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INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

Introduction

1. In accordance with Financial Regulations 13.1 and 13.2, the Organization is required to maintain accounting records and financial reports in a manner consistent with the United Nations System Accounting Standards (UNSAS).

2. The UNSAS were developed by accounting specialists of the United Nations (UN) and its specialized agencies in 1993. Although the UNSAS were based on International Accounting Standards, the UNSAS no longer reflect modern international financial reporting standards.

3. 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 Pan American Health Organization (PAHO) has joined with the United Nations and its specialized agencies, in participating on the Task Force to ensure that the best practices in the financial management of international public sector organizations are employed throughout the United Nations System.

4. The review has resulted in a decision, subject to approval by the respective agency's governing bodies, to replace the UNSAS with the International Public Sector Accounting Standards (IPSAS) across the United Nations System by January 2010.

5. In July 2006, the United Nations General Assembly approved the adoption of IPSAS, together with the requisite resources, in Resolution A/RES/60/283. The report to the General Assembly on International Public Sector Accounting Standards is presented in the Annex.

Background

6. The Pan American Health Organization plans to join the United Nations and its agencies in introducing IPSAS once the Secretariat has the approval of its Governing Bodies. Some PAHO financial regulations and rules will be amended in future meetings to effect this decision to adopt IPSAS. Currently, the United Nations System Accounting Standards have been amended to permit the gradual introduction of individual standards until IPSAS is fully implemented in 2010.

7. The introduction of IPSAS will provide well-recognized benefits including:

(a) Improved transparency and internal control with respect to assets and liabilities, facilitating improved management and stewardship of resources;

(b) More comprehensive and consistent information about income and expenditures which better support Results Based Management and improved governance;

(c) Improved consistency and comparability of financial statements over time and between organizations.

Analysis: Major Benefits of Implementing the International Public Sector Accounting Standards

8. The implementation of IPSAS is expected to benefit the Organization in the following four ways:

(a) Annual audited financial statements (under consideration);

(b) Accrued income and expenditures, including the full recognition of staff members' future benefits;

(c) Mark-to-Market recognition of investment gains and losses on the investment portfolio;

(d) Capitalization of assets and recognition of depreciation expenses for buildings, vehicles, furniture, equipment, etc.

9. Annual audited financial statements are being considered instead of the current biennial audited financial statements, in order to provide timely audited financial information to the Governing Bodies. Annual audited financial statements may increase the audit costs to the Organization.

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

11. The current UNSAS standards recognize income when it is received, while IPSAS standards require the accrual or recording of income when it is earned. An example is the purchase of a US$ 100,000 bond on 1 February 2007 with 6% interest paid annually on 31 January. Under the current UNSAS accounting standards, PAHO recognizes the full $6,000 in interest income in 2008 when the interest is credited to PAHO's bank account. Under accrual accounting in IPSAS standards, PAHO will recognize $5,500 of accrued interest income in 2007 and $500 in interest income in 2008.

12. The current UNSAS standards recognize expenditures at the time of commitment, while IPSAS standards accrue expenditures based on implementation. For example, currently a contract is fully expensed in the financial period when the contract is signed, although the contracted work may continue into the next financial period. Under accrual accounting the expenditures will be recorded in the financial period of the implementation. Therefore, the portion of a contract implemented during a future financial period will be accounted for as expenditure in that period. This has the impact of recording expenditure 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 directly reflect the expenditures for the level of the project implementation, thus supporting Results Based Management.

13. Under IPSAS, the benefits to which a staff member is entitled will be accrued in the accounts in the financial period when they are earned—i.e., annual leave, education grant, repatriation grant, etc., will be charged to the staff members' posts each month on a pro rata basis, similar to the current accounting procedures for PAHO pensions.

14. 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 benefit. Because the United Nations, its specialized agencies, and PAHO have not accrued for these costs in the past, actuarial services will be engaged to determine the financial projections of future medical and dental services for current staff members, in order to provide accurate estimates for this future expenditure. These expenditures will then be reported in the Organization's audited financial statements.

15. Another major impact to the financial statements under IPSAS will be PAHO's disclosure of the value of long-term investments in its portfolio and the respective gains or losses. This accounting principle known as Mark-to-Market establishes the investment values based on the financial market price as of the date of the reporting period.

16. Under the Mark-to-Market principle, PAHO will be required to record the market value of investments at 31 December of each year rather than reporting the initial cost basis of the investment as required under current UNSAS principles. For example, currently if PAHO purchases a $100,000 bond with 6% interest, the bond is recorded at its cost of $100,000 throughout its holding period by PAHO.

17. However, under the Mark-to-Market principle, if the bond's market value increased to $105,000 according to the bond market at year-end, PAHO would report an unrealized gain of $5,000 on investments on the Income Statement and revalue the bond to its market price on the Balance Sheet. Conversely, if the market value decreased from $100,000 to $95,000 at year-end, the loss would be recognized on the Income Statement of PAHO as an unrealized loss on investments, which would impact the Organization's net income over expenditures, and the investment value would be adjusted downward on the Balance Sheet. Thus the Mark-to-Market principle will provide PAHO with more accurate information regarding the actual market value of its investments, which may increase volatility in the financial statements of the Organization.

18. Financial statements prepared with 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; (1) Equity in Land and Buildings on the Balance Sheet; and (2) a note entitled "Land and Buildings" with a subnote containing "Non-Expendable Inventory" in the Explanatory Notes to Financial Statements. Under IPSAS standards, capital equipment will be included on the Balance Sheet.

19. Under the current UNSAS standards, laptop computers are expensed when they are purchased. Under IPSAS standards, PAHO will estimate the useful lives of the laptops (i.e., three years) and depreciate the laptops over the useful life period, rather than expensing the entire amount when purchased. Thus, a laptop costing $3,000 in 2008 will be expensed at $1,000 in 2008, $1,000 in 2009, and $1,000 in 2010, thus better matching the expense to the useful life of the asset and the contribution which the laptop is providing to the Organization's programs.

20. The use of internationally-accepted accounting standards like IPSAS will improve the consistency and comparability of financial results across the United Nations System agencies and allow comparisons to be made with other public sector organizations and entities.

21. 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.

22. 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 accounting standards and IPSAS. The UN will propose the necessary amendments to the Financial Regulations and Financial Rules to facilitate compliance with IPSAS and will also ensure that the necessary training materials and training services are provided before IPSAS is implemented. 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. The UN's IPSAS implementation costs will be calculated based on a Chief Executives Board (CEB) Secretariat formula that reflects the pro rata basis of each agency's total expenditures and number of staff members.

23. The cost to PAHO of the initial implementation of IPSAS is currently estimated at $400,000 to $500,000, which must be included in the Organization's 2008-2009 Biennial Program Budget**.** These funds will cover (1) the contracting of actuarial services for the determination of the required accruals; (2) the implementation of new accounting software for capital budgeting and depreciation; (3) the UN's "charge-back" for IPSAS training; (4) the services of consultants to support the IPSAS implementation at PAHO; and (5) the projected increase in the External Auditor's fee for a 2008 audit, if desired.

24. The PAHO Secretariat recommends the implementation of International Public Sector Accounting Standards by the Pan American Health Organization by January 2010.

Action by the Executive Committee

25. After examining the report of the Director on the proposed introduction of the International Public Sector Accounting Standards by PAHO on 1 January 2010, the Executive Committee is requested to recommend their adoption to the 27th Pan American Sanitary Conference.

Annex

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

(Annex I to the report to the General Assembly)[1]

1. When United Nations system accounting standards were first developed, international accounting standards for not-for-profit organizations did not exist. Because of this gap, the Panel of External Auditors recommended that the United Nations system develop its own accounting standards. Since then, the International Public Sector Accounting Standards (IPSAS) have been developed for not-for-profit public sector organizations. IPSAS are a set of high-quality, independently developed accounting standards that require accounting on a "full accruals" basis, which is considered the best accounting practice by international organizations for the public as well as the private sector. IPSAS include detailed requirements and guidance that provide considerable support for financial statement consistency and comparability. They are the only international accounting standards applicable to public sector and other not-for-profit organizations.

2. The IPSAS standards are produced by the International Public Sector Accounting Standards Board, which is part of the International Federation of Accountants (IFAC), an international organization that represents 163 professional accounting institutions from 120 different countries. The development of new accounting standards requires a significant investment in people and time. The IPSAS Board is a dedicated independent international standard-setting body that uses strong due process, including public consultation and public meetings. It acts for the public interest rather than the interest of organizations preparing financial statements and provides benefits to public sector financial management and good governance, which depend on the existence of high-quality international public sector accounting standards.

3. The IPSAS Board currently includes representatives of Argentina, Australia, Canada, France, India, Israel, Japan, Malaysia, Mexico, the Netherlands, New Zealand, Norway, South Africa, the United Kingdom of Great Britain and Northern Ireland and the United States of America. It considers United Nations system issues when developing accounting standards. The United Nations system secretariats hold two observer places (United Nations and United Nations Development Programme) on the Board. Board observers participate fully in discussions and receive all meeting papers at the same time as other Board members. They have "full rights of the floor."

[1] Document A/60/846/Add.3

4. The IPSAS Board applies a policy that IPSAS standards will be the same as the International Financial Reporting Standards (the former International Accounting Standards) (IAS/IFRS) unless there are demonstrable reasons for public sector/not-for-profit differences. This policy is consistent with the principle of accounting standards convergence. The effect of this policy, combined with the generally accepted practice of applying IAS/IFRS where no equivalent IPSAS exists, is that approximately two thirds of the accounting standards under IPSAS adoption are the same as those that would apply under IAS/IFRS adoption. Although the not-for-profit differences in the other third of the applicable standards are important, the majority of the requirements in these standards remain the same as those in the equivalent IAS/IFRS standards. This means that the guidance and software developed for IAS/IFRS accounting is applicable to IPSAS accounting with no or little amendment. It also means that the financial information produced and standards applied are understandable and largely comparable between public and private sector organizations. This facilitates movement of accounting expertise between the two sectors.

5. More than 30 countries have either already adopted or are in process of adopting IPSAS for financial reporting by all or part of their public sectors. In addition, OECD, EC and NATO organizations have adopted IPSAS for their financial reporting. Where a public sector organization operates as a financial institution, IPSAS requires that the organization apply IAS/IFRS. Consistent with that requirement, development banks, such as the World Bank, the Asian Development Bank and the International Fund for Agricultural Development, apply IAS/IFRS.

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