



PAN AMERICAN HEALTH ORGANIZATION  
WORLD HEALTH ORGANIZATION



## 27th PAN AMERICAN SANITARY CONFERENCE 59th SESSION OF THE REGIONAL COMMITTEE

*Washington, D.C., USA, 1-5 October 2007*

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*Provisional Agenda Item 5.1*

CSP27/17 (Eng.)

9 July 2007

ORIGINAL: ENGLISH

### INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

#### **Introduction**

1. In accordance with Financial Regulations 13.1 and 13.2, the Pan American Health 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 Annex I.

## **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. These funds will cover a) the contracting of actuarial services for the determination of the required accruals; b) the implementation of new accounting software for capital budgeting and depreciation; c) the UN's "charge-back" for IPSAS training; d) the services of consultants to support the IPSAS implementation at PAHO; and e) the projected increase in the External Auditor's fee for a 2008 audit, if desired. The Organization will need to prioritize from within its program budget funds the cost of implementing IPSAS, thus ensuring the availability of the required financial resources for the implementation of IPSAS beginning with the 2008-2009 biennium.

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

#### **Action by the Pan American Sanitary Conference**

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 at its 140<sup>th</sup> Session recommended the adoption by the 27th Pan American Sanitary Conference of the resolution for the introduction of IPSAS into the Pan American Health Organization (see Resolution CE140.R4, attached).

## **INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS**

(Annex I to the report to the General Assembly)<sup>1</sup>

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.”

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<sup>1</sup> 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.



PAN AMERICAN HEALTH ORGANIZATION  
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## 140th SESSION OF THE EXECUTIVE COMMITTEE

Washington, D.C., USA, 25-29 June 2007

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CSP27/17 (Eng.)  
Annex II

### ***RESOLUTION***

#### ***CE140.R4***

#### **INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS**

##### ***THE 140th SESSION OF THE EXECUTIVE COMMITTEE,***

Having examined the report of the Director on the proposed introduction of the International Public Sector Accounting Standards (IPSAS) (Document CE140/19),

##### ***RESOLVES:***

To recommend to the 27th Pan American Sanitary Conference the adoption of the following resolution:

##### ***THE 27th PAN AMERICAN SANITARY CONFERENCE,***

Having considered the report on the introduction of the International Public Sector Accounting Standards (IPSAS) (Document CSP27/17) proposed by the Director,

##### ***RESOLVES:***

1. To endorse the introduction of IPSAS into the Pan American Health Organization (PAHO).
2. To recognize that the implementation of IPSAS will contribute to transparency in results based management.



3. To note that the current United Nations System Accounting Standards (UNSAS) have been amended to permit the gradual introduction of individual standards for each agency, with IPSAS to be fully implemented by 2010.
4. To further note that the Director shall submit to the Governing Bodies, for consideration at future sessions, proposals to amend the Financial Regulations and Financial Rules resulting from the adoption of IPSAS.
5. To recognize that the implementation of IPSAS will require financial resources, which will be included in the PAHO biennial program budgets beginning with the 2008-2009 biennium.

*(Fourth meeting, 26 June 2007)*



PAN AMERICAN HEALTH ORGANIZATION  
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## 27th PAN AMERICAN SANITARY CONFERENCE 59th SESSION OF THE REGIONAL COMMITTEE

*Washington, D.C., USA, 1-5 October 2007*

CSP27/17 (Eng.)  
Annex III

### Report on the Financial and Administrative Implications for the Secretariat of the Resolutions Proposed for Adoption by the Pan American Sanitary Conference

<b>1. Resolution:</b>	INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS
<b>2. Linkage to program budget</b>	
<b>Area of work</b>	<b>Expected Result</b>
Budget and Financial Management	RER 3: Compliance with established financial accounting standards, regulations, and rules ensured within a sound internal control framework.
<b>Indicator:</b>	Financial regulations and rules are maintained current and consistent with the U.N. standards and are followed for all financial management and accounting transactions.
<b>Target:</b>	Revised financial policies and procedures reflecting best practices are integrated into the PAHO Manual for Field Operations (Finance Section) and into training programs for country office and HQ staff.
The approval by the PAHO Governing Bodies to implement International Public Sector Accounting Standards with the U.N. and its specialized agencies effective 1 January 2010 will allow PAHO to continue to emphasize best practices in the financial management of the Organization's resources and will allow comparability between PAHO's financial activities and those of other U.N. agencies, as well as with all public sector organizations which utilize the IPSAS standards.	

### 3. Financial implications

**a) Total estimated cost for implementation over the “life-cycle” of the resolution (estimated to the nearest US\$ 10,000; including staff and activities):**

Estimated Costs for 2008-2009: which will be prioritized from within PAHO’s program budget funds:

Actuarial services	\$150,000
Fixed Asset System	100,000
U.N. charge-back for support	75,000
Consultant—IPSAS Expert	<u>75,000</u>
Subtotal	\$400,000
Annual audits, if desired	<u>100,000</u>
Total	\$500,000

Estimated Staff Costs for 2008-2009: \$1.3 million which reflects the costs associated with the percentage of time the current PAHO staff members will dedicate to the implementation of IPSAS.

The United Nations is working to establish “umbrella” contracts for actuarial services and IPSAS expert consultants which would be available for U.N. agencies to utilize during the implementation of IPSAS. PAHO anticipates participating in these contracts in order to benefit from the lower contracted prices.

Estimated Incremental Costs for 2010-2011:

Actuarial services	\$150,000
U.N. charge-back for support	50,000
Consultant—IPSAS Expert	<u>50,000</u>
Subtotal	\$250,000
Annual audits	<u>100,000</u>
Total	\$350,000

Estimated Staff Costs for 2010-2011: \$650,000

Estimated Ongoing Incremental Biennial Costs:

Actuarial services	\$150,000
Annual audits	<u>100,000</u>
Total	\$250,000

Estimated On-going Incremental Biennial Staff Costs: \$650,000

**b) Estimated cost for the biennium 2006-2007 (estimated to the nearest US\$ 10,000; including staff and activities):** Estimated Cost: \$30,000 for activities and \$250,000 in staff time.

**c) Of the estimated cost noted in b), what can be subsumed under existing programmed activities?**

The costs associated with the percentage of current staff members' time which will be dedicated to the implementation of IPSAS in 2006-2007 (i.e., \$250,000) will be subsumed under existing programmed activities. The costs associated with IPSAS activities (i.e., attendance at meetings with the United Nations' and agencies' staff and with IPSAS experts--\$30,000) are in addition to the existing programmed activities.

#### **4. Administrative implications**

**a) Implementation locales (indicate the levels of the Organization at which the work will be undertaken and identify the specific regions, where relevant):** The implementation of IPSAS will require very significant involvement of Financial Management and Reporting, Program Budget, Information Technology Services, General Services Operations.

**b) Additional staffing requirements (indicate additional required staff full-time equivalents, noting necessary skills profile):** At this time, no additional staff is being requested.

**c) Timeframes (indicate broad timeframes for the implementation and evaluation):** The PAHO staff members have already commenced the review and analysis of the IPSAS standards and their application to PAHO. It is expected that the U.N. agencies will request a five year transition period for the implementation of IPSAS; therefore, the IPSAS project will most likely continue through 2013.