

166th SESSION OF THE OF THE EXECUTIVE COMMITTEE

Virtual Session, 22-23 June 2020

Provisional Agenda Item 5.7

CE166/12
15 May 2020
Original: English

AMENDMENTS TO THE FINANCIAL REGULATIONS AND FINANCIAL RULES OF PAHO

Introduction

1. The Financial Regulations govern the financial administration of the Pan American Health Organization (PAHO). Amendments to the Financial Regulations must be approved by either the Pan American Sanitary Conference or the Directing Council of PAHO. Detailed guidance on implementation of the Financial Regulations of PAHO is set forth in the Organization's Financial Rules. In accordance with Financial Regulation 16.3, amendments to the Financial Rules require confirmation by the Executive Committee and are reported to the Conference or the Directing Council.

Proposed Amendments to the Financial Regulations of PAHO

2. The proposed amendments to the Financial Regulations of PAHO reflect International Public Sector Accounting Standards (IPSAS), which require a review of all assets for indications of impairment, and where such conditions exist, to ensure the assets are reported at a fair value. The proposed amendment to Financial Regulation 13.6 would align the Organization with IPSAS 29, *Financial Instruments: Recognition and Measurement*,¹ and provide the Director with the authority to impair any receivable, other than assessed contributions, by establishing a reserve for doubtful accounts in order to report the asset at a fair value in the Financial Statements. The proposed amendment to Financial Regulation 13.7 establishes the criteria for PAHO Member States to impair outstanding assessed contributions considered to be at risk.

3. The proposed text, as well as specific comments and explanations, for Financial Regulations 13.6 and 13.7 is set out in Annex A to this document. Any amendments to the Financial Rules as a result of the approval of amendments to the Financial Regulations by the 58th Directing Council will be presented to the 167th Session of the Executive Committee for confirmation.

¹ Handbook of International Public Sector Accounting Pronouncements, 2018. Available from: <https://www.ifac.org/system/files/publications/files/IPSASB-HandBook-2018-Volume-2.pdf>

Proposed Amendments to the Financial Rules of PAHO

4. The proposed amendments to the Financial Rules of PAHO provide additional guidance on internal borrowing as introduced in Financial Regulation 9.5, which stipulates that in establishing any Special Fund or Account under Financial Regulation 9.3, the Director may stipulate that the use of the cash balance of the Fund or Account is restricted for pooling or internal borrowing purposes consistent with the terms and conditions of the funding sources.
5. The proposed amendments clarify how the level of funds available for internal borrowing is determined, as well as stipulate reporting requirements on internal borrowing to the Executive Committee.
6. The proposed text, and specific comments and explanations for each Financial Rule are set out in Annex B.

Action by the Executive Committee

7. The Executive Committee is invited to confirm the amendments to the Financial Rules of PAHO submitted by the Director and forward them to the Directing Council for information.
8. The Executive Committee is invited to review the proposed amendments to the Financial Regulations of PAHO and provide recommendations to the Directing Council.
9. The Executive Committee is invited to approve the proposed amendments by adopting the proposed resolution in Annex C.

Annexes

ANNEX A

PROPOSED AMENDMENTS TO THE FINANCIAL REGULATIONS OF PAHO

<i>Regulation XIII – Accounts and Financial Statements</i>		
Current Text	Proposed Text	Comments
13.6 The Director may authorize, after full investigation, the write-off of any asset other than assessed contributions. Write-offs will be disclosed in the financial statements.	13.6 The Director may stipulate a reserve for doubtful accounts or authorize, after full investigation, the write-off of any asset other than assessed contributions. The reserve for doubtful accounts and the write-offs will be disclosed in the financial statements.	To ensure that financial statements accurately reflect the financial situation of the organization, IPSAS requires that all assets are reviewed for indications of impairment, and where such conditions exist, ensure that the assets are reported at a fair value.
13.7 The Conference or Directing Council may stipulate a reserve for doubtful accounts, representing all or a portion of the outstanding assessed contributions due from a Member State subject to the restrictions of Article 6.B of the Constitution.	13.7 The Conference or Directing-Council may stipulate shall establish a reserve for doubtful accounts considered to be at risk , representing all or a portion of the outstanding assessed contributions due from a Member State subject to the restrictions of Article 6.B of the Constitution, unless the Member State has a deferred payment plan approved by the Conference or Directing Council and is in full compliance with that plan. The Director shall submit to the Conference or Directing Council a report on the outstanding assessed contributions considered to be at risk as part of the report on the collection of assessed contributions submitted in accordance with Financial Regulation 5.9.	Under IPSAS 29, impairment is recognized in the Financial Statements if there is “objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss” event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.” ¹ While the impaired receivable would remain outstanding and a legal obligation, for financial reporting purposes, the impairment would be reported as a reduction in the overall value of the receivables, as well as a reduction in the associated revenue.

¹ Handbook of International Public Sector Accounting Pronouncements, 2018. Available from: <https://www.ifac.org/system/files/publications/files/IPSASB-HandBook-2018-Volume-2.pdf>

ANNEX B

PROPOSED AMENDMENTS TO THE FINANCIAL RULES OF PAHO

<i>Rule IX - Funds</i>		
Current Text	Proposed Text	Comments
N/A	109.1 In accordance with Financial Regulation 9.5, in order to determine the level of cash reserves available to finance internal borrowing in support of the Program Budget, the Director shall take into account the fund balance, as well as the projected income and expenditure of each of the Funds or Accounts that are available for pooling or internal borrowing.	Provides guidance on the determination of funds available for internal borrowing.
N/A	109.2 The Director shall report to the Executive Committee on the use of internal borrowing as part of the submission of the financial statements in accordance with Financial Rule 113.4.	Ensures transparency in the administration of funds within the control of PAHO.

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Annex C
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PROPOSED RESOLUTION

AMENDMENTS TO THE FINANCIAL REGULATIONS AND FINANCIAL RULES OF PAHO

THE 166th SESSION OF THE EXECUTIVE COMMITTEE,

(PP1) Having considered the report of the Director on the amendments proposed to the Financial Regulations and Financial Rules of the Pan American Health Organization (PAHO), as they appear in Annexes A and B to Document CE166/12;

(PP2) Taking into consideration that these amendments to the Financial Regulations would align the Organization with the requirements contained in IPSAS 29, specifically with regard to the impairment of assets to ensure that they are reported at a fair value;

(PP3) Taking into consideration that the amendments to the Financial Rules would provide additional guidance on internal borrowing,

RESOLVES:

(OP)1. To confirm the amendments proposed by the Director to the Financial Rules of PAHO as they appear in Annex B; to make these amendments effective immediately; and to forward the amended Financial Rules of PAHO to the 58th Directing Council for information.

(OP)2. To recommend to the 58th Directing Council that it approve the amendments to the Financial Regulations by adopting a resolution along the following lines:

**AMENDMENTS TO THE FINANCIAL REGULATIONS
AND FINANCIAL RULES OF PAHO**

THE 58th DIRECTING COUNCIL,

(PP1) Having considered the recommendation of the Executive Committee and the proposed amendments to the Financial Regulations of the Pan American Health Organization as they appear in Annex A to Document CD58/___;

(PP2) Taking into consideration that the amendments to the Financial Regulations would align the Organization with the requirements contained in IPSAS 29, specifically with regard to the impairment of assets to ensure that they are reported at a fair value,

RESOLVES:

(OP) To approve the amendments to the Financial Regulations of the Pan American Health Organization pertaining to the impairment of assets as set forth in Annex A of Document CD58/___, and to make these amendments effective immediately.

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