



PAN AMERICAN HEALTH ORGANIZATION  
WORLD HEALTH ORGANIZATION



## **THIRD SESSION OF THE SUBCOMMITTEE ON PROGRAM, BUDGET, AND ADMINISTRATION OF THE EXECUTIVE COMMITTEE**

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### **STATUS OF THE IMPLEMENTATION OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS**

#### **Introduction**

1. The Pan American Health Organization (PAHO) is required to maintain accounting records and financial reports in a manner consistent with the United Nations System Accounting Standards (UNSAS). However, the UNSAS no longer reflect modern international financial reporting standards.
2. In order to address this concern, the High Level Committee on Management (HLCM) of the United Nations System Chief Executives Board for Coordination (CEB) created a Task Force on Accounting Standards to determine whether the UN system should align itself with modern international accounting standards. The review resulted in a July 2006 decision by the United Nations General Assembly to approve the adoption of IPSAS, together with the requisite resources, in Resolution A/RES/60/283. This decision, which recommends replacing the UNSAS with the International Public Sector Accounting Standards (IPSAS) across the United Nations System by January 2010, is subject to approval by the respective agency's governing bodies.
3. The Panel of External Auditors of the United Nations, the specialized agencies, and the International Atomic Energy Agency supports the move to IPSAS because these standards are developed through a rigorous independent process by the International Public Sector Accounting Standards Board.
4. The introduction of IPSAS will benefit the Organization and the readers of its financial statements by providing:

- (a) greater transparency and better internal control with respect to assets and liabilities, thus facilitating improved management and stewardship of resources;
- (b) more comprehensive and consistent information about income and expenditures to better support Results Based Management and improved governance; and
- (c) greater consistency and comparability of financial statements over time and between organizations.

### **Background**

5. After examining the report of the Director on the proposed introduction of International Public Sector Accounting Standards at PAHO, the 27th Pan American Sanitary Conference resolved on 5 October 2007, in CSP27.R18:

- (a) to endorse the introduction of IPSAS into PAHO;
- (b) to recognize that the implementation of IPSAS will contribute to transparency in Results Based Management;
- (c) to note that the current United Nations System Accounting Standards (UNSAS) have been amended to permit the gradual introduction of individual standards for each agency, with IPSAS to be fully implemented by 2010;
- (d) to further note that the Director shall submit to the Governing Bodies, for consideration at future sessions, proposals to amend the Financial Regulations and Financial Rules resulting from the adoption of IPSAS; and
- (e) to recognize that the implementation of IPSAS will require financial resources, which will be included in the PAHO biennial program budgets beginning with the 2008-2009 biennium.

6. In September 2008, the 48th Directing Council approved the utilization of US\$ 300,000 of PAHO Holding Account funds to assist with the implementation of IPSAS during the 2008-2009 biennium.

### **Analysis: Significant Benefits of Implementing the International Public Sector Accounting Standards (IPSAS)**

7. The implementation of IPSAS will provide the following benefits to the Organization:

- (a) annual audited financial statements;

- (b) accrual of income and expenditures, including the full recognition of the Organization's liabilities for staff members' future entitlements; and
- (c) capitalization of assets and recognition of depreciation expenses for property, plant, and equipment.

8. Annual audited financial statements will provide timely audited financial information to the Organization's Governing Bodies, partners, stakeholders, and donors. The Organization's External Auditor has agreed to commence annual audits of the Organization's financial statements, effective with the 2010 accounts, if desired by the Governing Bodies.

9. The introduction of IPSAS will require a transition to full accrual accounting from the current combination of cash-based and modified accrual-based accounting specified under the United Nations System Accounting Standards (UNSAS).

- (a) Current UNSAS standards recognize income when the cash is received, while IPSAS standards require the accrual, or recording of income, when it is earned.
- (b) Current UNSAS standards recognize expenditures at the time of commitment, while IPSAS standards require the accrual of expenditures based on implementation. Under accrual accounting, expenditures will be recorded in the financial period of the implementation. This has the effect of recording expenditures at the time of the delivery of the activity or purchase, rather than at the time of commitment. As a result, the financial reporting will align the expenditures with the project's implementation, thus supporting Results Based Management.
- (c) Under IPSAS, staff members' entitlements will be accrued in the Organization's financial accounts in the financial period when they are earned—i.e., annual leave, education grant, repatriation grant, etc., will be charged to the individual staff member's post each month on a pro rata basis, similar to the current accounting procedures for the monthly pension and staff health insurance contributions. Actuarial services will be contracted to establish the actuarial valuations of these entitlements.
- (d) PAHO's long-term financial commitments, such as the future costs of medical and dental services for current staff, will also be accrued each month in order to match this expense to the financial period when the staff member earns this entitlement. Because the United Nations, its specialized agencies, and PAHO have not fully accrued for these costs in the past, it is anticipated that actuarial services will be contracted to determine the actuarial valuations of future medical

and dental services for current staff members, in order to provide accurate estimates of this future expenditure of the WHO/PAHO Staff Health Insurance Plan. These expenditures will then be reported as liabilities in the Organization's audited financial statements.

10. Financial statements prepared according to IPSAS standards will identify PAHO's capital equipment, or fixed assets, in much greater detail than they are currently shown under the UNSAS principles. Currently, all capital items are recorded at their original purchase price and consolidated under two categories: (a) Equity in Land and Buildings on the Balance Sheet; and (b) a note entitled "Land and Buildings" with a sub-note containing "Non-Expendable Inventory" in the Explanatory Notes to Financial Statements. Under IPSAS standards, capitalized property, plant, and equipment will be included on the equivalent of the Balance Sheet.

11. Based on the United Nations General Assembly's approval of IPSAS, the UN has established a project under the guidance of the Comptroller of the United Nations to analyze the key differences between the United Nations System Accounting Standards and IPSAS. The UN will ensure that the necessary training materials and training services are provided before IPSAS is implemented. Currently, the United Nations Secretariat anticipates providing these training materials in May 2009. The UN's Comptroller will "charge-back" the prorated costs for these materials and services to all UN agencies; thus, PAHO will be charged for its pro rata share of the total UN costs. PAHO staff members are participating on the IPSAS Accounting Task Force.

12. The cost to PAHO of the initial implementation of IPSAS, not including the implementation of a new financial/accounting system, was initially estimated at \$400,000 to \$500,000. These funds would cover (a) the contracting of actuarial services for the determination of the required accruals; (b) the implementation of new accounting software for capital budgeting (i.e., fixed assets) and depreciation; (c) the UN's "charge-back" for IPSAS training; (d) the services of consultants to support the IPSAS implementation at PAHO; and (e) the projected increase per biennium in the External Auditor's fee for transitioning to annual audited financial statements. This estimate remains valid based on the information available to the Organization as of 31 December 2008.

### **Progress Report on the Implementation of IPSAS**

13. In an effort to transition to IPSAS, the Organization has implemented or completed the following IPSAS-related changes, analyses, and training as of 31 December 2008:

- (a) the accrual of expenditures based on implementation, rather than commitments, as delineated by the Expenditure Recognition Policy;
- (b) the monthly accrual of salaries for staff members with fixed-term contracts;
- (c) the monthly accrual of statutory entitlements, including home leave, education grant, education travel, etc. for staff members with fixed-term contracts;
- (d) the design of the accounting module for fixed assets;
- (e) the internal analysis and projection of the accrual estimates for the critical long-term liabilities related to annual leave, repatriation grant and travel, and the removal and transportation of household goods, which will be further valued by actuaries during 2009; and
- (f) IPSAS training for senior managers and finance staff members in headquarters and country offices via PAHO-led training sessions and a mandatory three-day training session for PAHO staff on IPSAS led by Professor Andreas Bergmann, Director of the Institute for Public Management at the Zurich University of Applied Sciences, and a member of the International Public Sector Accounting Standards Board.

14. The Organization's staff members' contributions to the UN Joint Staff Pension Fund (UNJSPF) and the WHO/PAHO Staff Health Insurance Fund are accrued monthly and transferred to the UNJSPF and WHO. However, any unfunded PAHO liabilities for the UNJSPF and the after-service health insurance (ASHI) must now be determined. If the Secretariat of the United Nations Joint Staff Pension Fund (UNJSPF) and the World Health Organization (WHO) are unable to provide PAHO with the estimates for these liabilities during 2009 and 2010, the Organization will need to determine with its External Auditor how to address the estimates for these two long-term liabilities.

#### **IPSAS Implementation Activities for 2009**

15. During 2009, the Organization will address the following substantive issues required for the implementation of IPSAS in January 2010:

- (a) the submission of proposed changes to the Financial Regulations and Rules to the Governing Bodies for the accrual of income and expenditure, the recognition of long-term liabilities, the capitalization of fixed assets and expensing of depreciation, and annual external audits;

- (b) the actuarial valuation of long-term liabilities—i.e., terminal entitlements, as well as how to address the actuarial valuations of the pension and the after-service health insurance;
- (c) the development of short-term “work-arounds” and a long-term financial/accounting system to support IPSAS, specifically regarding income and expenditure accruals, capitalization of fixed assets, expensing of depreciation, etc.;
- (d) the finalization of an accounting manual with IPSAS policies, procedures, and specifications for financial reporting;
- (e) the accrual of salaries and entitlements for PAHO staff without fixed-term contracts—i.e., temporary staff, agency staff, etc.;
- (f) ongoing corporate training on IPSAS, including the United Nations computer-based training modules and detailed training from an IPSAS expert on the application of IPSAS to PAHO’s accounts;
- (g) the training of PAHO financial staff members throughout the Organization in accounting theory related to accruals, capitalization of fixed assets, etc., which encompasses more advance accounting concepts; and
- (h) other topics including inventories held for sale, in-kind contributions, and presentation of financial statements and disclosures.

### **Challenges for the Implementation of IPSAS**

16. In order for the Organization to achieve the January 2010 implementation date, the United Nations Secretariat must provide final decisions on the application of IPSAS, as well as the IPSAS training modules, by mid-2009.

17. As the Organization advances in the IPSAS implementation, the limitations of its current corporate financial and accounting system, the Financial Accounting and Management Information System (FAMIS), and the PAHO-designed Office Management Information System (OMIS) used by the country offices, to support accrual accounting standards will become more evident. A new system is essential to provide robust support for accrual accounting and International Public Sector Accounting Standards.

18. The Organization is discussing options for the implementation of financial modules in a new management information system. These discussions are being led by the newly-established Corporate Management Systems working group in order to

“fast-track” the implementation of the financial modules in a new management information system. The goal is to complete the transition to the financial modules in a new management information system prior to the implementation of the new Mid-term Strategic Plan in January 2013.

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