



PAN AMERICAN HEALTH ORGANIZATION
WORLD HEALTH ORGANIZATION



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

Introduction

1. During the 27th Pan American Sanitary Conference held in September 2007, the Member States of the Pan American Health Organization (PAHO) endorsed the introduction of the International Public Sector Accounting Standards (IPSAS) by the Organization effective 2010 (Resolution CSP27.R18). This decision allowed 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) improved 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 improved quality in the financial reports of the United Nations and its agencies; and
 - (d) consistency in the reporting of financial information.

Background

3. The United Nations System Accounting Standards (UNSAS), previously in use, were designed by the UN in the 1990s and only applied to its specialized agencies. They were considered to lack transparency and to offer limited comparability with other international organizations' financial information. Therefore, the United Nations and its specialized agencies recognized that an independent accounting standard needed to be implemented. This new standard would ensure that best practices would be followed in providing financial statement reporting and accrual accounting. The new standard would also contribute to harmonized accounting principles throughout 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 mainly used by for-profit entities; or
- (c) implementing 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. The United Nations General Assembly in 2006 selected IPSAS because these standards are specifically oriented to public sector entities. These new standards were slated for implementation by the United Nations and its specialized agencies effective 1 January 2010.

6. The World Food Programme (WFP) implemented IPSAS in January 2008. Seven United Nations agencies and PAHO had planned to implement 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) has worked diligently to meet the 1 January 2010 implementation date and has provided overviews of IPSAS and the status of its implementation 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 and challenges posed by the transition to these new accounting standards 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. Therefore, PAHO is among the small group of 2010 implementers.

8. The IPSAS standards ensure that best practices will be used in preparing financial statements. The significant changes which 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. Starting in 2010, the Pan American Health Organization is 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 only recognized 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 expenses are recognized upon delivery of goods or the provision of services.

11. 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 is resulting in the reporting of significant unfunded liabilities.

12. The PASB is capitalizing all property, plant, and equipment that exceeds the \$20,000 threshold, which 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. The PASB has altered its corporate financial systems so that they support accrual accounting and the capitalization and depreciation of property, plant, and equipment.

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

- (a) The valuation of the Organization's:
 - land and buildings,
 - financial investments,
 - terminal entitlements, and
 - after-service health insurance.

- (b) In addition, the PASB established accounts receivable for quota assessments and formal (i.e., “signed”) commitments and recognized revenue and deferred revenue, respectively.
- (c) 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, and tested by, the receiving Member State. After the delivery and testing of the vaccines and medical supplies, the financial resources were transferred to revenue for the financial period.

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

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

17. Furthermore, 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 allows the PASB to finalize these statements in a timely manner.

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

Conclusion

19. 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.

20. The additional information in the IPSAS-compliant financial statements may contribute to improved 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 better understand its financial position and performance.

Action by the Subcommittee on Program, Budget, and Administration

21. The Subcommittee on Program, Budget, and Administration is requested to take note of this report on the status of the IPSAS implementation by the Pan American Sanitary Bureau and to provide comments.

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