



# Annual Financial Report for the year ended 31 December 2019

International Agency for Research on Cancer  
Lyon, France

(Document GC/62/7, GC/62/7 Corr.1 and GC/62/Inf.Doc.No.1-4)

International Agency for Research on Cancer



- Document GC/62/7 Financial Report, Report of the External Auditor, and Financial Statements
- Document GC/62/7 Corr.1 Corrigendum for paragraph 9 and 21

## Information documents:

- GC/62/Inf.Doc.No.1 Status of Collection of Assessed Contributions and Core Voluntary Contribution Account (CVCA) from Participating States
- GC/62/Inf.Doc.No.2 Projection of Governing Council Special Fund (GCSF) Account for 2020-2023
- GC/62/Inf.Doc.No.3 Voluntary Contributions Account for the period 1 January to 31 December 2019
- GC/62/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.

International Agency for Research on Cancer



### 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

# Report of the External Auditor

Audit Opinion: as per letter dated 8 April 2020

- IARC financial statements present fairly, in all material respects, the financial position as at 31 December 2019, 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**

International Agency for Research on Cancer



## II. Report of the External Auditor

The recent 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.

### NOTE:

The Philippines' audit team started in 2012 and audited IARC and WHO for the last time on the 2019 accounts and completed its second four-year terms. The new external audit team will come from India. The selection of the external audit was carried out at the World Health Assembly in Geneva on 23 May 2019 .

## Report of the External Auditor 5 Recommendations in 3 Areas

Areas	Recommendations
I. Human Resource Management – work plan of HR Office	<ul style="list-style-type: none"> <li>- To enhance the work planning, target setting and implementation.</li> <li>- To consider finding the most effective strategies to fill-in anticipated vacancies and frozen positions in order to ensure minimum impact to the performance of the Office; and workload to its existing staff.</li> </ul>
II. Statement on Internal Control (SIC)	<ul style="list-style-type: none"> <li>- To provide adequate disclosure in Standard Operating Procedure of the processes made in the identification of Agency's significant control and corporate risks included in the SIC.</li> </ul>
III. Internal Control Self-Assessment	<ul style="list-style-type: none"> <li>- To enhance the existing Internal Control Self-Assessment checklist by integrating the internal control principles under COSO Framework on Internal Control.</li> <li>- To provide training to concerned staff who involve in the preparation of the Internal Control Self-Assessment checklist on the updated Checklist as well as on accountability framework and risk management to enhance their competence on the assessment of the effectiveness of internal control.</li> </ul>

International Agency for Research on Cancer



✓ **10 of 11 audit recommendations from the prior year were implemented and closed during the reporting period and one recommendation is in progress.**

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.

This year the auditor provides 5 recommendations in **three areas** i.e. Human Resource Management, Statement on Internal Control (SIC), and Internal Control Self-Assessment.

IARC included SIC in its Financial Report since 2017 and in 2019 IARC implemented the Self-Internal Control Checklist to provide additional assurance to the statement given by the Director. The auditor commended the Agency for this implementation and provided additional recommendations to enhance this Checklist.

The Secretariat welcomes these audit recommendations and would like to express our sincere appreciation to the audit team from the Republic of the Philippines Commission on Audit for their thorough audit of IARC accounts and useful recommendations during the past eight years.

The Secretariat also pleases to report that 10 of 11 audit recommendations from last year in the area were implemented and confirmed closing by the auditors during the field audit. One recommendation is in progress.

## Financial Highlights

Net assets/equity  
As at 31-Dec-19

**-€40.65 million**



Due to increase of  
unfunded ASHI liabilities

Financial Performance  
For the year ended 31-Dec-19

**-€4.89 million**



Due to timing gap between  
revenue recognitions and  
expense recording.  
High spending on  
collaborative research  
agreements. Most deficit was  
related to unfunded ASHI.

Cash balance  
As at 31-Dec-19

**€32.39 million**

International Agency for Research on Cancer



### 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 2019, 88% 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 2019 was negative €40.65 million, almost double 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 2019, resulting in €4.89 million deficit, of which €3.52 million were related to unfunded ASHI (€2.66 million of unfunded service costs included in staff cost and €0.85 million of net foreign exchange rate loss). The remaining was related to high spending, particularly on collaborative research and other agreements, that was possible through fund balance carried over from revenue recognized in 2018 and prior years.

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 €32.39 million.

## Regular Budget 2018-2019

- 2018-2019 approved regular budget was €44.15M, fully financed from assessed contributions from Participating States; €21.91M was allocated to 2018 and €22.24 was allocated to 2019.
- **84.12%** of assessed contributions due in 2019 were **collected in 2019**.
- **Utilization rate: 100%** (including €0.31M of fund committed in 2019 for delivery in 2020)
- No costs resulting from currency realignment were incurred in 2018-2019 hence provision of GCSF fund amounting to €0.50 million authorized under Resolution GC/59/R4 was not utilized.

International Agency for Research on Cancer



Total regular budget 2018-2019 was approved for €44.150M, Fully financed from assessment from Participating States. €21.912M was allocated for 2018 and €22.24 was allocated to 2019.

As shown in the schedule 3 of the note to the financial statement, the status of collection of assessed contribution due in 2019 as at 31-Dec-19 was 84.12%. Additional contribution (from Denmark) was received this year bringing the collection of 2019 contribution at present to 87.47%.

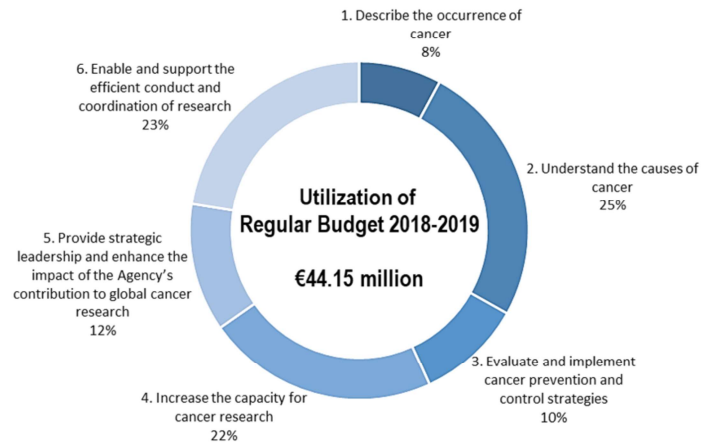
*For information on the assessed contribution from PS due in 2020, about half (41%) have been received to-date. Details are provided in Info.Doc.1 The Secretariat would like to thank the PS for the continue support to the Agency.*

The activities planned for the 2019 has been progressing very well and the approved budget was fully utilized. This implementation rate include the small balance of encumbrances total €0.31M. This fund balance was carried forward to 2020.

The change of functional currency to Euro has significantly reduced FX exposure for the Agency. There was no budgetary cost due to currency realignments in 2018 and 2019. Provision of fund from GCSF as authorized in GC/59/R4 = €0.500 for the biennium was not utilized.

# Regular Budget 2018-2019

## Budget utilization breakdown by six objectives



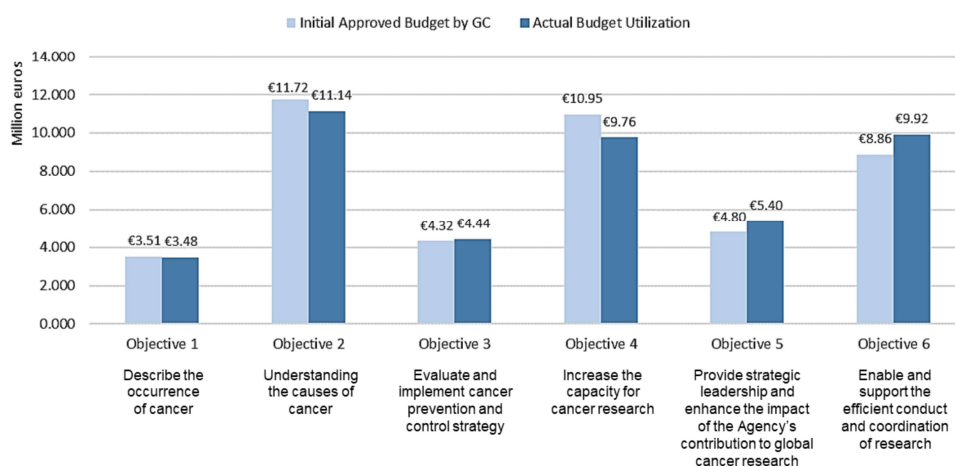
International Agency for Research on Cancer



This slide shows the utilization of 2018-2019 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 invested on scientific activities.

## Regular Budget 2018-2019

Approved regular budget and its utilization breakdown by six objectives



International Agency for Research on Cancer



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/59/R4.

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/59/R4.

### NOTES:

#### Resolution GC/59/R4

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-19	Revenue	Interest income	Expenses	Closing Balance 31-Dec-19
Core Voluntary Contribution Account (CVCA)	0	0.062	0	0	<b>0.062</b>
Voluntary Designated Contributions	12.914	14.411	0.005	(14.240)	<b>13.090</b>
Voluntary Undesignated Contributions	0.942	0.093	0.001	(0.125)	<b>0.911</b>
<b>Voluntary Contributions Account</b>	<b>13.856</b>	<b>14.566</b>	<b>0.006</b>	<b>(14.365)</b>	<b>14.063</b>

- Voluntary contributions account includes CVCA, designated and undesignated contributions.
- Fund received from Australia in 2019 to CVCA will be used in 2020-2021 biennium. In addition to Australia, the Netherlands, Sweden, and United Kingdom also pledged 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 €13.77M in addition to the balance in the above table.

International Agency for Research on Cancer



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). Contribution amounting to €62 260 (AUD100 000) was received from Australia in 2019 to supplement the flat regular budget in 2020-2021. Besides, Australia, 3 additional countries i.e. the Netherlands, Sweden, and United Kingdom also pledged to CVCA.

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 €13.856M at the end of the year, increased by 27% from the prior year. [This amount includes receivables (i.e. income that has been recognized and pending receipt of cash) of €3.76M.]

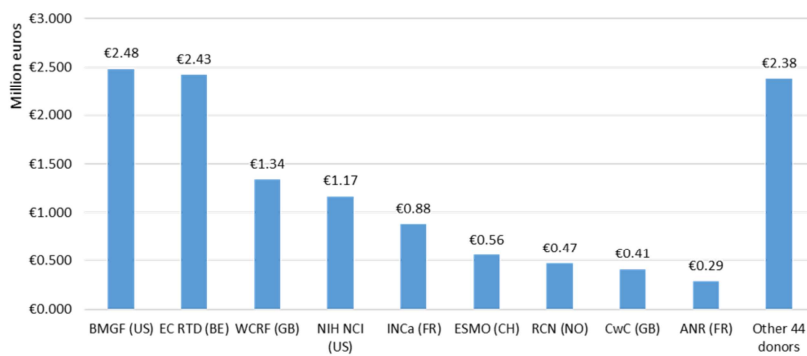
The revenue from designated voluntary contributions shown in this table reflects the amount due in 2019 [NOTE: normally this amount is net of the allowance for doubtful account receivables but there was no allowance set at the end of 2019).

Additionally, based on the grants & contribution agreements already signed, the agency expects to receive €13.77M in the future years and this amount is reported in the statement of financial position as 'deferred revenue'.

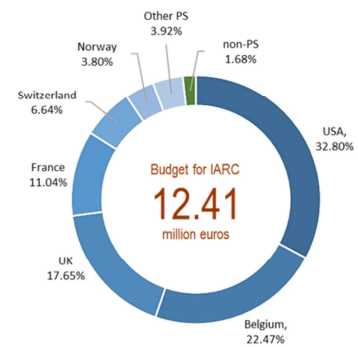
Details of this account by donor is provided in Info.Doc.3

# Voluntary Contributions New agreements signed in 2019

81 agreements signed with budget of €12.41M allocated to IARC



**Nine donors contributed to 81% of funds**



Donor's countries

International Agency for Research on Cancer

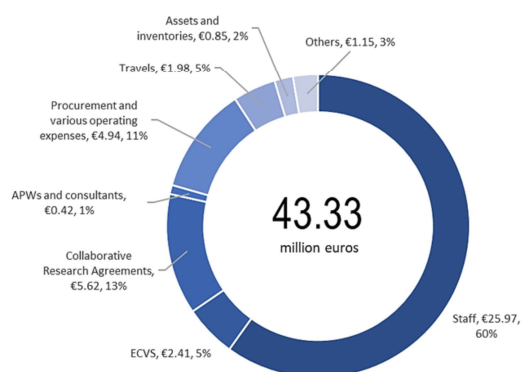


In 2019, IARC signed 81 new agreements with total budget of 12.41 million euros allocated to IARC.

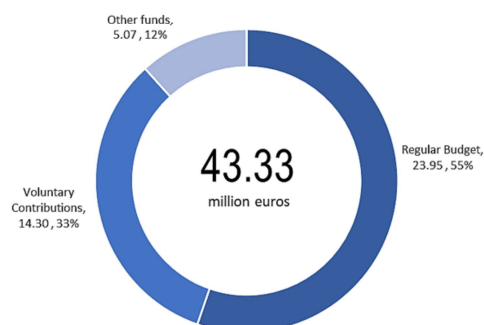
81% of this budget came from nine donors, i.e.

- Bill and Melinda Gates Foundation (BMGF, USA)
- European Commission – Research Directorate-General (EC RTD, Belgium)
- World Cancer Research Fund International (WCRF, UK),
- National Institutes of Health/National Cancer Institute, (NIH/NCI, USA),
- Institut National Du Cancer (INCa, France),
- European Society for Medical Oncology (ESMO, Switzerland)
- Research Council of Norway (RCN, Norway)
- Children with Cancer UK (CwC, UK)
- Agence Nationale de la Recherche (ANR, France)

## Expenses incurred in 2019 (all funding sources)



Expenditure by expense categories



How expenses were financed

International Agency for Research on Cancer



Total expenses incurred in 2019 were €43.33 million; 55% were charged on regular budget, 33% on voluntary contributions, and the remaining 12% on other funds.

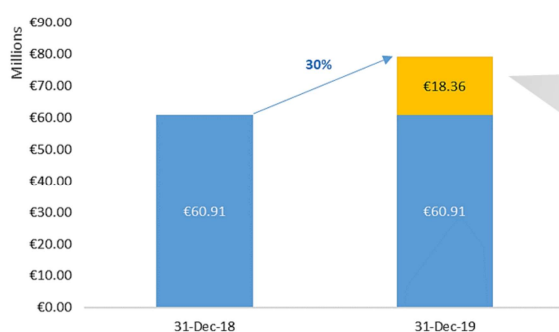
- 60% of expenses were staff costs,
- 6% were costs of Early Career and Visiting Scientists (ECVS), and
- the remaining 34% were costs of activities.

The major cost of activities were

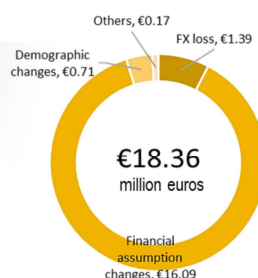
- Collaborative Research Agreements (€5.62 million),
- procurement and other operating expenses (€4.94 million), and
- travel costs (€1.98 million; of which 44% were duty travels of staff and ECVS and 56% were travels of non-staff).

## Increase of unfunded ASHI liabilities

Unfunded ASHI\* liabilities  
30% increase from €60.91M to €79.27M



Factors contributed to the increase



\*ASHI = After Service Health Insurance

International Agency for Research on Cancer



- Actuarial financial assumption changes: main factor was the sharp decrease of discount rate from 1.3% to 0.6%;
- Actuarial demographic changes: update of census data;
- exchange rate loss; and
- Other factors

Unfunded ASHI liabilities increased by €18.36 million or 30% from the prior year, from €60.91m to €79.2m.

**Key factors contributed to this increase are:**

- **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% while the inflation rate was slightly decreased from 1.4% in 2018 to 1.3%.
- The updated discount rate alone resulted in the actuarial loss of €18.73 million. This was partially offset by net reductions to expectations for general and medical inflation (€2.60 million) and other financial assumption changes (€0.04 million).
- Overall, the actuarial financial assumption changes in 2019 valuation resulted in a net increase in the unfunded ASHI liabilities from 2018 by €16.09 million.

- **demographic changes,**

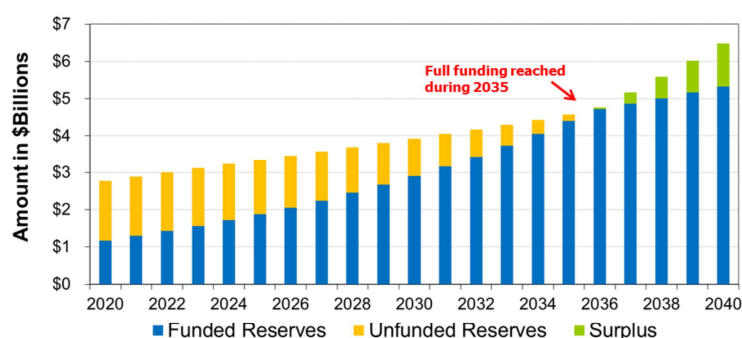
- WHO continued adopting salary increase, retirement, withdrawal, and mortality assumptions developed and suggested by the United Nations Joint Staff Pension Fund for consistency across the United Nations system.
- Census data was updated as of 31 October 2019 (proxy for 31 December 2019). Last census data update was September 2016. Updated data for IARC included additional three headcounts.
- Rates of separation (death, disablement, pre-retirement withdrawal, and retirement), were also updated based on the United Nations' Task Force harmonization guidance.
- Overall, the actuarial demographic assumption changes in 2019 valuation resulted in a net increase in the unfunded ASHI liabilities from 2018 by €0.71 million.

- **exchange rate loss**
  - 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 2019, the euro value against the US dollar was depreciated, resulting in an unrealized exchange rate loss of €1.39 million. This increased the unfunded liabilities.
- others.
  - These included the projected service costs that were partially offset by the favourable plan amendment adopted during 2019, net increase of contributions paid by staff members, the organization and retirees, interest income, and gain on Gross WHO-Administered Plan Assets during 2019.

Further details on this are provided in an information document (GC/62/Inf.Doc. No.4).

## Plan to address unfunded ASHI liabilities

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



### How?

- continue increasing contributions by 2% per annum;
- 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.

International Agency for Research on Cancer



About 29% of the Agency's liabilities with respect to ASHI are already covered and it is moving in the right direction to cover 100% over a long period of time. The funding gap is unrealized, in the sense that the deficit does not need to be immediately funded.

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).

This current target was adjusted from the previous targets i.e. 2043 based on 2018-2019 study and 2049 based on 2017 study, 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 contributions from SHI/ASHI participants, i.e. 2% increase from 2020,
- various cost containment measures, and
- achieving the current target of 4.5% investment return over a long-term time horizon.

## 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	(0.902)
Other long-term employee benefit liabilities	(2.077)
Post-employment benefit liabilities (i.e. ASHI – unfunded portion)	(79.275)
<b>Total liabilities related to employee benefits in FS</b>	<b>(82.254)</b>
Total available fund balance	6.743
<b>Total unfunded liabilities as at 31 December 2019</b>	<b>(75.511)</b>

(expressed in million euros)

"Participating State – Others" Account	Amount
Inventories	0.235
Property, Plant and Equipment (PP&E), net	2.111
Unfunded liabilities related to employee benefits	(75.511)
<b>Balance as at 31 December 2019</b>	<b>(73.165)</b>

International Agency for Research on Cancer



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

BACK UP SLIDE:

This slide was prepared to provide supplementary information to explain the net negative fund balance amounting to €73.165 million shown under "Participating State – Others" account in Statement I.