A66/29*
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Financial Report and Audited Financial Statements

for the year ended 31 December 2012

World Health Organization

* Information on voluntary contributions by fund and by contributor for the year ended 31 December 2012 is contained in the Annex (document A66/29 Add.1).

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Director-General's report

INTRODUCTION

1. In accordance with Article 34 of the Constitution and Financial Regulation XIII of the World Health Organization, I have the honour to present the Financial Report for the year ended 31 December 2012. The financial statements, accounting policies and notes to the financial statements have been prepared in compliance with International Public Sector Accounting Standards (IPSAS) and WHO's Financial Regulations and Financial Rules. The statutory components of the Financial Report have been audited by the Organization's External Auditor, the Republic of the Philippines Commission on Audit, whose opinion is included in the Financial Report.

2. I am very pleased to announce that 2012 is the first year in which the Organization's financial statements have been prepared under the IPSAS basis of accounting. This is a significant achievement and brings greater transparency, accountability and a higher standard of financial reporting. I have added a section in this report to outline the main changes brought about by IPSAS implementation and its advantages for WHO.

3. The implementation of IPSAS in turn has been facilitated by the implementation of the Global Management System, which has greatly improved the accuracy and timeliness of data presented in this report. In addition, managers across the Organization have access to a consistent set of data, which tracks implementation against the programme budget.

4. The year 2012 was a period of financial consolidation for WHO. Total revenue was US$ 2294 million and total expenses were US$ 2080 million, resulting in a surplus of US$ 214 million. Overall the Organization is on track to meet its programme budget revenue and expense targets. A review of the levels and trends of both revenue and expenses is included in the following sections of the report. However, within this improved overall financial situation, there are still some budget centres that are underfunded as a result of mismatches between planned spending and actual resources received. This situation is one of the central issues being addressed through the WHO financing reforms that are underway.

5. The financial statements cover the total effective budget under all sources of funds (assessed and voluntary contributions) of US$ 3959 million as noted by the Sixty-fourth World Health Assembly in May 2011 in resolution WHA64.3. Although the Organization has adopted an annual financial reporting period as stipulated in the revised Financial Regulation XIII, the budgetary period remains a biennium (Financial Regulation II). Therefore, for the purposes of actual versus budget comparisons, the biennium's budget must be compared to annual expenses. Further analysis of the use of funds is available in document A66/5 "Implementation of the Programme budget 2012–2013: interim report", which describes the implementation of the Programme budget 2012–2013 and the results achieved.

6. In addition to the General Fund which includes the programme budget, there are two other fund groups summarized in the financial statements: "Member States – other", and the Fiduciary Fund. The "Member States – other" fund group includes the Common Fund (reflecting changes in asset and liability accounts), the Enterprise Fund (mainly procurement activities on behalf of Member States and the Revolving Sales Fund), and the Special Purpose Fund (such as the Real Estate and Security Funds maintained for the purpose of financing longer-term costs).The Fiduciary Fund is used where the Organization is managing revenue and expenses on behalf of other entities consolidated within WHO's financial statements. Details of the revenue and expenses for each of these three main fund groups can be found in Schedule I of this report. The figures shown in this introduction elaborate both programme budget and non-programme budget components. In addition, the Organization provides services to six other entities: The Trust Fund for the Joint United Nations Programme on HIV/AIDS (UNAIDS), the International Drug Purchase Facility (UNITAID), the International Agency for Research on Cancer (IARC), the International Computing Centre (ICC), the African Programme for Onchocerciasis Control (APOC) and the staff health insurance (SHI). Separate financial statements are prepared for each entity, and these are subject to separate external audit review.

7. Highlights of the assets, liabilities and net assets/equity of the Organization are provided, together with information on cash flow, liquidity and investment management in order to provide a complete picture of WHO's financial position as at 31 December 2012. Finally, I have highlighted certain financial risks facing the Organization and the measures in place to manage these risks.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

8. The Organization's full implementation of IPSAS in 2012 further raises the standard of WHO's financial reporting. Financial reporting is a critical element of governance and of sound management, the improvement of which are both important parts of the WHO reform process. The implementation of IPSAS requires increased transparency, which allows for better understanding of the Organization's financial performance and health. Enhanced financial information supports governance, and the management of assets and liabilities, and facilitates decision-making. Compliance with IPSAS has also necessitated the introduction of an enhanced system of internal control in order to support the additional financial reporting requirements.

9. I would like to highlight the following significant changes arising from the full implementation of IPSAS in the 2012 financial statements.

10. For the first time, the full actuarial valuation for after-service health insurance has been recognized in our accounts. This includes the estimated future cost of health insurance for employees and retired staff. The total liability as at 31 December 2012 was estimated at US$ 1329 million, of which US$ 506 million is funded and US$ 823 million is unfunded. The unfunded balance is reflected as a long-term accrued staff liability. A funding plan based on increased contributions is in place to fund the unfunded portion of the liability, however, based on actuarial projections, WHO will only achieve full funding by 2042. In addition, the full actuarial valuation for other staff benefits such accrued annual leave, compensation for death and disability, and termination benefits such as repatriation travel and grants are also recorded as a liability in the accounts, resulting in a total liability of US$ 160 million.

11. Inventories are now recorded as assets in the Organization's financial statements. Inventories consist of medicines and vaccines, humanitarian supplies and publications and are recorded as assets until they are sold, distributed or until their useful life has expired. As at 31 December 2012, the Organization had conducted a physical verification of all stock on hand and had included some 80 locations with inventory valued at a total of US$ 67 million. By recording inventories, the Organization is better able to review the extent and location of inventories held, leading to enhanced stewardship and management of logistics.

12. Under IPSAS, "property, plant and equipment" including buildings, land, vehicles, fixtures and fittings, and equipment, are recognized as assets and amortized over their useful lives. However, due to the time it takes to obtain valuations and to establish residual useful lives, the full value of these assets and accumulated asset depreciation will only be reported after the transitional period of up to five years that is permitted under IPSAS. In order to prepare for this requirement, a full record of all property ownership arrangements is being collected for all WHO locations. Excluding the Region of the Americas/PAHO, the Organization currently operates from 313 premises around the world. Although 29 of these locations are owned, the remainder are either rented or have been granted by a Member State.

13. IPSAS requires the use of accrual accounting so that all revenue and expenses are recognized in the financial statements for the period to which they relate. For voluntary contributions, the revenue is recorded when the agreement is signed and not when the cash was received (this procedure has been implemented since 2008). Expenses are recognized when the goods and services are received and not when the commitments or the payments have been made. As at 31 December 2012, an accrual of US$ 18 million has been made to record goods received and not yet paid for.

14. Another important change is the policy for estimating the allowance for "doubtful accounts receivable". In the past, for assessed contributions, a full allowance was made for any amounts that were not paid at the end of the year. This brought the assessed contribution revenue to a cash basis of accounting (i.e., only the revenue for the amounts paid was recognized). Based on previous payment experience and IPSAS requirements, this allowance has been revised to recognize an allowance only for those amounts that may be in doubt. In agreement with the External Auditor it was decided that this constitutes any amounts outstanding for more than two years or any rescheduled amounts. This opening adjustment has resulted in a US$ 63 million one-time increase in the fund balance of "Member States– regular budget".

15. The implementation of IPSAS currently has no impact on the preparation of the programme budget, which is still presented on a cash basis. As this basis differs from the accrual accounting basis applied to the financial statements, comparison with the figures used for the programme budget and the actual results require greater explanation. In addition, it should be noted that the programme budget continues to operate on a two-yearly basis, whereas expenses are reported on an annual basis.

FINANCIAL HIGHLIGHTS

Summary

16. Total revenue from all sources for 2012 was US$ 2294 million and total expenses for 2012 were US$ 2080 million, resulting in a surplus of US$ 214 million. Table 1 below provides financial highlights in 2012 compared with 2011. In line with IPSAS requirements for the first year of adoption, 2011 comparative figures are not restated or presented in the financial statements however, restated figures are presented in this introduction in order to provide a perspective on the overall trends.

Table 1. Financial highlights – all funds, 2012 and 2011 (US$ million)

Programme budget	**Total 2012**	**Total 2011**
Assessed contributions	475	472
Voluntary contributions	1 539	1 424
In-kind and in-service contributions	56	342
Total contributions per programme budget	**2 070**	**2 238**
Non-programme budget revenue	112	100
Reimbursable procurement	62	41
Increase in allowance for doubtful accounts receivable	(3)	(33)
In-kind and in-service contributions	10	7
Finance revenue	43	53
Total revenue (all sources)	**2 294**	**2 406**
Total expenses	2 080	2 515
Net surplus/(deficit)	**214**	**(109)**

17. As shown in Table 1 above, total contributions for the programme budget in 2012 were US$ 2070 million (in 2011, US$ 2238 million) including US$ 475 million from Member States' assessed contributions, and US$ 1539 million from voluntary contributions. In-kind and in-service contributions are reported separately (US$ 56 million for the programme budget and US$ 10 million for the non-programme budget for 2012). Non-programme budget revenue recorded for the Special Purpose Fund, Enterprise Fund, and Fiduciary Fund is mainly from voluntary contributions under partnerships outside the programme budget, such as the Stop TB Global Drug Facility Fund and the Roll Back Malaria Partnership Fund.

18. Total expenses in 2012 were US$ 2080 million which is a significantly lower level than the US$ 2515 million for 2011 reported above. However, if in-kind and in-service expenses are excluded, the 2011 figure is US$ 2166 million. Expenses in the second year of the biennium are generally higher than the first year of the biennium, once funding is assured and implementation has been planned. A further important reason for lower expenses is the cost-saving measures that were introduced in 2011 in response to the financial uncertainties faced by the Organization over the last two years.

19. Statement V – the Statement of Comparison of Budget and Actual Amounts provides information by strategic objective. Further analysis of the use of funds under the Programme budget 2012–2013 is provided in document A66/5, which provides an interim report on implementation and the results achieved. A summary showing the source of funding for the Programme budget 2012–2013 compared with the use of funding in 2012 is provided in Table 2.

Table 2. Comparison of Programme budget 2012–2013 with actual use of funds in 2012 (US$ million)

	Programme budget 2012–2013	2012 actual use of funds	Percentage (target is 50% for 1 year)
Source of funding:			
Assessed contributions	944	475	50%
Highly flexible funding – voluntary contributions – core	400	116	29%
Medium flexible funding – voluntary contributions – core	400	14	4%
Specified funding – voluntary contributions – specified	2 215	1 409	64%
Total voluntary contributions	3 015	1 539	51%
Total financing for the programme budget	3 959	2 014	51%
In-kind and in-service contributions		56	
Total revenue		**2 070**	
Use of funding:			
Programme budget 2012–2013 expenses – in cash	3 959	1 694	43%
Programme budget 2012–2013 expenses – in-kind and in-service		44	
Total		1 738	
Previous bienniums workplans – expenses in 2012–2013		125	
Tax equalization and other non-programme budget utilization		22	
Total expenses		**1 885**	
Net surplus – programme budget		**185**	

20. It should be noted that although the total revenue and total expenses were in line with expectations, within that, the level of flexible funding was lower than originally planned and the level of specified funding was higher than planned. The total programme budget expenses for 2012 were US$ 1885 million and the net surplus under the General Fund was US$ 185 million.

NET ASSETS/EQUITY

21. Statement III, the Statement of Changes in Net Assets/Equity provides information on the fund balances for all funds as at 31 December 2012, the movement during 2012 and the restated opening balances as at 1 January 2012. The amount of total net assets/equity (carry forward) as at 31 December 2012 was US$ 1159 million. The break down is shown in Table 3.

Table 3. Summary of net assets/equity in 2012 (US$ million)

	31 December 2012	Surplus/(deficit) 2012	1 January 2012 (restated)
General Fund			
Total Member States – regular budget	84	18	66
Total voluntary funds	1 642	161	1 481
Total - General Fund	**1 726**	**179**	**1 547**
Total Member States – other	(715)	28	(743)
Total Fiduciary Fund	148	30	118
Total net assets/equity	**1 159**	**237**	**922**

22. The restated opening net assets/equity balance under “Member States - regular budget” increased to a level of US$ 66 million due to the change in the allowance for “doubtful accounts receivable” (see paragraph 14 above). The further increase during 2012 is due to slightly lower programme implementation in the first year of the biennium.

23. The net assets/equity under the voluntary funds increased from US$ 1481 million to US$ 1642 million by the end of 2012. These funds represent contribution agreements recorded and not yet spent. An amount of approximately US$ 110 million within this balance is encumbered and will be used for the settlement of commitments made in 2012 for which expenses will be recorded in 2013. The remainder of this balance is planned to support work in 2013 and beyond. The increase is mainly due to the agreements recorded in the first year of the biennium, the implementation of which will take place in the second year.

24. The negative balance in the net assets/equity of US$ 715 million for the group of funds under “Member States – other”, arises primarily from the future unfunded liabilities for after-service health insurance (see paragraph 10 above).

REVENUE

25. Total revenue for 2012 was US$ 2294 million (in 2011, US$ 2406 million) – see Table 1 above. Voluntary contributions are summarized in Table 4 below for 2012 and 2011.

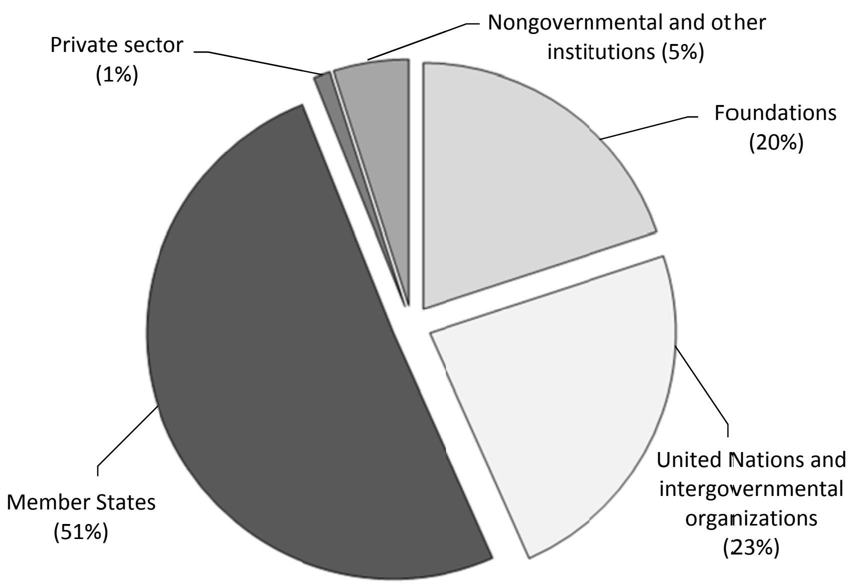
Table 4. Voluntary contributions revenue in 2012 and 2011 (US$ million)

	2012	2011	Percentage
Voluntary contributions – core	130	125	104%
Voluntary contributions – specified	1 409	1 299	108%
Voluntary contributions – Fiduciary Fund	97	80	121%
Total voluntary contributions	**1 636**	**1 504**	**109%**

26. Out of the total voluntary contributions for 2012 of US$ 1636 million, US$ 1539 million were for the programme budget. The remaining amount was received for the Fiduciary Fund. Overall, the voluntary contributions combined for 2012 were slightly higher than the combined voluntary contributions for 2011.

27. Figure 1 below illustrates the relative proportions of the various sources of voluntary contributions in 2012. Member States continued to be the largest source of voluntary contributions, contributing to 51% of the total non-assessed (voluntary) budget. Revenue from the United Nations and intergovernmental organizations was 23%, foundations 20%, and nongovernmental organizations and other institutions represented 5%. Private sector donations of 1% accounted for the remaining voluntary contributions to the Organization. The relative percentages are similar to the previous biennium with a slight decrease in Member State contributions and slight increases from foundations and the United Nations organizations.

Figure 1. Sources of voluntary contributions in 2012



28. Many of the voluntary contributions were highly earmarked and relate to individual projects with differing reporting requirements within the framework of the planned results of the programme budget. Full details of all the voluntary contributions recorded in 2012 are contained in document A66/29 Add.1.