



## UNAIDS PROGRAMME COORDINATING BOARD

UNAIDS/PCB (34)/14.12  
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### **THIRTY-FOURTH MEETING**

**Date:** 1–3 July 2014

**Venue:** Executive Board Room, WHO, Geneva

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### **Agenda item 5.3**

### **Financial reporting**

**Interim financial management update for the 2014–2015 biennium for the period 1 January 2014 to 31 March 2014**

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**Additional documents for this item:** Financial report and audited financial statements for the year ended 31 December 2013 (Document: UNAIDS/PCB(34)/14.11).

**Action required at this meeting - the Programme Coordinating Board is invited to:**

- *take note* of the interim financial management update for the 2014–2015 biennium for the period 1 January 2014 to 31 March 2014, including the partial funding of staff-related liabilities and the replenishment of the Building Renovation Fund; and
- *encourage* donor governments to release their contributions towards the 2012–2015 Unified Budget, Results and Accountability Framework as soon as possible.

**Cost implications of decisions:** None

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## **I. Introduction**

1. This document presents interim financial management information on the 2014–2015 biennium for the period 1 January 2014 to 31 March 2014. The presentation at the 34<sup>th</sup> meeting of the Programme Coordinating Board will include financial information up to 31 May 2014. The audited financial statements of UNAIDS up to the end of 2011 covered two consecutive calendar years, beginning with an even-numbered year. Since the adoption of the International Public Sector Accounting Standards (IPSAS) in 2012, however, annual audited financial statements have been prepared at the end of 2012 and 2013 and statements for subsequent years will continue to be prepared individually.
2. The accounts and operations of UNAIDS are subject to continuous examination and review by both internal and external auditors of WHO, which provides administration in support of the Programme as per Economic and Social Council of the United Nations (ECOSOC) resolution 1994/24, and Article XI of the Memorandum of Understanding among Cosponsors establishing UNAIDS.

## **II. The Unified Budget, Results and Accountability Framework for the 2014–2015 biennium**

### **Approved Budget and Workplan**

3. At its 28<sup>th</sup> meeting in June 2011, the Programme Coordinating Board approved the 2012–2015 Unified Budget, Results and Accountability Framework with a request to further strengthen the results, accountability and budget matrix that was endorsed by the Programme Coordinating Board at its 29<sup>th</sup> meeting. Furthermore, at its 32<sup>nd</sup> meeting, the Programme Coordinating Board also approved a core budget of US\$ 484.8 million for 2014–2015 (the same level as for the previous three biennia), as well as the allocation of US\$ 310.2 million for the Secretariat and US\$ 174.6 million to be shared among eleven Cosponsors.

### **Funds made available for the 2014–2015 biennium**

4. During the period under review, revenue totaling US\$ 70.9 million from fourteen governments was made available towards year 2014 of the Unified Budget, Results and Accountability Framework. *Table 1* provides the details of revenue attributed towards the 2014–2015 Unified Budget, Results and Accountability Framework during the period 1 January 2014 to 31 March 2014.

Table 1

**Unified Budget, Results and Accountability Framework—details of revenue for the period 1 January 2014 to 31 March 2014 (in US dollars)**

<b>Voluntary contributions</b>	<b>Funds made available towards year 2014 of the Unified Budget, Results and Accountability Framework</b>
<b>Governments</b>	
Belgium	5 619 413
Canada	4 362 657
China	150 000
Denmark	8 291 874
Finland	13 132 695
Flemish Government	1 111 111
France	683 995
Germany	1 287 001
Israel	62 500
Liechtenstein	27 716
Russian Federation	500 000
Switzerland	11 160 714
Thailand	92 328
United Kingdom of Great Britain and Northern Ireland	24 429 967
<b>Total</b>	<b>70 911 971</b>

5. Table 2 compares the funds made available towards the Unified Budget and Workplan (UBW) for 2008–2009, 2010–2011, 2012–2013, and those for the Unified Budget, Results and Accountability Framework for 2014–2015. The funds listed were made available by 31 March of 2008, 2010, 2012 and 2014 of the relevant biennium. The percentage of funds made available for 2014 (of the 2014–2015 Unified Budget, Results and Accountability Framework) stands at 14.6%, which compares favorably to the 6.9% and 9.2% received at the same time in 2008 and 2012. However, it is less than what was made available at the same time in 2010. This highlights the need for donors who have already made commitments to pay the outstanding amounts, and for those donors who have not yet done so to pledge and pay their contributions to UNAIDS for 2014 in full.

Table 2

**Percentage of revenue made available towards the UBW/Unified Budget, Results and Accountability Framework—as at 31 March in 2008, 2010, 2012 and 2014**

	<b>31 March 2008</b>	<b>31 March 2010</b>	<b>31 March 2012</b>	<b>31 March 2014</b>
Approved level of the UBW/UBRAF in the concerned biennium (in thousands of US dollars)	484 820	484 820	484 820	484 820
Revenue recognized against the UBW/UBRAF (in thousand of US dollars)	44 624	167 860	33 296	70 911
<b>Percentage of revenue recognized against the UBW/UBRAF funding requirement</b>	<b>9.2%</b>	<b>34.6%</b>	<b>6.9%</b>	<b>14.6%</b>

### III. Funds expended and encumbered under the 2014–2015 Unified Budget, Results and Accountability Framework

6. During the period 1 January 2014 to 31 March 2014, expense and encumbrance (including transfers to Cosponsors) totaling US\$ 169 million were incurred against the budget of US\$ 484.8 million approved for the 2014–2015 Unified Budget, Results and Accountability Framework. This corresponds to a financial implementation rate of 34.9%.<sup>1</sup> The total expense and encumbrance for the implementation of the AIDS activities contained in the Unified Budget, Results and Accountability Framework were distributed as follows:
- US\$ 87.3 million was transferred to Cosponsors; and
  - US\$ 39 million was expended and US\$ 42.7 million encumbered for Secretariat activities and staff costs.
7. Table 3 provides details on the 2014–2015 Unified Budget, Results and Accountability Framework approved allocations, expense and encumbrance, broken down by the strategic directions and functions for the period 1 January 2014 to 31 March 2014.

Table 3

**2014–2015 Unified Budget, Results and Accountability Framework approved allocations, expense and encumbrances for the period 1 January 2014 to 31 March 2014**  
(in US dollars)

Strategic Directions and Functions	2014-2015 Approved allocations	Expense	Encumbrance <sup>a/</sup>	Total	Balance	Percentage implementation
	(a)	(b)	(c)	(d) = (b + c)	(e) = (a-d)	(f) = (d / a)
1 Revolutionize HIV prevention	79 102 000	39 551 000		39 551 000	39 551 000	50.0%
2 Catalyze the next phase of treatment, care and support	47 539 000	23 769 500		23 769 500	23 769 500	50.0%
3 Advance human rights and gender	37 885 000	18 942 500		18 942 500	18 942 500	50.0%
4 Leadership and advocacy	131 642 000	14 918 135	14 706 771	29 624 906	102 017 094	22.5%
5 Coordination, coherence and partnerships	105 118 000	19 018 331	17 147 892	36 166 223	68 951 777	34.4%
6 Mutual accountability	83 534 000	10 146 178	10 807 464	20 953 642	62 580 358	25.1%
<b>Total</b>	<b>484 820 000</b>	<b>126 345 644</b>	<b>42 662 127</b>	<b>169 007 771</b>	<b>315 812 229</b>	<b>34.9%</b>

a/ Encumbrance equals a firm commitment for goods and/or services that have not yet been delivered

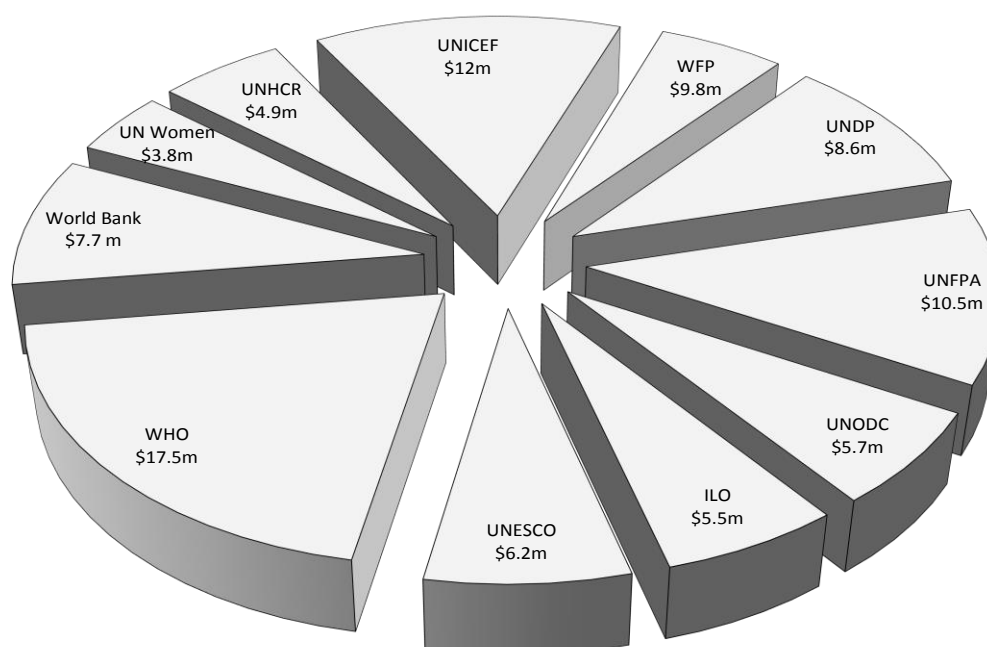
#### i) Funds transferred to Cosponsors

8. As at 31 March 2014, a total amount of US\$ 87.3 million has been transferred to the Cosponsors. This represents 50% of the Cosponsors' share under the 2014–2015 Unified Budget, Results and Accountability Framework. Figure 1 provides information on the proportion of funds transferred to each individual Cosponsor.

<sup>1</sup> Encumbrance equals a firm commitment for goods and/or services that have not yet been delivered.

Figure 1

**Cosponsors' share of funds transferred as at 31 March 2014**



**ii) Funds expended and encumbered against the Secretariat budget**

9. During the period under review, a total of US\$ 39 million was expended, and US\$ 42.7 million was encumbered against the Secretariat biennium budget of US\$ 310.2 million. Together, this represents a financial implementation rate of 26.3% of the Secretariat portion of the 2014–2015 Unified Budget, Results and Accountability Framework.
10. Table 4 provides details on the Secretariat portion of the 2014–2015 Unified Budget, Results and Accountability Framework approved allocations, expense and encumbrance, broken down by the three strategic functions for the period 1 January 2014 to 31 March 2014.

Table 4

**2014–2015 Unified Budget, Results and Accountability Framework approved allocations, expense and encumbrances for the period 1 January 2014 to 31 March 2014 (in US dollars)**

Strategic Functions	2014-2015 Approved allocations	Expense	Encumbrance <sup>a/</sup>	Total	Balance	Percentage implementation
	(a)	(b)	(c)	(d) = (b + c)	(e) = (a - d)	(f) = (d / a)
Leadership and advocacy	128 480 000	13 337 135	14 706 771	28 043 906	100 436 094	21.8%
Coordination, coherence and partnerships	99 020 000	15 969 331	17 147 892	33 117 223	65 902 777	33.4%
Mutual accountability	82 720 000	9 739 178	10 807 464	20 546 642	62 173 358	24.8%
<b>Total</b>	<b>310 220 000</b>	<b>39 045 644</b>	<b>42 662 127</b>	<b>81 707 771</b>	<b>228 512 229</b>	<b>26.3%</b>

a/ Encumbrance equals a firm commitment for goods and/or services that have not yet been delivered

#### IV. Fund balance

11. As at 31 December 2013, the net fund balance of the Unified Budget, Results and Accountability Framework stood at US\$ 140.2 million (or 28.9% of the biennial budget). This is within the approved level of 35% (or US\$ 170 million) of the biennial budget that was approved by the Programme Coordinating Board in June 2010. It also represents a reduction of US\$ 14.6 million when compared to the net fund balance of US\$ 154.8 million (or 32% of the biennial budget) as at 31 December 2012.
12. The reduction in the Unified Budget, Results and Accountability Framework fund balance is due to the lower income received during 2013, the high implementation rate during 2013, the partial funding of staff-related liabilities and the annual replenishment of the building renovation fund. All these factors resulted in a net fund balance of US\$ 140.2 million.
13. It should be noted that the Unified Budget, Results and Accountability Framework fund balance available at the start of each year is the Joint Programme's working capital. This enables the Joint Programme to operate without interruption, including allocating funding to Cosponsors. Accordingly, the fund balance is monitored to ensure it is maintained at a level that guarantees the continued smooth implementation of the Joint Programme.

#### V. Staff-related liabilities

14. UNAIDS staff-related liabilities are determined by professional actuaries. As per the actuarial studies as at 31 December 2013, the total staff-related liabilities amounted to US\$ 109.2 million (US\$ 98 million as at 31 December 2012). Of this amount, US\$ 80.6 million is funded; the remaining balance of US\$ 28.6 million was unfunded (as detailed in *Table 5* below).

*Table 5*

**Staff-related liabilities as at 31 December 2013** (in millions of US dollars)

	Actuarial requirement end 2013	Accrued end 2013				Under provision
		Funded	Appropriation from UBRAF in 2012	Appropriation from UBRAF in 2013	Total Accrued	
After Service Health Insurance (ASHI)	85.8	42.0	13.9	5.0	60.9	(24.9)
Annual leave	8.9	4.4	2.2	0.4	7.0	(1.9)
Terminal payments	13.6	7.8	3.9	0.8	12.5	(1.1)
Special account for compensation	0.9	-	-	0.2	0.2	(0.7)
<b>Total</b>	<b>109.2</b>	<b>54.2</b>	<b>20.0</b>	<b>6.4</b>	<b>80.6</b>	<b>(28.6)</b>

15. At its 30<sup>th</sup> meeting (held in June 2012), the Programme Coordinating Board endorsed the Executive Director's recommendation to fully fund the organizational staff-related liabilities from the fund balance. It also approved the funding of an initial amount of US\$ 20 million, with the shortfall to be covered from the fund balance over a period of five years or less, subject to availability of funds.
16. In line with the Programme Coordinating Board's approval to fund the remaining shortfall under the staff-related liabilities, in 2013, the Executive Director authorized the transfer of a total of US\$ 6.4 million from the fund balance to partially fund the staff-related liabilities. The Programme Coordinating Board took note of the Executive Director's decision during its 32<sup>nd</sup> meeting (held in June 2013).



17. As of 31 December 2013, the fund balance is within the level approved by the Programme Coordinating Board, and it is in line with the Programme Coordinating Board's approval to fund the remaining shortfall under the staff-related liabilities. Having considered this, the Executive Director has decided to put aside the funding in 2014 of US\$ 7.2 million from the fund balance for this purpose. This corresponds to 25% of the unfunded staff-related liabilities.

## **VI. Building Renovation Fund**

18. At its 30<sup>th</sup> meeting in June 2012, the Programme Coordinating Board endorsed the Executive Director's recommendation to establish a Building Renovation Fund. It also approved the annual replenishment of the fund for an amount equivalent to the accumulated depreciation of the UNAIDS building (or such other amount as might be determined by the Programme Coordinating Board).
19. In line with the Programme Coordinating Board's approval that the Fund be replenished on an annual basis out of the fund balance for the accumulated depreciations of the UNAIDS building, the Executive Director has decided to put aside the funding in 2014 of US\$ 0.43 million from the Unified Budget, Results and Accountability Framework fund balance for this purpose.

[Annex follows]



May 2014

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## Report of the Internal Auditor for 2013

1. The Office of Internal Oversight Services (IOS) transmits herewith its report for the year 2013 for the information of the Programme Coordinating Board (PCB) of the Joint United Nations Programme on HIV/AIDS (UNAIDS).

### OBJECTIVE AND SCOPE

2. IOS provides an independent and objective assurance and advisory activity, which is designed to add value to and improve the operations of UNAIDS. Using a systematic and disciplined approach, it helps UNAIDS accomplish its objectives by evaluating and improving the effectiveness of processes for risk management, control and governance. IOS is authorized full, free and prompt access to all records, property, personnel, operations and functions within UNAIDS which, in its opinion, are relevant to the subject matter under review. No limitation was placed on the scope of the work of IOS during 2013; however, the assigned Senior Auditor left the organization in January 2013 and as a result, only one audit was conducted and completed in 2013, while the audit of the Country Office in Ukraine was in progress and will be reported under the next reporting period.
3. The scope of work was to evaluate whether the network of processes for risk management, control and governance, as designed and implemented by UNAIDS management, was adequate and functioning in a manner so as to fulfill specific purposes. These were to ensure that: (a) significant financial, managerial and operating information was accurate, reliable and timely; (b) staff actions complied with UNAIDS and WHO regulations, rules, policies, standards and procedures; and (c) resources were acquired economically, used efficiently, and protected adequately.

## OVERSIGHT FRAMEWORK

4. IOS provides oversight services to UNAIDS in accordance with the Memorandum of Understanding of 9 January 2008 between IOS and UNAIDS.

## METHODOLOGY

5. IOS views risk as the possibility of an event occurring that will influence the achievement of objectives. It assesses risk in terms of degree of impact and likelihood of occurrence. In order to ensure that its available resources are focused on the areas of highest risk, IOS uses a risk assessment model. This model supports professional judgments made in the prioritization of the annual plan of work. The model has three basic components: (i) the audit universe drawn from the Enterprise Resource Planning (ERP) database (WHO Global Management System (GSM) database); (ii) a set of weighted risk parameters which are applied consistently to obtain a relative risk ranking; and (iii) a further screening against specific risk factors. The process incorporates both subjective and objective measures - such as financial exposure, recent changes in staff or systems, and the internal control environment - which determines the relative risk of the auditable areas.
6. The results of the updated audit risk assessment had been discussed with UNAIDS management and a programme of work had been drawn up for the year 2013; however, the incumbent Senior Auditor left the Organization in January and the replacement came on board during the fourth quarter of the year.
7. The main issues from the report issued in 2013 are summarized hereafter.

## AUDITS

### Country Offices

8. The objective of audits of UNAIDS Country Offices (UCOs) is to review the effectiveness of internal controls with regard to: (a) reliability of financial and operational information; (b) efficiency of operations; (c) compliance with rules and regulations; and (d) safeguarding of assets. These audits are carried out through interviews, observation, documentation review and analysis.
9. Until 1 January 2012, the United Nations Development Programme (UNDP) provided all administrative and support services to the majority of UCOs. As such, all local financial and human resource activities were administered in accordance with UNDP rules and regulations. Under the single audit principle, IOS relied on the UNDP internal auditors who were fully responsible for the verification of the controls and checks put in place locally by UNDP for UNAIDS funds. As a mitigating measure, evidence was obtained through interviews (of both UNAIDS and UNDP staff) and was limited to documentation provided by UCOs. Since 1 January 2012, all UCOs use the ERP system provided by WHO. However, UNDP administrative and support services are still in use to process payments on behalf of UNAIDS in a few Latin America and Caribbean countries. This is not only because there is no WHO support, but also due to the fact that the WHO Global Service Centre cannot effect payments via standard electronic methods due to local monetary controls.
10. **Country Office in Guatemala** (Audit Report No. 13/930). Overall, the controls at UCO/Guatemala appeared to be operating satisfactorily. However, attention should be paid to (a) the continued practice of using long-expired donor agreement funds and defunct fund balances with UNDP to finance current activities; and (b) the continued practice of employing long-term personnel within the UCO, which is outside the ERP Human Resource Plan. These control deficiencies need to be rectified as soon as possible.
11. Other areas where the audit found control deficiencies include cash expenditure, where cash ceilings should be adjusted and an appropriate segregation of duties implemented to mitigate the risk of having conflicting duties being performed by one individual.

12. Improvement opportunities were identified in the area of leave and absence recording and budget implementation monitoring, where staff would benefit from appropriate training from the Regional Support Team (RST) to use the modules in ERP efficiently.

### **Investigations**

No investigations were carried out in 2013.

### **FOLLOW-UP AND IMPLEMENTATION**

13. IOS monitors the implementation of all its recommendations to ensure either that action has been taken effectively by management or that senior management has accepted the risk of not taking action. Reporting on and monitoring of each individual audit recommendation is performed with the assistance of a recommendation-tracking database maintained by IOS. Audit recommendations are categorized by risk category and significance. A summary of the status of implementation of UNAIDS audit recommendations will be presented to the 34<sup>th</sup> meeting of the PCB. IOS noted that responsiveness from the UCOs and RSTs on the implementation of IOS recommendations was satisfactory while UNAIDS headquarters (HQ) audits had made little progress for a long period. For instance, for the audit of recruitment (Audit Report No. 11/857) and procurement at UNAIDS/HQ (Audit Report No. 10/848), recommendations have not been fully implemented since 2011, and for the audit of telephone expenses at UNAIDS/HQ (Audit Report No. 12/895), the initial response was only received in April 2014. One audit report (UCO/Guatemala) requires a response by May 2014 and therefore is not overdue yet.

### **MAIN OPERATIONAL RISKS AND OPPORTUNITIES FACING UNAIDS AND WORK PROGRAMME**

14. There are systematic issues that apply to a number of UCO operations which need to be addressed:
- (a) Recording of cash refunds: Currently, UNDP has no universal policy on the accounting for cash refunds (applicable in countries where WHO is not providing administrative support to UNAIDS). Refunds may arise from different sources, such as recovery of non-staff travel per diem expenses and of private telephone charges, as well as returns from local suppliers. The absence of a refund accounting policy gives rise to an inherent risk of loss of funds for UNAIDS.
  - (b) The format of the petty cash reconciliation template does not facilitate follow-up in a comprehensible manner of the different components (opening balance, receipts, expenditure, closing balances, and their relation to the cash count certificate).
  - (c) The float is established in US Dollars and the expenditure is recorded in local currency; however, the reconciliation process does not take into account exchange rate differences.
15. UNAIDS asserts that mitigating measures have been taken to mitigate these risks. IOS will perform an audit of petty cash and imprest in 2014 in order to verify whether these issues have been appropriately addressed.
16. Another issue requiring prompt action by UNAIDS management is the poor implementation rate of recommendations relating to UNAIDS/HQ audits, in particular in relation to Audit Report No. 11/857 on recruitment and Audit Report No. 10/848 on telephone expenses.
17. A major challenge facing any entity with decentralized control environment is the issue of delegated accountability. UNAIDS has implemented mitigating factors such as internal controls and checks at HQ and the RSTs, as well as the iTrack tool in order to enforce compliance with UNAIDS financial rules and regulations. However, the effectiveness of this process must be strictly monitored.

### **ACTION BY THE PROGRAMME COORDINATING BOARD**

18. The Programme Coordinating Board is invited to note the report.

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