funded by National Voluntary Contributions.

34. The Bureau has taken steps to address the findings arising from OIA’s 2023 country office audits, and at the time of writing many of the findings had already been satisfactorily addressed.

Follow-up of Internal Audit Findings and Related Corrective Actions

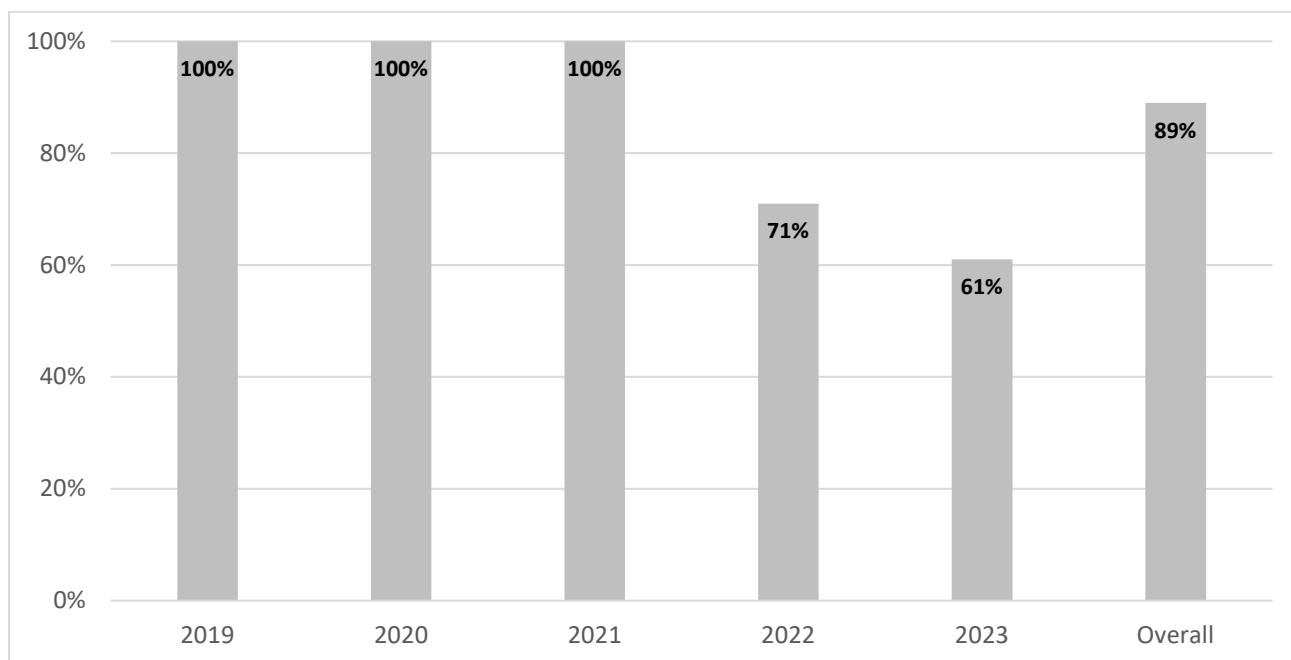
35. Three times per year, OIA follows up with the Bureau on the implementation status of its corrective action plans related to internal audit findings. The objective of the follow-up exercises is to support PASB in improving risk-mitigating internal controls by addressing the concerns identified in the findings. OIA classifies the significance of its findings in 3 tiers: priority, standard, and low:

- a) **Priority:** Prompt action is required to ensure that PAHO is not exposed to high risks. 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. 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.

36. In 2023, the Director of PASB continued the practice of chairing an annual meeting to discuss the status of pending internal audit findings with Executive Management and any concerned departmental directors, PAHO/WHO Representatives, and Pan American center directors. These meetings have always conveyed a powerful 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 also tended to accelerate the implementation of many corrective actions.

37. The figure below shows the implementation rates of corrective actions to address internal audit findings for the 5-year period ending 31 December 2023. OIA found that the statistics in the table remain comparable to those in international organizations of similar size and complexity.

Implementation Rates of Corrective Actions to Address OIA Findings, as of 31 December 2023



38. OIA includes its findings in the formal follow-up process only after the Director of PASB has accepted the findings in individual internal audit reports. The Director's acceptance of internal audit reports in 2023 was rapid compared with historical patterns. This faster rate of the acceptance of internal audit reports by the Director has improved the efficiency of the process. It has led to more rapid follow-up activity, resulting in a rise in the overall implementation rate between December 2022 (85%) and December 2023 (89%).

39. In the follow-up process, OIA pays special attention to the longest-pending findings awaiting corrective actions. As of 31 December 2023, there were no findings whose corrective actions had been pending for more than 2 years.

OIA's Opinion on PASB's Overall Internal Control Environment

40. Internal controls are procedures, arrangements, and sometimes physical objects that mitigate, transfer, or eliminate risks and thereby increase the likelihood of organizational objectives being achieved. 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 risks of irregular disbursements. The rationale for an internal control is the risk to institutional objectives that it purports to mitigate or eliminate. The overall framework of internal controls situates such matters within an organization's operating policies and practices. In paragraphs 41 and 42 below, OIA provides an opinion on general aspects of the Bureau's internal control environment.

41. 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. These special procedures are designed to encourage administrative agility during times of exceptional challenge—for example, by increasing decentralized delegation 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 the use of Special Emergency Procedures remains extensive into the future, some revisions of PASB rules may be appropriate to normalize the ostensibly special arrangements.

42. Based on the internal audit activity undertaken by OIA in 2023, 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 2023 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, and in view of the ongoing weaknesses in the second line in 2023, the risk of overriding internal controls remains a potential concern. OIA therefore continues to draw attention to the ongoing improvements in formal second line arrangements to increasingly protect PASB from risk. The second line’s evolving assurance mapping and Enterprise Risk Management processes should permit a clearer articulation of the interconnections between the Organization’s objectives, risks, and risk-mitigating internal controls, while helping to both prevent and detect internal control exceptions.

Action by the Executive Committee

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

Annex

Annex

Internal Audit Assignments, 2023

Thematic assignments	Reference no.	Overall rating ^a
Internal Audit of Resource Mobilization in PASB	07/23	Partially satisfactory, with some improvement needed
Internal audit of Letters of Agreement (LOA)	09/23	Partially satisfactory, with some improvement needed
Internal Audit of Information Technology Security (including Cybersecurity)	11/23	Partially satisfactory, with some improvement needed
Country-level audits	Reference no.	Overall rating ^a
Internal Audit of the Office of the PWR Argentina	10/23	Partially satisfactory, with some improvement needed
Internal Audit of the Office of the PWR Bahamas ^b	06/23	Partially satisfactory, with some improvement needed
Internal Audit of the Office of the PWR Brazil	05/23	Partially satisfactory, with some improvement needed
Internal Audit of the Office of the PWR Costa Rica ^b	08/23	Satisfactory
Internal Audit of the Office of the PWR Dominican Republic	02/23	Partially satisfactory, with some improvement needed
Internal Audit of the Office of the PWR Panama	01/23	Partially satisfactory, with major improvement needed
Internal Audit of the Office of the PWR Suriname ^b	04/23	Partially satisfactory, with some improvement needed
Internal Audit of the Office of the PWR Uruguay ^b	03/23	Satisfactory

^a Rating scale for internal audit assignments:

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.

^b Undertaken as desk audits.