



PAN AMERICAN HEALTH ORGANIZATION
WORLD HEALTH ORGANIZATION



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

Introduction

1. The Pan American Health Organization (PAHO) transitioned from the United Nations System Accounting Standards (UNSAS) to International Public Sector Accounting Standards (IPSAS) effective 1 January 2010 in accordance with Resolution CSP27.R18 of the 27th Pan American Sanitary Conference on 5 October 2007. This transition to IPSAS aligns the Organization with the July 2006 decision of the United Nations General Assembly, set forth in Resolution A/RES/60/283, for the United Nations to implement IPSAS effective 1 January 2010.

Background

2. The 48th PAHO Directing Council, through Resolution CD48.R1 entitled “Use of Program Budget Income Exceeding the Authorized Effective Working Regular Budget 2006-2007,” approved the initial phase of IPSAS. The project “Strengthening the Organization’s capacity to be IPSAS compliant by the year 2010” was supported immediately with US\$ 300,000.¹ These financial resources have enabled the Organization to:

- (a) contract a project manager for the IPSAS implementation;
- (b) contract professional actuarial services for determining the long-term liabilities for: accrued annual leave, repatriation grant and travel, household removal, and after-service health insurance;
- (c) secure the services of a member of the IPSAS Board to provide expert advice on the application of the new accounting standards, as well as to offer corporate-wide training on IPSAS; and
- (d) participate as a member of the United Nations Task Force on the Implementation of International Public Sector Accounting Standards.

¹ Unless otherwise indicated, all monetary figures in this report are expressed in United States dollars.

Situation Analysis

Completion of implementation activities for International Public Sector Accounting Standards prior to 1 January 2010

3. The implementation activities which were completed prior to the 1 January 2010 transition are identified in the chart “Status of Implementation of International Public Sector Accounting Standards as of 31 March 2010.” (Annex A). Significant implementation achievements included:

- (a) the approval and funding of the IPSAS implementation project by the Organization’s Governing Bodies;
- (b) the revision and subsequent approval of the Organization’s Financial Regulations and Rules by the Governing Bodies;
- (c) corporate-wide IPSAS trainings after-which more than 1,200 PAHO staff and associated personnel passed the IPSAS overview exam with a score of 80% or better;
- (d) the establishment of policies, procedures, and information systems for the accrual of revenue, expenses, salaries, terminal entitlements, staff health insurance, etc;
- (e) the determination of the “fair value” of the Organization’s land parcels and buildings by real estate valuation professionals;
- (f) the determination of the Organization’s long-term liabilities for terminal entitlements and after-service health insurance by professional actuaries;
- (g) the establishment of policies and procedures for the capitalization of fixed assets with a value exceeding \$5,000, as well as the associated depreciation charge;
- (h) the identification of categories of “in-kind” contributions provided by Member States to PAHO, including services of ministry of health staff and consultants, office space, utilities, vehicles, and other services provided by the governments;
- (i) the identification of PAHO inventories held for sale or used in support of PAHO’s mission—i.e., the sale of pharmaceutical drugs, and the storage of medications and vaccines; and
- (j) the modifications made to PAHO’s financial systems to support the IPSAS requirements.

Implementation activities for the International Public Sector Accounting Standards in progress as of 1 January 2010

4. A significant majority of the implementation requirements were completed prior to the 1 January 2010 deadline. The following IPSAS implementation activities are still in progress and will be completed during the first six months of 2010:

- (a) finalization of the IPSAS-compliant accounting manual, including the revised procedures as they are updated during the initial application of IPSAS to the PAHO financial accounts in early 2010;
- (b) the analysis of PAHO's legal relationships with various centers, such as the Caribbean Epidemiology Center and the Caribbean Food and Nutrition Center, to determine whether or not they meet the requirements for being a PAHO-controlled entity and, therefore, should be consolidated into PAHO's financial statements, or if they do not meet this requirement, and thus should be reported separately;
- (c) a determination of the structure for the financial statements reporting—i.e., segments and explanatory notes; and
- (d) ongoing discussions with the Organization's External Auditor regarding the detailed application of IPSAS to PAHO's activities.

Changes in financial statements due to the implementation of the International Public Sector Accounting Standards

5. As a result of the implementation of IPSAS, the Organization's financial statements will change significantly. Changes will include revisions in the names and formats of the statements and in the financial categories and figures which are reported.

6. The names of PAHO's IPSAS-compliant financial statements and their sequence in the financial report will be as follows:

- (a) the Statement of Financial Position (formerly known as the Balance Sheet);
- (b) the Statement of Financial Performance (formerly known as the Statement of Income and Expenditure and Changes in Fund Balances);
- (c) the Statement of Changes in Net Assets/Equity (new);
- (d) the Statement of Cash Flow;

- (e) the Comparison of Budget and Actual Amounts on the Basis of the Budget (formerly known as the Statement of Regular Budget Appropriation for the Financial Period); and
- (f) Notes, comprising a summary of significant accounting policies and other explanatory notes (formerly known as Explanatory Notes).

7. Furthermore, the IPSAS changes will result in increases and decreases in assets, as well as significant increases and some decreases in liabilities, effective 1 January 2010, as identified on the attached “Impact of International Public Sector Accounting Standards on PAHO’s Statement of Financial Position.” (Annex B).

8. The increases in assets are due to:

- (a) Accrual of \$32.4 million in unpaid quota assessment balances on 1 January 2010.
- (b) Recognition of inventories held for sale or for the purpose of achieving PAHO’s mission—i.e., pharmaceutical drugs.
- (c) Recognition of PAHO land parcels and buildings at their “fair value,” including the following increases:
 - i. Increase of \$33.1 million in the value of PAHO’s headquarters building and land parcel from the \$6.9 million historical cost when the structure was built in 1965, to \$40 million “fair value” on 1 January 2010 (\$10 million for the land parcel and \$30 million for the building);
 - ii. Increase of \$11.6 million in the value of PAHO’s annex across from the headquarters building from the \$3.4 million appraised value in 1985, to the \$15 million “fair value” on 1 January 2010. This figure includes the portion of the building which PAHO owns as a result of its projected full ownership of the property at the end of the 60 year lease in 2045.
 - iii. Increase of \$14.7 million in the “fair value” of PAHO’s premises in:
 - Buenos Aires, Argentina;
 - Bridgetown, Barbados;
 - Brasilia, Brazil;
 - Guatemala City, Guatemala;
 - Port-au-Prince, Haiti;
 - Asunción, Paraguay;
 - Lima, Peru;
 - Caracas, Venezuela;
 - iv. Therefore, the beginning balance as of 1 January 2010 for the Fixed Asset category “Land and Buildings” will reflect a total increase of \$59.4 million to reflect the “fair value” of the Organization’s land parcels and buildings.

- v. As a result of the earthquake in Port-au-Prince, Haiti, PAHO's Country Office building sustained damage; therefore, the beginning balance as of 1 January 2010 will reflect the "fair value" on that date. However, the ending balance on 31 December 2010 will reflect the status of the land parcel and the building as of the end of 2010.
 - (d) Accrual of earned interest on the Organization's investment portfolio. The interest accrued on this investment portfolio as of 31 December 2009 was \$1.5 million, which is included in the 1 January 2010 beginning balance.
 - (e) Accrual of the market value of the investment portfolio. The book value of the Organization's investments as of 31 December 2009 was \$154.86 million; however, its market value was \$156.07 million, not including the \$312,600 increase in the market value of the Provision for Termination and Repatriation Entitlements Fund. Therefore, the \$1.21 million net increase in the market value of the portfolio is reflected in the 1 January 2010 beginning balance.
10. Increases or decreases in investments may occur due to the recognition of market value, or "fair value," of investment instruments in the Organization's portfolio at the end of each financial period. These increases and decreases reflect changes in the financial markets.
11. A decrease in liabilities is expected due to the implementation of the "delivery principle," which requires that services and goods be completed or delivered by the last day of the financial period, in order for the expenditures to be reflected in the financial statements.
12. Increases in liabilities will occur due to the first-time recognition in the Organization's financial statements of the future terminal entitlements for current staff and the after-service health insurance for current retirees and staff.
- (a) The future terminal entitlement liability for current staff as of 1 January 2010, as determined by professional actuaries, was \$9.9 million. Since 1972, the Organization has been accruing 6% of net salaries for this entitlement. As of 1 January 2010, the Organization had a market balance of \$32.2 million available to cover the actuarial valuation of \$9.9 million for this entitlement, which resulted in a net balance of \$22.3 million.
 - (b) Thus, the balance of \$22.3 million was transferred from the Provision for Termination and Repatriation Entitlements Fund to assist with funding the after-service health insurance actuarial valuation, which reflects the anticipated cost of the future health insurance expenses for current retirees and staff.

- (c) The after-service health insurance, as determined by professional actuaries, resulted in an actuarial liability of \$202.5 million. After crediting the \$22.3 million transfer from the terminal entitlements accrual, the net after-service health insurance liability decreased to \$180.2 million.
- (d) Also, the Organization adjusted the 6% of net salaries accrual for terminal entitlements to 2% in order to better align with the financial resources required to meet this liability. The remaining 4% of net salaries balance will now assist in funding the after-service health insurance liability.

13. As a result of these increases and decreases in the Organization's assets and liabilities, the Organization had a \$85.7 million unfunded liability on 1 January 2010, which was mainly due to the first-time recognition in the Organization's financial accounts of the after-service health insurance \$202.5 million liability. The Member States may wish to consider funding the \$85.7 million unfunded liability over 30 to 40 years.

Recurrent costs associated with the implementation of International Public Sector Accounting Standards

14. The implementation of International Public Sector Accounting Standards will result in various recurrent costs for the following activities:

- (a) annual audits of the Organization's financial statements by the External Auditor;
- (b) the services of professional actuaries to value the Organization's long-term liabilities;
- (c) the services of real estate valuation professionals to value the Organization-owned land parcels and buildings; and
- (d) the services of financial investment experts to value the Organization's investment portfolio.

Significant challenge associated with the implementation of International Public Sector Accounting Standards

15. One of the challenges experienced throughout the IPSAS implementation involved limitations in the Organization's 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 Country Offices to support accrual accounting standards. A modern financial system could provide robust support for accrual accounting and International Public Sector Accounting Standards, resulting in better real-time financial information throughout the Organization.

16. As part of the overall review of the Organization's corporate management information systems, the Corporate Management System team is leading a review of business process analyses related to budgetary, financial, payroll, human resources, and other activities and transactions. The intent is to identify gaps between the Organization's current business processes and industry standard best practices.

Action by the Executive Committee

17. The Executive Committee is requested to analyze this report related to the implementation of IPSAS by PAHO, and provide guidance and recommendations to the Organization on its implementation.

Annexes

**Status of the Implementation of
International Public Sector Accounting Standards
as of 31 March 2010**

Requirements/Activities	Completed	In Progress
1. Receive approval and funding from Governing Bodies to implement IPSAS in 2010	√	
2. Receive agreement from the External Auditors to perform annual audits of PAHO's financial accounts beginning in 2010	√	
3. Implement the Expense Recognition Policy for all funds	√	
4. Provide introductory corporate training on IPSAS	√	
5. Implement Expense Accrual: Record financial commitments in year when responsibility is assumed—i.e., services completed or goods delivered: - Expense Recognition Policy—accrue for activities, goods, and services in appropriate year - Salaries—accrue and pay each month's salary as earned - Statutory entitlements (i.e., education grant and travel, home leave, etc.)—accrue percentage each month as earned and pay as claims are presented - UN Joint Staff Pension Fund (UNJSPF)—accrue percentage each month as earned and transfer funds to UNJSPF for the payment of future pension benefits - Staff health insurance—accrue percentage each month as earned and pay as claims are presented	√ √ √ √ √	
6. Determine Valuations of Long-term Liabilities - Internal PAHO Estimate: - Terminal entitlements accrual (i.e., annual leave, repatriation grant/travel and household goods removal) - Professional Actuarial Valuations - After service health insurance (ASHI) accrual - Terminal entitlements accrual (i.e., annual leave, repatriation grant/travel and household goods removal)	√ √ √	
7. Capitalize "fixed assets" A new category of Fixed Assets (i.e., Property, Plant, and Equipment) established in PAHO's Financial Accounts	√	
Individual "fixed assets" exceeding \$5,000 will be assigned a	√	

Requirements/Activities	Completed	In Progress
useful life and the depreciation will be expensed		
• Managers must ensure control and reporting of fixed assets	√	
8. Identify “in-kind contributions” in PAHO—i.e., services of MOH staff and consultants, office space provided by the ministries, utilities, etc.	√	
9. Identify PAHO’s inventories held for sale or used in support of missions—i.e., medications, etc.	√	
10. Determine which entities will be consolidated into PAHO’s financial statements—i.e., centers, etc.		√
11. Establish current valuations for PAHO’s land and permanent buildings	√	
12. Submit proposed changes in Financial Regulations and Rules to the Governing Bodies: 144th Executive Committee, 49th Directing Council, and 145th Executive Committee		
• Income accrual	√	
• Fixed asset capitalization and depreciation	√	
• Recognition of long-term liabilities	√	
• Annual external audits	√	
13. Establish application of IPSAS accounting standards to PAHO’s accounts	√	
14. Develop and implement financial and information system modifications to support IPSAS		
• Income accrual	√	
• Expenditure accrual	√	
• Fixed asset capitalization and depreciation	√	
15. Provide Corporate Training on IPSAS		
• “Expert” training by a member of the IPSAS Board	√	
• PAHO staff member pass the IPSAS test	√	
16. Finalize Accounting Manual		
• Policies and procedures		√
• Financial statement reporting		√
17. Determine beginning balances for all accounts on the Statement of Financial Position		√

**Impact of International Public Sector Accounting Standards
on PAHO's Statement of Financial Position**

Account	Initial Impact on Assets and Liabilities	Increase/ <decrease> in US\$ millions	Comments
<u>Assets</u>			
Cash and Cash Equivalents	—	—	—
Accounts Receivable:			
- Quotas	Increase asset	32.4	Accrual of unpaid quota assessment balances through 31 December 2009.
- Sundry	—	—	—
- Inter-party Transfers: WHO/PAHEF/ Centers	—	—	—
Inventories (Goods for Sale)	Increase asset	—	New category with recognition of inventories held for sale (pharmaceutical drugs, etc.).
Fixed Assets (Property, Plant, and Equipment)			
- Land and Buildings	Increase asset	59.4	Land and buildings recognized at "fair value" as of 1 January 2010 based on opinion of real estate valuation professionals.
- Other Fixed Assets	Increase asset	—	Recognition of new assets with value > \$5,000 as of 1 January 2010 and implementation of depreciation expense.
Investments	Increase/ decrease asset	1.5 1.2	Accrual of interest on investments. Accrual of the market value of investment portfolio, not including the accrual of the market value of the Provision for Termination and Repatriation Entitlements

Account	Initial Impact on Assets and Liabilities	Increase/ <decrease> in US\$ millions	Comments
			Fund.
<u>Liabilities and Funds</u>			
Accounts Payable:			
- Deferred revenue	—	—	Funds received in advance of recognition/implementation.
- ULO	Decrease liability	—	Accrual of liabilities for services/goods completed/delivered by end of financial period (i.e., calendar year for PAHO).
Terminal Entitlements	Increase liability	<9.9> 9.9	Accrual of future terminal entitlement expenses for current staff determined by professional actuaries. Available funding.
After-Service-Health Insurance (ASHI)	Increase liability	<202.5> 22.3	Accrual of future health insurance expenses for current retirees and staff by professional actuaries. Available funding, including the accrual of the market value of the Provision for Termination and Repatriation Entitlements Fund.
Working Capital Fund	—	—	
“Surplus”/“Unfunded Liability”	Increase/ Decrease	<85.7>	Net Change Due to IPSAS—i.e., Net Unfunded Liability of \$85.7 million.