



PAN AMERICAN HEALTH ORGANIZATION
WORLD HEALTH ORGANIZATION



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

Introduction

1. The Pan American Health Organization (PAHO) transitioned from the United Nations System Accounting Standards (UNSAS) to the International Public Sector Accounting Standards (IPSAS) effective 1 January 2010, in accordance with Resolution CSP27.R18 of the 27th Pan American Sanitary Conference adopted on 5 October 2007. This transition aligns the Organization with the United Nations General Assembly's July 2006 decision, calling for the United Nations to implement IPSAS effective 1 January 2010 (United Nations General Assembly Document A/60/846/Add.3 and Resolution A/RES/60/283).

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 in the transition towards IPSAS. The project "Strengthening the Organization's capacity to be IPSAS compliant by the year 2010" was supported immediately with US\$ 300,000. 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.

Situation Analysis

Completion of implementation activities for the 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 December 2009” (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 training through 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 valued in excess of \$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 contributions 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 in Haiti, and the storage of medications and vaccines in Panama; and
- (j) the modifications made to PAHO's financial systems to temporarily support the IPSAS requirements.

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

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

- (a) finalization of the IPSAS-compliant accounting manual, including the revised policies and procedures;
- (b) an analysis of PAHO's legal relationships with various Regional and subregional centers to determine whether they meet the requirement of "PAHO-controlled" entities. If they meet the requirement, they should be consolidated into PAHO's financial statements. If they do not, they should be reported separately;
- (c) a determination of the structure of the financial statements reporting—i.e., segments, and explanatory notes; and
- (d) ongoing discussions with the Organization's External Auditors regarding the detailed application of IPSAS to PAHO's activities.

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

5. As a result of the implementation of IPSAS, the Organization's financial statements will be subject to significant changes, including changes in the statements' format and in the reported financial figures. These changes will result in increases and decreases in "assets," and in "liabilities," as set forth in the "Impact of International Public Sector Accounting Standards on PAHO's Statement of Financial Position" (Annex B).

6. These changes in the value of the Organization's assets and liabilities resulting from the implementation of IPSAS include:

- (a) Increases in assets due to:
 - i. accrual of unpaid quota assessment balances;

- ii. recognition of inventories held for sale or for the purpose of achieving PAHO's mission—i.e., pharmaceutical drugs;
 - iii. recognition of land and buildings at their "fair value"; and
 - iv. accrual of interest in the Organization's investment portfolio.
- (b) Increases or decreases in assets due to:
 - i. recognition of market value, or "fair value," of investment instruments in the Organization's portfolio.
- (c) Decrease in liabilities due to:
 - i. implementation of the "delivery principle" which requires that services and goods must be completed or delivered by the last day of the financial period. This will allow for the costs to be reflected in the financial statements resulting in a decrease in unliquidated obligations.
- (d) Increase in liabilities due to first-time recognition in the Organization's financial statements of:
 - i. the future terminal entitlement expenses for current staff as determined by professional actuaries; and
 - ii. the future health insurance expenses for current retirees and staff, called After Service Health Insurance, as determined by professional actuaries, which resulted in a significant increase in liabilities.

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

7. 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

8. 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 in 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.

9. 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 Subcommittee on Program, Budget, and Administration

10. The Subcommittee on Program, Budget, and Administration is requested to take note of this report on the implementation status of the International Public Sector Accounting Standards, effective 1 January 2010.

Annexes

**Status of the Implementation of International Public Sector Accounting Standards
as of 31 December 2009**

Requirements/Activities	Completed	In Progress
1. Receive approval and funding from Governing Bodies to implement IPSAS in 2010	√	
2. Secure 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 and pay for activities, goods, and services in appropriate year - Salaries—accrue and pay each month's salary as earned - Statutory entitlements (i.e., education grant, travel, home leave, etc.)—accrue percentage each month as earned and pay as claims are presented - UN Joint Staff Pension Fund—accrue percentage each month as earned and transfer funds UNJSPF for the payment of future pension benefits - Staff health insurance—accrue percentage each month as earned and pay claims as presented	√ √ √ √ √	
6. Determine valuation 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 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 Statements - Individual fixed assets exceeding US\$ 5,000 will be assigned a useful life and the depreciation will be expensed	√ √	

Requirements/Activities	Completed	In Progress
Managers must ensure control and reporting of property, plant, and equipment	√	
8. Identify in-kind contributions provided to PAHO—i.e., services of Ministry of Health staff and consultants, office space provided by the ministries, goods, etc.	√	
9. Identify PAHO's inventories held for sale or used in support of missions—i.e., medications, vaccines, etc.	√	
10. Determine which entities will be consolidated into PAHO's financial statements—i.e., centers, AMRO funds, 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. Finalize application of IPSAS accounting standards to PAHO's accounts	√	
14. Develop and implement system modifications to support IPSAS - Income accrual - Expenditure accrual - Fixed asset capitalization and depreciation	√ √ √	
15. Provide corporate training on IPSAS - Expert training by an IPSAS-Board member - PAHO staff passes the IPSAS test	√ √	
16. Finalize Accounting Manual - Policies and procedures - Financial statement reporting		√ √

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

Account	Initial Impact on Assets and Liabilities	Comments
<u>Assets</u>		
Cash and cash equivalents	—	—
Accounts receivable:		
- Quotas	Increase asset	Accrual of unpaid quota assessment balances through 31 December 2009
- Sundry (i.e., Various receivables)	—	—
- 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	Land and buildings recognized at fair value as of 31 December 2009, based on opinion of real estate valuation professionals
- Other fixed assets	Increase asset	Recognition of new assets with value > US\$ 5,000 as of 1 January 2010 and implementation of depreciation expense
Investments	Increase/ decrease asset	Accrual of interest and market value of investment portfolio based on opinion of financial expert

Account	Initial Impact on Assets and Liabilities	Comments
<u>Liabilities and funds</u>		
Accounts payable:		
- PAHEF, WHO, Centers	—	—
- ULO	Decrease liability	Accrual of liabilities for services/goods completed/delivered by end of financial period (i.e., PAHO calendar year)
Terminal entitlements	Increase liability	Accrual of future terminal entitlement expenses for current staff determined by professional actuaries
After service health insurance (ASHI)	Increase liability	Accrual of future health insurance expenses for current retirees and staff by professional actuaries
Working capital fund	—	—
“Surplus”/“unfunded liability”	Increase/ Decrease	Net change due to recognition of accruals (receivables and payables)
Fund balances	Increase/ Decrease	—