Annual Financial Report
for the year ended 31 December 2020

International Agency for Research on Cancer
Lyon, France

(Document GC/63/7 and GC/63/Inf.Doc.No.1-4)

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- Document GC/63/ Financial Report, Report of the External Auditor, and Financial Statements

Information documents:

- GC/63/Inf.Doc.No.1 Current Status of Collection of Assessed Contributions and Core Voluntary Contribution Account (CVCA) from Participating States
- GC/63/Inf.Doc.No.2 Projection of Governing Council Special Fund (GCSF) Account for 2021-2023
- GC/63/Inf.Doc.No.3 Voluntary Contributions Account for the period 1 January to 31 December 2020
- GC/63/Inf.Doc.No.4 Supplementary Information on After Service Health Insurance (ASHI) Liabilities and Funding Gap

Basis for Preparation and Presentation

- Financial statements and accompanied notes were prepared in full compliance with the International Public Sector Accounting Standards (IPSAS).
- Functional and reporting currency of IARC is Euro.
- A complete set of financial statements was prepared as follows:
  - Statement of Financial Position (Statement I)
  - Statement of Financial Performance (Statement II)
  - Statement of Changes in Net Assets/Equity (Statement III)
  - Statement of Cash Flow (Statement IV)
  - Statement of Comparison of Budget and Actual Amounts (Statement V)
  - Notes to financial statements
- Schedules 1-3, providing supplementary information to Statement II and on the status of collection of contribution from Participating States.

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I. Basis for preparation and presentation

This annual financial report is presented in accordance with Article VI, Paragraph 6.1 of the IARC Financial Regulations.

It includes a complete set of IARC financial statements that were prepared in full compliance with the International Public Sector Accounting Standards (IPSAS).

The complete set of financial statements prepared by the Agency comprises of Statements I to V, comprehensive notes to financial statements that provide a summary of significant accounting policies, explanation of the financial statements, and other relevant information.

It also included Schedules 1-3 to provide supplementary information to the Statement of Financial Performance and on the status of collection of contribution from Participating States.

Presentation change in Statement II from the prior years (see Note 2.5, on page 24)

Previously, the net foreign exchange loss/gain was shown under the “EXPENSES” heading. Due to its increasing significance and fluctuation (i.e. gain in one year and possible loss in the following year), this line is now presented separately below the “EXPENSES”. This change further aligns the presentation of IARC’s financial statements with those of WHO.

Report of the External Auditor

Audit Opinion: as per letter dated 1 April 2021

- IARC financial statements present fairly, in all material respects, the financial position as at 31 December 2020, and its financial performance, changes in net assets/ equity, cash flow, and the comparison of budget and actual amounts in accordance with IPSAS.
- Transactions of IARC have, in all significant respects, been in accordance with the Financial Regulations.

'unqualified audit' = clean audit

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II. Report of the External Auditor

IARC Financial Statements were audited by the Comptroller and Auditor General of India for the first time*. It was also the first time that the audit was done remotely due to the travel restriction.

The audit was carried out on annual accounts as per the IARC Financial Regulation, Article VI, Paragraph 6.2, by the audit team from the Republic of the Philippines Commission on Audit .

The auditors confirmed for another year the 'unqualified audit' opinion or 'clean audit', including the full compliance to the International Public Sector Accounting Standard (IPSAS) of the IARC's financial statements.

AUDIT RECOMMENDATIONS:

In addition to the audit of IARC financial statements, the auditors also review key operational processes of the Agency and recognized significant efforts of IARC management and concerned staff in ensuring the compliance to the WHO/IARC Financial Rules and Regulations.

There was no significant audit findings and recommendation from this audit. The external auditors also validated the pending recommendations from the prior years and closed all six pending recommendations.

**Note:*

The previous audit team from the Republic of the Philippines Commission on Audit started their mandate in 2012 and audited IARC and WHO for the last time on the 2019 accounts (completed its second four-year terms). The new external audit team were from the Comptroller and Auditor General of India . The selection of the external audit was carried out at the World Health Assembly in Geneva on 23 May 2019 .

Financial Highlights

(STATEMENT I)	(STATEMENT II)	(STATEMENT IV)
Net assets/equity As at 31-Dec-20	Financial Performance For the year ended 31-Dec-20	Cash balance As at 31-Dec-20
-€57.58 million	-€5.06 million	€34.68 million
Deficit due to unfunded ASHI liabilities	Deficit due to €7.54m of costs related to unfunded ASHI liabilities recorded as part of staff costs	

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III. Financial Highlights

The financial position of the Agency will be presented by category of fund and accounts, as shown in the Statement of Financial Position, net assets/equity section.

IARC's main funding source came from the assessed contributions from Participating States, followed by voluntary contributions. In 2020, 73% of IARC's activities were financed from these two funding sources. [NOTE: The remaining was financed from the Governing Council Special Fund and the Special Account for Programme Support Cost.]

The net assets/equity of the Agency as at the end of 2020 was negative €57.58 million, compared to negative €40.65 million from the prior year. The negative balance was due to a significant increase of unfunded liability related to staff benefits that was largely a result of a sharp decrease of discount rate applied to the valuation of After Service Health Insurance (ASHI).

Overall, total expenses incurred exceeded total revenue recognized during 2020, resulting in €5.06 million deficit, of which €7.54 million were related to unfunded ASHI, €11.58 million of unfunded service costs were included in staff cost and this was partially offset by the net foreign exchange rate gain. Excluding these expenses, the Agency would have ended last year with a surplus.

Other non-staff costs decreased by €4.58 million from the prior year, reflecting impacts of the COVID-19 pandemic. Several activities had to be postponed or delayed while some had to adjust the approach such as virtual meetings/trainings instead of in-person.

While the Agency's financial performance shows a deficit, the cash flow of the Agency remained at a similar level as in the prior year with cash balance of €34.68 million (increased from €32.39 million at the end of 2019).

Regular Budget 2020

- 2020-2021 approved regular budget was €44.15M, fully financed from assessed contributions from Participating States; €21.87M was allocated to 2020 and €22.28M was allocated to 2021.
- **80.24%** of assessed contributions due in 2020 were **collected in 2020**.
- **Utilization rate: 88.28%** (including €0.44M of fund committed in 2020 for delivery in 2021)
- €38 400 from GCSF was used for budgetary loss resulting from currency realignment were incurred in 2020 as per the provision authorized under Resolution GC/61/R5.

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Total regular budget 2020-2021 was approved for €44.15M, fully financed from assessment from Participating States. €21.87M was allocated for 2020 and €22.28M was allocated to 2021.

As shown in the schedule 3 of the note to the financial statement, the status of collection of assessed contribution due in 2020 as at 31-Dec-20 was 80.24%. Additional contribution (from Ireland) was received this year bringing the collection of 2020 contributions at present to 83.04% (as of 19-Apr-21).

For information on the assessed contribution from PS due in 2021, about half (44.43%) have been received to-date. Details are provided in Info.Doc.1 The Secretariat would like to thank the PS for the continue support to the Agency.

The activities planned for the 2020 were affected by the COVID-19 pandemic as previously mentioned. The budget utilization rate partly reflected this though the majority of costs remain staff costs. This implementation rate include the small balance of encumbrances total €0.44M. The fund balance was carried forward to 2021.

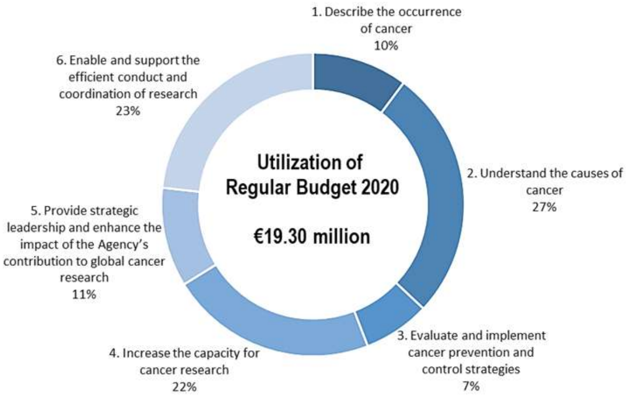
There was budgetary cost due to currency realignments in 2020 totalling €38 400, charging to GCSF as per the. provision authorized in GC/61/R5, paragraph 6.

Resolution GC/61/R5

6. DECIDES to grant authority to the Director to use a maximum of €500 000 in the biennium 2020–2021 from the Governing Council Special Fund to cover unforeseen budgetary costs due to currency realignments, subject to availability of cash balances in the Fund, noting the base rate of exchange for 2020–2021 is €0.819/US$; and

Regular Budget 2020

Budget utilization breakdown by six objectives



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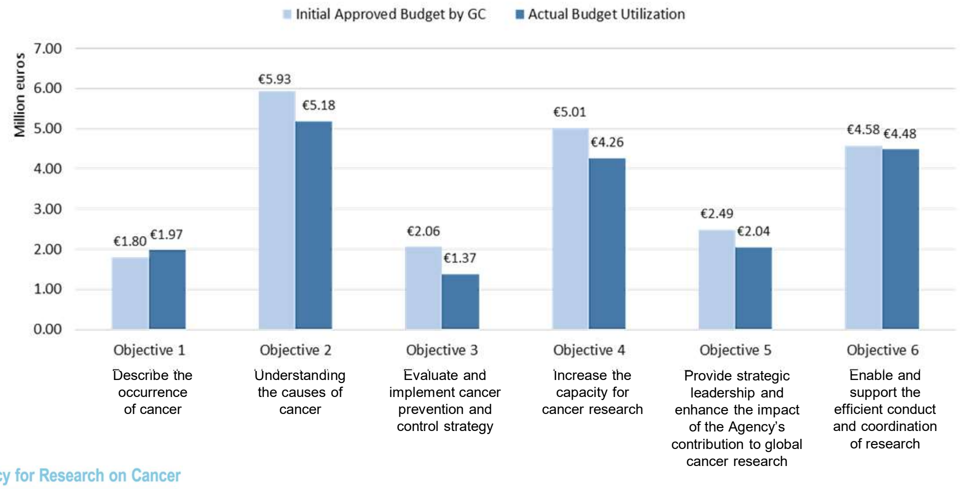
This slide shows the utilization of 2020 regular budget by six objectives. The administration or enabling function is under objective 6, which was 23% of the total utilization. In other words, more than 3 quarters of the regular budget were spent on scientific activities.

Regular Budget 2020

Approved regular budget and its utilization breakdown by six objectives



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NOTE: Budget transfers between objectives during the biennium were within 15% of the budget of objective from which the credit was transferred as authorized under Resolution GC/61/R5.

The actual expenditure as compared to the initial approved budget for each Objective is shown in this figure. The changes of budget during the biennium is within the 15% provision approved by the GC under the Resolution GC/61/R5.

Resolution GC/61/R5

5. DECIDES that the Director shall have authority under Financial Regulations Article III, Paragraph 3.3 to transfer credits between sections of the budget, provided that such **transfers do not exceed 15%** of the section from which the credit is transferred. Transfers in excess of 15% of the section from which the credit is transferred may be made with the prior written concurrence of the majority of the Members of the Governing Council;

Voluntary Contributions Account

(expressed in million euros)

	Opening Balance 01-Jan-20	Revenue	Interest income	Expenses	**Closing Balance 31-Dec-20**
Core Voluntary Contribution Account (CVCA)	**0.062**	0.055	0	(0.084)	**0.033**
Voluntary Designated Contributions	**13.090**	15.082	0.003	(12.787)	**15.388**
Voluntary Undesignated Contributions	**0.911**	0.071	0.001	(0.146)	**0.837**
Voluntary Contributions Account	**14.063**	**15.208**	**0.004**	**(13.017)**	**16.258**

- Voluntary contributions account includes CVCA, designated and undesignated contributions.
- Fund received to CVCA will be used during 2020-2021 biennium to supplement regular budget. So far Australia, the Netherlands and United Kingdom have contributed to CVCA.
- Revenue from designated voluntary contributions expected to be received in the future years are shown as deferred revenue in financial statements amount to €12.02M in addition to the balance in the above table.

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Voluntary Contributions Account includes Core Voluntary Contribution Account (CVCA), designated and undesignated contributions.

CVCA was established in 2019 to receive supplementary funds from Participating States to finance IARC's core activities (Resolution GC/61/R5, paragraph 9). Contributions totalling €116 814 has been received from Australia, the Netherlands and United Kingdom to-date to supplement the flat regular budget in 2020-2021.

Designated voluntary contributions are specifically earmarked by the donor to finance special projects while undesignated voluntary contributions are donations not intended for a specific project and it is governed by Governing Council resolutions.

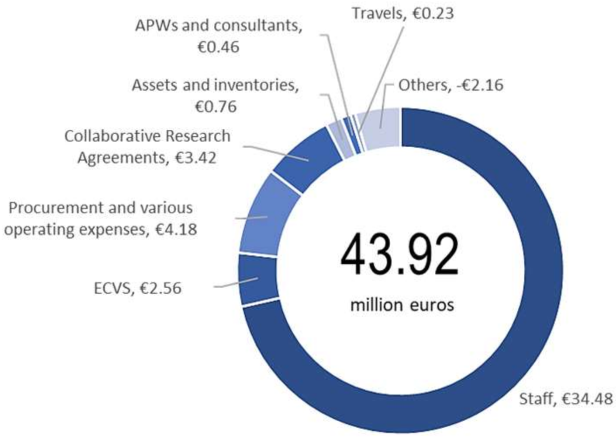
Total VC account has the balance of €16.258M at the end of the year, increased by 15.61% from the prior year.

The revenue from designated voluntary contributions shown in this table reflects the amount due in 2020 only.
[NOTE: normally this amount is net of the allowance for doubtful account receivables but there was no allowance set at the end of 2020).

Additionally, based on the grants & contribution agreements already signed, the agency expects to receive €12.02M in the future years and this amount is reported in the statement of financial position as 'deferred revenue'.

Details of this account by donor is provided in Info.Doc.3

Expenses incurred in 2020 (all funding sources)



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Total expenses incurred in 2020 were €43.92 million, net of foreign exchange rate gain.

- €34.48m were staff costs - This includes €11.58m of cost related to unfunded ASHI and €22.89m of the actual staff costs.
- €2.56m were costs of Early Career and Visiting Scientists (ECVS), and
- the remaining were costs of activities.

As mentioned earlier, non-staff costs in 2020 decreased by €4.58 million from the prior year, reflecting impacts of the COVID-19 pandemic. Several activities had to be postponed or delayed while some had to adjust the approach such as virtual meetings/trainings instead of in-person.

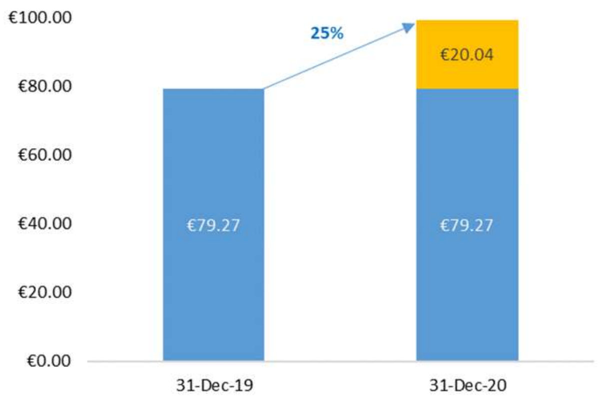
The major cost of activities were

- Procurement and other operating expenses (€4.18 million),
- Collaborative Research Agreements (€3.42 million),
- Travel costs in 2020 were dramatically decreased as a result of the travel ban policy that has been imposed since March 2020 (€0.23 million compared to €1.98 million in 2019).

'Others' comprised costs of temporary assistants and financial costs that were offset with the net foreign exchange rate gain, resulting to a negative figure due to the higher amount of exchange rate gain.

Increase of unfunded ASHI* liabilities

25% net increase, from €79.27M to €99.31M



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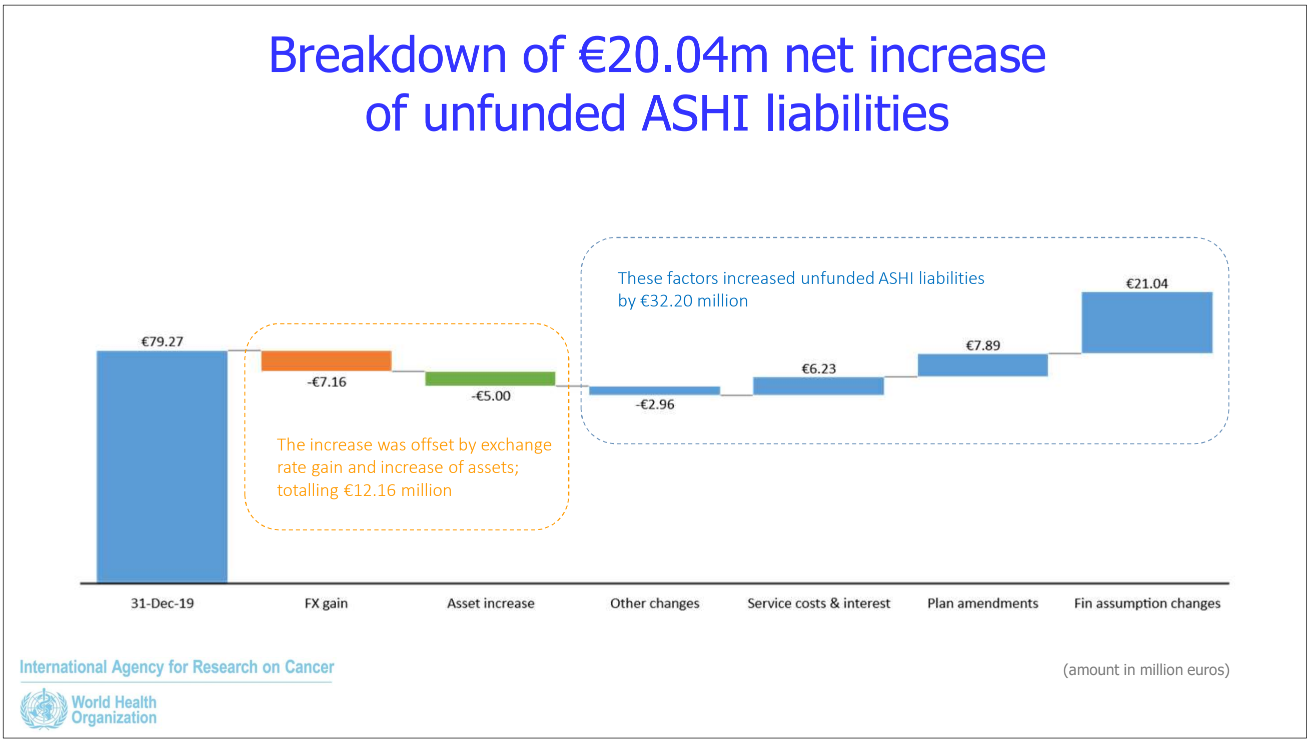
*ASHI = After Service Health Insurance

Unfunded ASHI liabilities had a net increase by €20.04 million or 25% from the prior year, from €79.27m to €99.31m.



In fact, last year the unfunded ASHI liabilities at the end of last year should have been decreased from 2019 if all actuarial assumptions and plans remained unchanged.

The appreciation of the euro against the US dollar resulted to exchange rate gain of €7.16 million. The annual contributions were higher than the claims and strong asset returns brought additional €5 million to SHI assets. **These two favourable factors decreased the unfunded ASHI liabilities by €12.16 million**.

However, the continued decrease of discount rate from 0.6% in 2019 to 0.2% in 2020 increased significantly the unfunded liabilities and was the main reason for the €21.04 million increase due to financial assumption changes. In addition, WHO decided to absorb future after-service contribution increases instead of sharing with participants. This plan amendment increased the unfunded liabilities by €7.89 million. The Service Cost and interest on liabilities also grew €6.23 million in 2020. Actuarial demographic assumptions and few other changes were more favourable, resulting in €2.96 million decrease of liabilities. **These resulted to a net increase of €32.20 million**.

In summary, the €32.20 million increase were offset by €12.16 million from the two favourable factors, i.e. exchange rate gain and asset increase, resulting to the net increase of €20.04 million as shown in the previous slide.

ADDITIONAL INFO: (Further details on this are provided in an information document (GC/63/Inf.Doc. No.4).

- **Exchange rate gain**
  - The valuation of Staff Health Insurance (SHI) assets and liabilities is carried out in US dollar and this has to be converted to euros when recording in IARC's account. Every year-end, the prior year unfunded liabilities are revalued using the current year exchange rate. The change in exchange rate (if any) results in unrealized exchange rate gain or loss, which decreases or increases the unfunded liabilities respectively.
  - At the end of 2020, the euro value against the US dollar was appreciated, resulting in an unrealized exchange rate gain of €7.16 million. This decreased the unfunded liabilities.

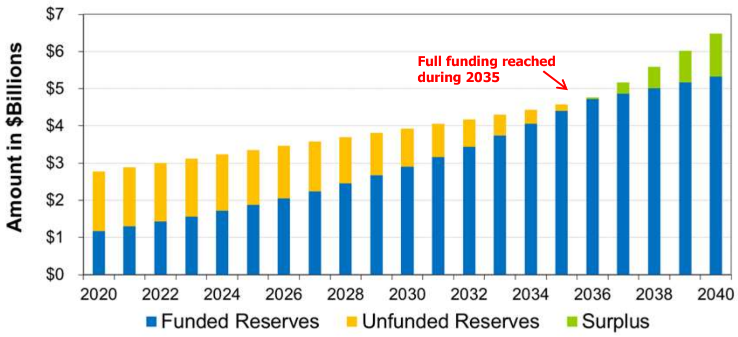
- **Increase of assets**
  - Annual contributions net of reimbursement claims (€1.59 million net) and strong asset returns (€3.41 million) helped further decrease the unfunded liabilities by €5.00 million.

- **Financial assumption changes**
  - The valuation of ASHI liabilities and assets is based on a set of assumptions. Financial assumptions are such as discount rate, inflation rate, salary increase, medical cost trend, assumed SHI contribution growth, etc.
  - In 2019 valuation, the discount rate was sharply decreased from 1.3% to 0.6% and continued decreasing to 0.2% in 2020. This was the key reason for the €21.04 million increase due to financial assumption changes.

- **Plan amendments**
  - Previously, the growth in total (organization plus participant) after-service contribution percentages was shared proportionately between organization and participants. Now, this growth is borne entirely by the organization. By increasing the portion of future cost borne by the organization, this change increases IARC's liabilities by €7.89 million.
  - The amendment was recommended by the Staff Health Insurance's Global Oversight Committee (SHI/GOC) and approved by WHO Director General in 2020.

Plan to address unfunded ASHI liabilities

Based on the current plan, full funding target will be achieved by 2035.



How?

- continue increasing contributions (by organization only);
- cost containment (through regular negotiations with health care providers to limit medical inflation, case management, and a review of plan design); and
- achieving the current target of a 4.5% investment return over a long term time horizon.

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About 26% of the Agency's liabilities with respect to ASHI are already covered and the Agency continues working toward covering 100% over a long period of time. The decrease of the funded ratio in 2020 was due mainly to the drop in the discount rate, partially offset by strong asset performance. This was consistent with WHO and other agencies administered by WHO. Notwithstanding the decrease of the funded ratio, IARC's assets are growing steadily.

It is important to recognize that **ASHI liabilities are long-term liabilities** and they do not need to be fully funded now or in the near future. Unlike WHO and its administering agencies including IARC, some other UN agencies (e.g., the United Nations Secretariat and the International Labour Organization) are not funding their respective future obligations and opt to operate on a pay-as-you-go basis.

IARC follows the plan set by WHO in addressing the unfunded ASHI liabilities, which still aims for full funding.

Based on an actuarial funding study commissioned by the Staff Health Insurance's Global Oversight Committee (SHI/GOC) early 2020, the full funding target could be achieved by 2035 (in aggregate for the SHI Fund administered by WHO), owing to the effective plan that has been put in place, which resulted in lower claim costs per capita in recent years and projected forwards. The contributions to the SHI fund intentionally exceed claims and administrative expenses, building up assets to help cover the existing deficit and the new benefit accruals. In addition, investment on a portion of the assets has yield good return.

This new target will be achieved through a combination of

- increase of after-service contributions from organization only,
- various cost containment measures, and
- achieving the current target of 4.5% investment return over a long-term time horizon.

During 2021 the actuarial will perform a new analysis based on the latest data to update the projected date for full funding of the ASHI liabilities.

Annex: Additional information that explains unfunded liabilities shown in Statement I

Unfunded liabilities related to employee benefits:

(expressed in million euros)

Description	Amount
Short-term employee benefit liabilities	(1.259)
Other long-term employee benefit liabilities	(1.905)
Terminal benefits	(0.081)
Post-employment benefit liabilities (i.e. ASHI – unfunded portion)	(99.313)
Total liabilities related to employee benefits in FS	**(102.558)**
Total available fund balance	7.631
Total unfunded liabilities as at 31 December 2020	**(94.927)**

(expressed in million euros)

"Participating State – Others" Account	Amount
Inventories	0.288
Property, Plant and Equipment (PP&E), net	1.739
Unfunded liabilities related to employee benefits	(94.927)
Balance as at 31 December 2020	**(92.900)**

Balance of fund under "Participating State – Others" account as shown in Statement I

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BACK UP SLIDE:

This slide was prepared to provide supplementary information to explain the net negative fund balance amounting to €92.90 million shown under "Participating State – Others" account in Statement I.