

A: STATUS OF IMPLEMENTATION OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)

Introduction

1. The 27th Pan American Sanitary Conference, held in September 2007, mandated the Pan American Health Organization (PAHO) to adopt the International Public Sector Accounting Standards (IPSAS) effective 1 January 2010 (Resolution CSP27.R18). This decision enabled the Organization to conform its financial reporting and accounting standards to those designed by independent experts and to harmonize them with those of the United Nations (UN) and its specialized agencies.

2. IPSAS standards provide for:

- (a) comparability of PAHO's financial performance and position with other international organizations and governments;
- (b) greater transparency in financial information, which contributes to better governance and internal financial management;
- (c) harmonization of financial accounting and reporting within the United Nations system, as well as higher-quality financial reports in the United Nations and its agencies; and
- (d) consistency in the reporting of financial information.

Background

3. The previous United Nations System Accounting Standards (UNSAS) were designed by the UN in the 1990s and applied only to its specialized agencies. They were considered to lack transparency and offer limited comparability with the financial information of other international organizations. Therefore, the United Nations and its specialized agencies recognized that an independent accounting standard needed to be adopted that would ensure that best practices would be followed in financial statement reporting and accrual accounting. The new standard would also contribute to harmonized accounting principles across the United Nations system.

4. The United Nations considered:

- (a) continuing to utilize the UNSAS standards;
- (b) using the International Financial Reporting Standards (IFRS), internationally recognized financial standards used mainly by for-profit entities; or

(c) adopting the International Public Sector Accounting Standards (IPSAS), internationally recognized accounting standards based directly on IFRS but applicable to public-sector entities and nonprofit organizations.

5. In 2006, the United Nations General Assembly selected IPSAS because these standards are specifically geared to public sector entities. These new standards were slated for implementation by the United Nations and its specialized agencies on 1 January 2010.

6. The World Food Programme (WFP) implemented IPSAS in January 2008. Seven United Nations agencies and PAHO implemented them in 2010. The United Nations Secretariat and other UN agencies will implement them over the next four years.

Situation Analysis

7. The Pan American Sanitary Bureau (PASB) worked diligently over the four-year period to meet the 1 January 2010 implementation date and provided overviews of IPSAS and its implementation status to PAHO's Governing Bodies. Furthermore, the Bureau has worked closely with the United Nations IPSAS Task Force regarding the interpretation and application of the standards. The ramifications of the transition to these new accounting standards and challenges posed may not have been fully understood when the January 2010 date was selected and, as a result, the majority of the United Nations and its specialized agencies will implement IPSAS in 2011, 2012, and 2014.

8. The IPSAS standards ensure that best practices will be used in preparing financial statements. The significant changes that IPSAS requires are:

- (a) annual audited financial statements;
- (b) accrual of revenue, expense, assets, and liabilities; and
- (c) capitalization and depreciation of property, plant, and equipment.

9. In 2010, the Pan American Health Organization began providing *annual* audited financial statements.

10. Effective 1 January 2010, the PASB transitioned the Organization's accounting from cash basis and modified cash basis accounting to accrual basis accounting. Under cash basis accounting, PAHO's revenue and expenses were recognized only when the cash was received and when the disbursements or payments were made to suppliers or vendors. Under accrual accounting, PAHO's revenue is recognized when contributions are confirmed in writing by donors and the PASB, and expenses are recognized on the delivery of goods or provision of services.

11. One of the critical early requirements for IPSAS implementation was determination of the 1 January 2010 opening balances for the accounts reflected in the Statement of Financial Position. Included in these critical opening balances were the accounts for:

- (a) The valuation of the Organization's assets and liabilities:
 - land parcels and buildings were recognized on the basis of their fair market value, as determined by professional valuation experts;
 - financial instruments were recognized on the basis on their market value;
 - terminal entitlements and after-service health insurance liabilities were recognized on the basis of an analysis by professional actuaries.
- (b) In addition, the PASB established accounts receivable for pending assessed contributions (quotas) and formal (i.e., "signed") commitments and recognized revenue and deferred revenue, respectively.
- (c) Furthermore, the PASB recognized the financial resources provided for the procurement of vaccines and medical supplies as deferred revenue until the vaccines and medical supplies were delivered to the respective Member State. After delivery of the vaccines and medical supplies, the financial resources were transferred to revenue for the financial period.

12. The PASB is capitalizing all property, plant, and equipment exceeding the \$20,000 threshold that has been procured by the Organization's regular budget funding, as of 1 January 2010. The Bureau has implemented straight-line, full-year depreciation for the various categories of assets, utilizing the useful-life categories established by the United Nations IPSAS Task Force.

13. Under accrual accounting, PAHO must recognize its financial commitments to its staff members and retirees for terminal payments (i.e., annual leave, repatriation, etc.) and after-service health insurance. Recognizing these financial commitments in the

Organization's financial statements resulted in the reporting of significant unfunded liabilities.

14. According to PAHO's actuaries, the liability for PAHO's Termination and Repatriation Entitlements Plan was \$10.21 million and the Fund had Plan assets of \$9.98 million. Therefore, the unfunded liability was \$236,000. The PASB will periodically review the status of this liability to establish the monthly payroll deduction at a level that will maintain the strong financial position of this Plan.

15. Furthermore, according to the PAHO actuaries, the liability for the after-service health insurance (ASHI) was \$257.75 million, with Plan assets of \$24.57 million, resulting in a net unfunded liability of \$233.18 million. With the adjustment of \$46.66 million, which is assigned to the actuarial gain/loss "corridor," the net defined benefit obligation that was recognized in PAHO's account as of 31 December 2010 was \$186.52 million.

16. This liability represents the anticipated long-term after-service health insurance costs for active staff and retirees in the future; therefore, it will need to be funded over the next 30 to 40 years. Potential funding sources that may be considered could include combinations of the following:

- (a) A monthly percentage of payroll deduction;
- (b) A portion of the funds available in the PAHO Holding Account;
- (c) A portion of the funds credited to the "surplus account" for the payment of prior biennia's assessed contributions, etc. during the recognition of assets with the IPSAS implementation;
- (d) The targeting of a percentage of any end-of-biennium excess of revenue over expense for the ASHI liability;
- (e) A "line item" in the PAHO Biennial Program and Budget.

17. The PASB altered its corporate financial systems in order to support accrual accounting and the capitalization and depreciation of property, plant, and equipment.

18. The PASB established its IPSAS-compliant accounting policies in discussions with a technical expert, the current Chair of the IPSAS Board, and then presented them to the External Auditor's team for consideration. The PASB regularly dialogued with the External Auditor's team to ensure that the Bureau's understanding and application of the IPSAS standards were in agreement with the views of the External Auditor's team.

19. In order to ensure that the IPSAS standards were accurately applied to the Organization's accounts, the PASB provided position papers on all the topics related to

the changes in accounting treatment to the External Auditor's team. The PASB also provided pro forma financial statements as of 30 June 2010 and 30 September 2010 for the team's consideration. The incorporation of the External Auditor's comments from these pro forma statements into the 31 December 2010 financial statements allowed the PASB to finalize these statements in a timely manner.

20. Every opening balance category in the Statement of Financial Position of the Organization was audited by the External Auditor's team in October 2010.

21. Support, including funding by the Governing Bodies, has been critical to IPSAS implementation.

Conclusion

22. With the implementation of the International Public Sector Accounting Standards, effective 1 January 2010, the Pan American Health Organization's financial statements will provide:

- (a) a comprehensive reporting of assets and liabilities;
- (b) a full representation of the Organization's consolidated financial status;
- (c) an accurate basis for comparison with other international organizations and governments.

23. The additional information in the IPSAS-compliant financial statements may contribute to better governance and enhanced strategic planning by the Organization's Governing Bodies, Director, and Executive Management. Furthermore, the readers of the Organization's financial statements will have a more comprehensive understanding of its financial position and performance.

Action by the Executive Committee:

24. The Executive Committee is requested to take note of this report on the status of IPSAS implementation by the Pan American Sanitary Bureau and to provide comments.

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