

# **FINANCIAL REPORTING**

## **FINANCIAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

**Additional documents for this item:** Interim Financial Management Update for the period 1 January 2016 to 31 March 2017 (UNAIDS/PCB(40)/17.8).

**Action required at this meeting – the Programme Coordinating Board is invited to:**  
*Accept* the financial report and audited financial statements for the year ended 31 December 2016

**Cost implications for decisions:** none

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## PART I

### INTRODUCTION

1. In accordance with the Programme Coordinating Board Modus Operandi, Function 5 (vi) of the Joint United Nations Programme on HIV/AIDS, the UNAIDS Secretariat is submitting the financial report for the year ended 31 December 2016 to the Programme Coordinating Board (PCB) for review, as per established procedures which require the Board to review the financial report of the Programme.
2. The Financial Statements, Accounting Policies, and Notes to the Financial Statements have been prepared in compliance with the International Public Sector Accounting Standards (IPSAS) and in accordance with the Financial Regulations and Rules of the World Health Organization (WHO).
3. This is the fifth year that UNAIDS financial statements have been prepared based on IPSAS, which continues to enhance transparency, increase accountability and improve the financial reporting of UNAIDS.
4. The implementation of IPSAS does not currently impact the preparation of the Unified Budget, Results and Accountability Framework (UBRAF), which continues to be prepared on a modified cash basis. As this basis differs from the accrual basis applied to the financial statements, reconciliation between the budget and the principal financial statements is provided in accordance with the requirements of IPSAS.
5. Highlights of revenue, expense, net assets/equity, assets and liabilities of the Programme are supplied, as is information on cash flow, liquidity and equity. This is done to provide a complete picture of the financial position of UNAIDS, as at 31 December 2016.

#### **Approved budget and work plan**

6. The 2016–2021 UBRAF is the Joint Programme's instrument to operationalize the UNAIDS Strategy for 2016–2021, which the PCB adopted at its 37<sup>th</sup> meeting in October 2015. It aims to advance progress towards reaching UNAIDS' long-term vision of zero new HIV infections, zero discrimination, zero AIDS-related deaths.
7. At its 37<sup>th</sup> meeting in October 2015, the Board approved the 2016–2021 UBRAF with a core budget of US\$ 484.8 million for the 2016–2017 biennium (the same level as for the previous four biennia), and distribution of US\$ 310.2 million (to be managed by the Secretariat) and US\$ 174.6 million (to be allocated among the 11 Cosponsors). The Board also requested the submission of a revised and more prioritized UBRAF for approval at its 38<sup>th</sup> meeting.
8. At its 38<sup>th</sup> meeting in June 2016, the PCB approved the final, prioritized and more detailed 2016–2021 UBRAF based on the recommendations of the PCB working group regarding the development of the 2016–2021 UBRAF.

#### **Revenue**

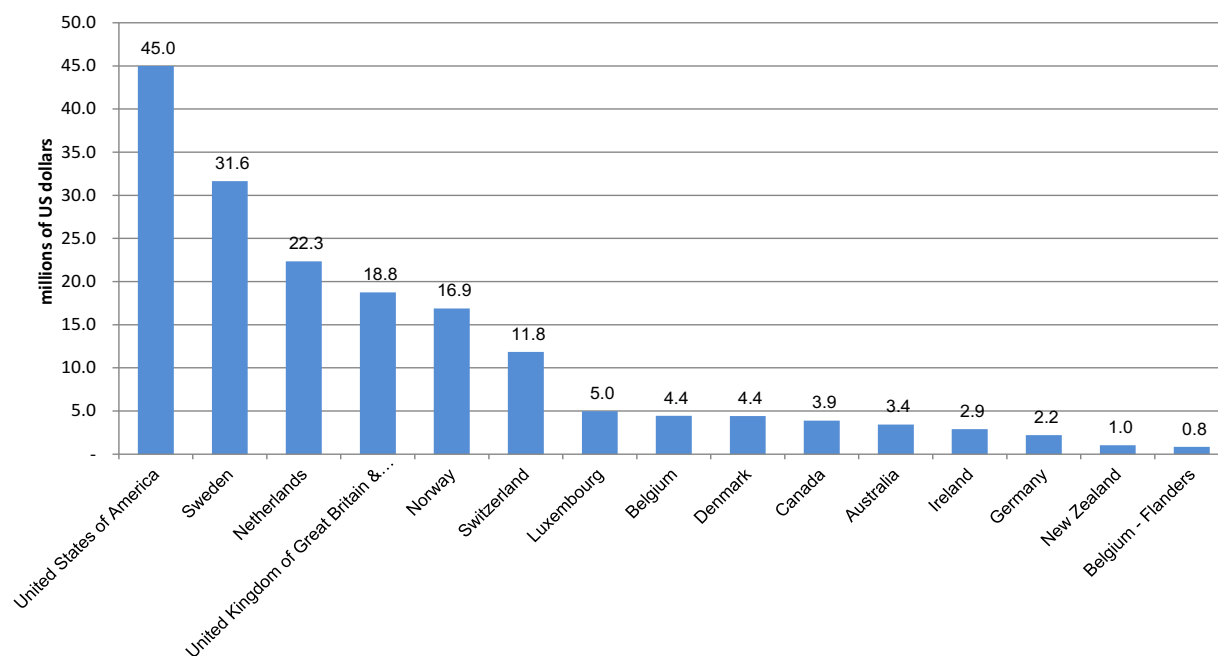
9. Total revenue for the year ended 2016 was US\$ 229.6 million for both core and non-core funds. Of this amount, US\$ 180.4 million was made available towards the UBRAF and US\$ 49.2 million to non-core funds. Of the non-core funds, US\$ 48.3 million was made available to UNAIDS for specific countries or purposes, and the balance of US\$ 0.9 million represented interest and actuarial gains under the Terminal Payments Fund. Table 1 provides details of revenue for 2016 and 2015.

**Table 1. Details of revenue: all funds (in US dollars)**

Revenue	2016			Total 2015
	UBRAF Core Funds	Non-Core Funds	TOTAL	
Governments	177 148 681	39 085 099	216 233 780	210 834 890
Cosponsoring organizations	-	905 681	905 681	2 670 135
Others	445 244	8 006 233	8 451 477	5 879 215
Finance revenue	2 784 217	1 213 295	3 997 512	6 512 021
<b>Grand Total</b>	<b>180 378 142</b>	<b>49 210 308</b>	<b>229 588 450</b>	<b>225 896 261</b>

10. As summarized in Table 1, revenue totaling US\$ 180.4 million was mobilized and made available towards the UBRAF. This represented 75% of the Secretariat resource mobilization target of US\$ 242.4 million for the year 2016 (compared to US\$ 200.9 million or 83% in 2015 and US\$ 232.8 million or 96% in 2014), which resulted in a shortfall of US\$ 62 million against the PCB-approved budget. The 2016 shortfall of US\$ 62 million is higher than the US\$ 42 million and US\$ 9.6 million shortfall in 2015 and 2014, respectively. Figure 1 (below) provides details of revenue received from UNAIDS main donors towards the UBRAF for the year 2016.

**Figure 1. Details of revenue received from main donors towards the Unified Budget, Results and Accountability Framework for the year 2016 (in millions of US dollars)**



## Expense

11. Total expense for the year ended 31 December 2016 amounted to US\$ 227.0 million, of which US\$ 179.8 million related to expenses against the UBRAF for 2016–2017 and US\$ 40.5 million represented expenses under the non-core funds. Of the total amount of US\$ 227.0 million, US\$ 3.1 million related to prior period expenses and US\$ 3.6 million represented finance costs. Table 2 provides details of expense by fund type for 2016 and 2015.

**Table 2. Details of expense: all funds (in US dollars)**

Expense	2016			Total 2015
	UBRAF Core Funds	Non-Core Funds	TOTAL	
2016	179 784 789	40 482 468	220 267 257	289 001 844
Finance costs	1 847 828	1 712 130	3 559 958	4 934 963
<b>Total 2016</b>	<b>181 632 617</b>	<b>42 194 598</b>	<b>223 827 215</b>	<b>293 936 807</b>
Prior period expense	1 452 334	1 700 041	3 152 375	-
<b>Grand Total</b>	<b>183 084 951</b>	<b>43 894 639</b>	<b>226 979 590</b>	<b>293 936 807</b>

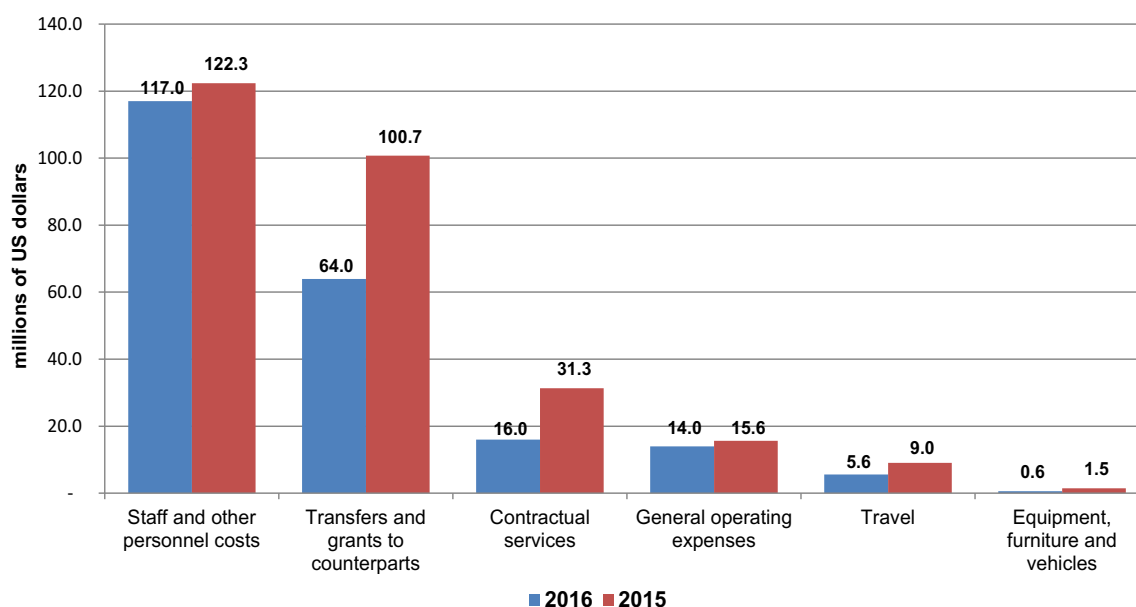
12. In view of the significant shortfall in revenue for the Joint Programme that was projected in 2016, and pursuant to decision 6.8 of the 37<sup>th</sup> PCB to ensure a sufficiently funded Secretariat from the core UBRAF, 50% of the envisaged core UBRAF allocation for 2016 was provided to the Cosponsors (US\$ 43.7 million against US\$ 87.3 million in the approved budget). Meanwhile, the Secretariat core funding for 2016 was reduced by 10% of the approved UBRAF (i.e. a reduction of US\$ 15 million to US\$ 140 million against US\$ 155 million in the approved budget).
13. In 2016, the Secretariat embarked on an exercise to reposition itself for maximum impact, with an organizational design that reflects a coherent structure, cost-effective and efficient systems and business processes, and strong internal capacity to provide quality support. Through the repositioning and together with initiatives and measures put in place to reduce costs and increase cost-effectiveness and efficiency the Secretariat achieved its target of reducing its approved share of the UBRAF expense by 10% or US\$ 15 million (i.e. to US\$ 140 million against US\$ 155 million in the approved budget).
14. In addition, the total 2016 expense of US\$ 227.0 million represented a reduction of US\$ 67.0 million or 23% compared to the total expense for the year ended 2015 which amounted to US\$ 293.9 million. This is reflected in Table 3 and Figure 2 (below), which also show a reduction of costs under the main major expense categories (when compared to 2015).

**Table 3. Details of expense by category (in US dollars)**

Expense	2016	2015
Staff and other personnel costs <sup>a/</sup>	117 013 794	122 345 371
Transfers and grants to counterparts	63 950 707	100 725 613
Contractual services	15 965 227	31 324 307
General operating expenses	13 958 955	15 622 990
Travel	5 574 217	9 035 129
Equipment, furniture and vehicles	561 633	1 472 388
<b>Sub-total</b>	<b>217 024 533</b>	<b>280 525 798</b>
Depreciation	706 534	705 153
Finance costs	3 559 958	4 934 963
ASHI and Terminal Payment (actuarial valuations)	5 688 565	7 770 893
<b>Total Expense</b>	<b>226 979 590</b>	<b>293 936 807</b>

<sup>a/</sup> **Excludes** US\$ 5.7 million for 2016 and US\$7.8 million for 2015 related to expense against the Staff Health Insurance and Terminal Payment Fund due to movement in the actuarial liability.

**Figure 2. Details of expense by major category for year 2016 and 2015 (in millions of US dollars)**





## Fund balance

15. The nature of UNAIDS as a voluntary funded programme requires a fund balance that serves as working capital to initiate and implement activities pending receipt of firm pledges/contributions. To ensure continuity of activities from one year to the next, including the transfer of funds to Cosponsors, a sufficient fund balance at the end of each year is necessary to ensure the smooth start up and implementation of the UBRAF in the following year/biennium.
16. At its 26<sup>th</sup> meeting, held in Geneva from 22–24 June 2010, the PCB approved a maximum level for the UBRAF net fund balance equivalent to 35% (i.e. US\$ 170.0 million) of the UNAIDS biennial budget. Furthermore, at its 36<sup>th</sup> meeting, held in Geneva from 30 June to 2 July 2015, the Board approved the minimum level for UNAIDS net fund balance equivalent to 22% (i.e. US\$ 107 million) of the UNAIDS biennial budget.
17. As of 31 December 2016, the net fund balance of the UBRAF stood at US\$ 79.8 million or 16.5% of the biennial budget<sup>1</sup> (compared to US\$ 82.6 million or 17% as at 31 December 2015). This is below the approved minimum level of 22% (or US\$ 107 million) of the biennial budget as approved by the Board in June 2015.
18. Although the net fund balance of the UBRAF is lower than the approved minimum level, it should be noted that the Secretariat has managed to maintain the net fund balance at almost the same level as in 2015 despite difficult circumstances. This has been made possible through the initiatives and measures introduced to reduce costs and increase cost-effectiveness and efficiency, as well as through the repositioning exercise and the transfer of 50% of the Cosponsors' allocations for 2016.
19. As highlighted under paragraph 16, the fund balance of the UBRAF is the Joint Programme's working capital. It enables the transfer of funds to the Cosponsors at the beginning of each year and enables the Joint Programme to operate without interruption. However, given that the level of the fund balance as of 31 December 2016 remains below the minimum balance established by the PCB, the Secretariat will continue monitor the fund balance very closely and intensify the mobilization of resources to ensure the fund balance is maintained at a level that enables the effective implementation of the UBRAF.

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<sup>1</sup> In addition to the expense of US\$ 179.8 million in 2016 under the 2016–2017 UBRAF, US\$ 2.7 million was encumbered during 2016 (representing firm commitments of goods and services to be delivered in 2017). As a result, the net fund balance as at 31 December 2016 under the UBRAF to cover 2017 UBRAF activities was US\$ 79.8 million (US\$ 82.5 million less US\$ 2.7 million reserved for 2016 encumbrances).

## **PART II**

### **FINANCIAL STATEMENTS, SCHEDULES AND NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2016**

This section of the financial report presents the overall financial position of UNAIDS as of and for the year ended 31 December 2016. The relevant financial statements, accompanying notes and supporting schedules have been prepared in compliance with the requirements of the WHO Financial Regulations, Financial Rules and the International Public Sector Accounting Standards (IPSAS). The schedules provide background details and explanations in support of individual funds and accounts administered by UNAIDS, through the WHO financial systems, for the year ended 31 December 2016.

## Certification of Financial Statements

The financial statements, notes to the statements and supporting schedules are approved.



Joel Rehnstrom  
Director, Planning, Finance  
and Accountability



Michel Stalbé  
Executive Director  
UNAIDS

7 March 2017



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City, Philippines

**LETTER OF TRANSMITTAL**

**3 April 2017**

**Dear Sir/Madam,**

I have the honour to present to the Programme Coordinating Board, the External Auditor's report and opinion on the financial statements of the Joint United Nations Programme on HIV/AIDS (UNAIDS) for the financial year ended 31 December 2016.

**Yours sincerely,**

A handwritten signature in blue ink, appearing to read 'M. G. Aguinaldo', written over a faint blue circular stamp.

**Michael G. Aguinaldo**  
**Chairperson, Commission on Audit**  
**Republic of the Philippines**  
**External Auditor**

**The Chairman**  
Programme Coordinating Board  
Joint United Nations Programme on HIV/AIDS  
Geneva, Switzerland



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City, Philippines

## **INDEPENDENT AUDITOR'S REPORT**

**To the Programme Coordinating Board  
Joint United Nations Programme on HIV/AIDS (UNAIDS)**

### **Opinion**

We have audited the financial statements of the UNAIDS, which comprise the statement of financial position as at 31 December 2016, and the statement of financial performance, statement of changes in net assets/equity, statement of cash flow, and statement of comparison of budget and actual amounts for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the UNAIDS as at 31 December 2016, and its financial performance, changes in net assets/equity, cash flow, and comparison of budget and actual amounts for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS).

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the UNAIDS in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the financial report and audited financial statements for the year ended 31 December 2016, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the UNAIDS's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the UNAIDS or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the UNAIDS's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the UNAIDS's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



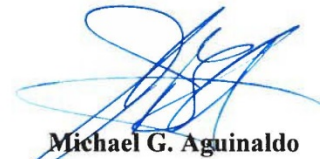
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the UNAIDS's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

#### **Report on Other Legal and Regulatory Requirements**

Further, in our opinion, the transactions of the UNAIDS that have come to our notice or which we have tested as part of our audit have, in all significant respects, been in accordance with the WHO Financial Regulations.

In accordance with Regulation XIV of the WHO Financial Regulations, we have also issued a long-form report on our audit of the UNAIDS.



**Michael G. Aguinaldo**  
**Chairperson, Commission on Audit**  
**Republic of the Philippines**  
**External Auditor**

**Quezon City, Philippines**  
**3 April 2017**

**Statement I**

**Statement of Financial Position**

**All sources of funds as at 31 December 2016**

(in US dollars)

	Note	31 December 2016	31 December 2015 (restated)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents held by WHO	4.1	153 686 718	143 987 301
Accounts receivable - current	4.2	78 770 496	64 977 892
Staff receivables	4.3	1 773 017	2 270 541
Prepayments	4.4	3 411 564	2 500 542
Other current receivables	4.5	16 105	33 010
<b>Total current assets</b>		<b>237 657 900</b>	<b>213 769 286</b>
<b>Non-current assets</b>			
Accounts receivable - non-current	4.2	32 577 400	3 045 815
Property, plant and equipment	4.6	21 837 096	22 338 229
<b>Total non-current assets</b>		<b>54 414 496</b>	<b>25 384 044</b>
<b>TOTAL ASSETS</b>		<b>292 072 396</b>	<b>239 153 330</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Contributions received in advance	4.7	97 666	3 985 937
Accounts payable	4.8	4 462 852	4 971 197
Staff payable	4.9	300 048	122 060
Accrued staff benefits - current	4.10	8 842 146	9 558 559
Deferred revenue - current	4.11	21 933 665	2 090 090
Long-term borrowings - current	4.12	583 415	-
<b>Total current liabilities</b>		<b>36 219 792</b>	<b>20 727 843</b>
<b>Non-current liabilities</b>			
Accrued staff benefits - non-current	4.10	63 642 278	60 699 610
Deferred revenue - non-current	4.11	32 520 416	2 988 831
Long-term borrowings - non-current	4.12	21 233 916	21 592 366
<b>Total non-current liabilities</b>		<b>117 396 610</b>	<b>85 280 807</b>
<b>TOTAL LIABILITIES</b>		<b>153 616 402</b>	<b>106 008 650</b>
<b>NET ASSETS/EQUITY</b>			
<b>Net assets/reserves</b>			
Operating Reserve Fund	4.13	35 000 000	35 000 000
Equity in capital assets	4.14	6 586 285	6 020 555
Common Fund		(10 647 411)	(8 763 033)
Non-restricted funds		82 490 168	85 626 977
Restricted funds		45 490 897	34 376 900
Building Renovation Fund	4.15	4 350 224	3 890 000
Staff Benefits		(24 554 122)	(20 497 314)
Non-payroll staff entitlements Fund		( 260 047)	(2 509 405)
<b>TOTAL NET ASSETS/EQUITY</b>		<b>138 455 994</b>	<b>133 144 680</b>
<b>TOTAL LIABILITIES AND NET ASSETS/EQUITY</b>		<b>292 072 396</b>	<b>239 153 330</b>

The statement of significant accounting policies and the accompanying notes form part of the financial statements.



**Statement II**  
**Statement of Financial Performance**  
**All sources of funds for the year ended 31 December 2016**  
(in US dollars)

	Notes	31 December 2016	31/12/2015 (restated)
<b>Revenue</b>			
Voluntary contributions	5.2		
Governments		216 233 780	210 834 890
Cosponsoring organizations		905 681	2 670 135
Others		8 451 477	5 879 215
Finance revenue	5.3	3 997 512	6 512 021
<b>Total revenue</b>		<b>229 588 450</b>	<b>225 896 261</b>
<b>Expense</b>	5.4		
Staff and other personnel costs		122 702 359	130 116 264
Transfers and grants to counterparts		63 950 707	100 725 613
Contractual services		15 965 227	31 324 307
General operating expenses		13 958 955	15 622 990
Travel		5 574 217	9 035 129
Equipment, vehicles and furniture		561 633	1 472 388
Depreciation		706 534	705 153
Finance costs		3 559 958	4 934 963
<b>Total expense</b>		<b>226 979 590</b>	<b>293 936 807</b>
<b>Total surplus/(deficit) for the year</b>		<b>2 608 860</b>	<b>(68 040 546)</b>

**Statement III**  
**Statement of Changes in Net Assets/Equity**  
**All sources of funds for the year ended 31 December 2016**  
(in US dollars)

	Notes	31 December 2016	2016 Movements	2016 Adjustments	31 December 2015 (restated)
<b>Net assets/reserves</b>	4.13				
<b>Operating Reserve Fund</b>	4.14	35 000 000			35 000 000
<b>Equity in capital assets</b>		4 458 270			4 458 270
Loan adjustments		2 128 015	565 730		1 562 285
<b>Total Equity in capital assets</b>		<b>6 586 285</b>	<b>565 730</b>	-	<b>6 020 555</b>
<b>Common Fund</b>					
Depreciation on property, plant and equipment		(5 419 526)	( 706 534)		(4 712 992)
Revaluation reserve		(5 227 885)	(1 177 844)		(4 050 041)
<b>Total Common Fund</b>		<b>(10 647 411)</b>	<b>(1 884 378)</b>	-	<b>(8 763 033)</b>
<b>Non-restricted funds</b>					
UBRAF Core unrestricted		82 490 168	(2 706 809)	( 430 000)	85 626 977
<b>Restricted funds</b>					
UBRAF Supplementary restricted		28 643 154	6 344 891		22 298 263
Extra-budgetary funds		16 847 743	1 769 106	3 000 000	12 078 637
<b>Total Restricted</b>		<b>45 490 897</b>	<b>8 113 997</b>	<b>3 000 000</b>	<b>34 376 900</b>
<b>Other Funds</b>					
Building Renovation Fund	4.15	4 350 224	30 224	430 000	3 890 000
<b>Staff Benefits Fund</b>					
Terminal Payments		2 703 745	2 049 526	(3 000 000)	3 654 219
Staff Health Insurance		(27 007 422)	(5 688 565)	2 381 318	(23 700 175)
Special Fund for Compensation		( 250 445)	( 120 223)	321 136	( 451 358)
<b>Total Staff Benefits Fund</b>		<b>(24 554 122)</b>	<b>(3 759 262)</b>	<b>( 297 546)</b>	<b>(20 497 314)</b>
<b>Non-payroll staff entitlements Fund</b>		( 260 047)	2 249 358		(2 509 405)
<b>Net assets/equity</b>		<b>138 455 994</b>	<b>2 608 860</b>	<b>2 702 454</b>	<b>133 144 680</b>

The statement of significant accounting policies and the accompanying notes form part of the financial statements.

**Statement IV**  
**Statement of Cash Flow**  
**All sources of funds for the year ended 31 December 2016**  
(in US dollars)

	<u>2016</u>	<u>2015 (restated)</u>
<b>Cash flows from operating activities</b>		
Surplus/(deficit) for the year	2 608 860	(68 040 546)
Depreciation	706 534	705 153
(Increase)/decrease in accounts receivables - current	(13 792 604)	32 264 563
(Increase)/decrease in accounts receivables - non-current	(29 531 585)	(2 710 618)
(Increase)/decrease in staff receivables	497 524	( 303 200)
(Increase)/decrease in prepayments	( 911 022)	7 550 604
(Increase)/decrease in other current receivables	16 905	-
Increase/(decrease) in contributions received in advance	(3 888 271)	3 985 937
Increase/(decrease) in accounts payables	( 508 345)	976 521
Increase/(decrease) in staff payables	177 988	( 156 648)
Increase/(decrease) in accrued staff benefits - current	( 716 413)	( 7 494)
Increase/(decrease) in deferred revenue - current	19 843 575	(25 878 019)
Increase/(decrease) in deferred revenue - non-current	29 531 585	2 653 634
Increase/(decrease) in accrued staff benefits - non-current	2 942 668	8 287 145
Increase/(decrease) in other current liabilities	-	( 17 127)
<i>Net cash flow from operating activities</i>	<u>6 977 399</u>	<u>(40 690 095)</u>
<b>Cash flows from investing activities</b>		
(Increase)/decrease in purchase of property, plant and equipment	( 205 401)	( 139 477)
<i>Net cash flow from investing activities</i>	<u>( 205 401)</u>	<u>( 139 477)</u>
<b>Cash flows from financing activities</b>		
Increase/(decrease) in long-term borrowings - current	583 415	-
Increase/(decrease) in long-term borrowings -non-current	( 358 450)	( 78 863)
Direct adjustments to net assets/equity	2 702 454	-
<i>Net cash flow from financing activities</i>	<u>2 927 419</u>	<u>( 78 863)</u>
<b>Net Increase/(decrease) in cash and cash equivalents</b>	<u>9 699 417</u>	<u>(40 908 435)</u>
<b>Cash and cash equivalents at beginning of year</b>	<u>143 987 301</u>	<u>184 895 736</u>
<b>Cash and cash equivalents at end of year</b>	<u>153 686 718</u>	<u>143 987 301</u>

The statement of significant accounting policies and the accompanying notes form part of the financial statements.

**Statement V**

**Statement of Comparison of Budget and Actual Amount  
2016-2017 Unified Budget, Results and Accountability Framework  
for the period ended 31 December 2016**

(in US dollars)

	2016-2017 Approved core budget	Expense	Balance	Percentage implementation
	(a)	(b)	(c) = (a-b)	(d) = (b / a)
<b>I. Result Areas</b>				
1 HIV testing and treatment	51 245 000	12 726 485	38 518 515	24.8%
2 Elimination of Mother To Child Transmission	9 260 000	2 314 800	6 945 200	25.0%
3 HIV prevention among young people	27 410 000	6 897 538	20 512 462	25.2%
4 HIV prevention among key populations	26 802 000	6 932 210	19 869 790	25.9%
5 Gender inequality and GBV	18 214 000	4 494 997	13 719 003	24.7%
6 Human rights, stigma and discrimination	13 054 000	3 260 338	9 793 662	25.0%
7 Investment and efficiency	10 906 000	2 726 486	8 179 514	25.0%
8 HIV and health services integration	17 709 000	4 297 146	13 411 854	24.3%
<b>Total Cosponsors</b>	<b>174 600 000</b>	<b>43 650 000</b>	<b>130 950 000</b>	<b>25.0%</b>
<b>II. Core Functions</b>				
1 Leadership, advocacy and communication	84 218 000	37 525 668	46 692 332	44.6%
2 Partnerships, mobilization and innovation	54 216 000	21 708 426	32 507 574	40.0%
3 Strategic information	47 088 000	20 647 359	26 440 641	43.8%
4 Coordination, convening & country implementation support	57 140 000	24 455 913	32 684 087	42.8%
5 Governance and mutual accountability	67 558 000	32 775 644	34 782 356	48.5%
<b>Total Secretariat</b>	<b>310 220 000</b>	<b>137 113 010</b>	<b>173 106 990</b>	<b>44.2%</b>
<b>Grand Total</b>	<b>484 820 000</b>	<b>180 763 010</b>	<b>304 056 990</b>	<b>37.3%</b>

**Basis differences**

Capitalization of assets	( 205 401)
Loan repayment	( 565 730)

**Total basis differences** ( 771 131)

**Timing differences**

Expenses incurred in prior period against all funds	<b>3 152 375</b>
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**Entity differences**

Expenses under other funds	<b>43 835 336</b>
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**Total expense as per the Statement of Financial Performance (Statement II)** 226 979 590

The statement of significant accounting policies and the accompanying notes form part of the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. STATEMENT OF OBJECTIVES

The Joint United Nations Programme on HIV/AIDS (UNAIDS) was established through the Economic and Social Council (ECOSOC) resolution 1994/24 of 26 July 1994 to “undertake a joint and co-sponsored United Nations Programme on HIV/AIDS on the basis of co-ownership, collaborative planning and execution, and an equitable sharing of responsibility”. UNAIDS currently consists of 11 United Nations organizations, referred to as Cosponsors.<sup>2</sup>

The Programme is headed by an Executive Director, appointed by the UN Secretary-General upon the recommendation of the Cosponsors, who reports to the PCB, which serves as the governing board of the Programme.

The objectives of UNAIDS are contained in the Memorandum of Understanding among Cosponsors establishing UNAIDS and in the ECOSOC resolutions 1994/24 and 1995/2.

The objectives of UNAIDS were further refined and updated in UNAIDS new vision and mission statement which were endorsed by the UNAIDS PCB at its 26<sup>th</sup> meeting, held in Geneva, on 22–24 June 2010. These are:

- **Uniting efforts** of the UN, civil society, governments, the private sector, global institutions and people living with and most affected by HIV;
- **Speaking out in solidarity** with the people most affected by HIV in defence of human dignity, human rights and gender equality;
- **Mobilizing resources** (political, technical, scientific and financial) and holding ourselves and others accountable for results;
- **Empowering agents of change** with strategic information and evidence to influence and ensuring that resources are targeted where they deliver the greatest impact;
- **Supporting inclusive country leadership** for sustainable responses that are integral to and integrated with national health and development efforts.

### 2. BASIS OF PREPARATION AND PRESENTATION

The accounts of UNAIDS are maintained in accordance with the Financial Regulations and Financial Rules of WHO, which provides administration in support of UNAIDS as per ECOSOC resolution 1994/24, and Article XI of the Memorandum of Understanding among Cosponsors establishing UNAIDS. The accounting policies and financial reporting practices applied by UNAIDS are therefore based upon the WHO Financial Regulations and Financial Rules.

The financial statements have been prepared on an accrual and going concern basis and in accordance with the requirements of International Public Sector Accounting Standards (IPSAS) using the historical cost convention. Where an IPSAS Standard is silent concerning any specific standard, the appropriate International Financial Reporting Standard (IFRS) has been applied.

#### **Functional currency and translation of foreign currencies**

The functional and reporting currency of the Programme is the United States dollar (US\$).

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<sup>2</sup> When UNAIDS was established in 1994, the Joint Programme consisted of 6 UN system organizations: UNDP, UNICEF, UNFPA, WHO, UNESCO and the World Bank. Since then, a further 5 UN agencies have become UNAIDS Cosponsors: UNODC, ILO, WFP, UNHCR and UN Women.

The foreign currency transactions are translated into United States dollars at the prevailing United Nations Operational Rate of Exchange, which approximates to the exchange rates on the dates of the transactions. The Operational Rates of Exchange are set once a month and are revised mid-month if there are significant exchange rate fluctuations relating to individual currencies.

Assets and liabilities in currencies other than United States dollars are translated into United States dollars at the prevailing United Nations Operational Rates of Exchange year-end closing rate. Resulting gains or losses are accounted for in the Statement of Financial Performance.

### **Materiality and the use of judgements and estimates**

Materiality is central for the preparation of UNAIDS financial statements. The process for reviewing accounting materiality provides a systematic approach to the identification, analysis, evaluation, endorsement and periodic review of decisions involving the materiality of information spread over numerous areas of accounting.

The financial statements include amounts based on judgement, estimates and assumptions by the management. Changes in estimates are reflected in the period they become known. Estimates include, but are not limited to, defined benefit medical insurance and other post-employment benefit obligations (the value of which is calculated by an independent actuary); financial risk on accounts receivable accrued charges and the degree of impairment of fixed assets. Actual results could differ from these estimates.

### **Financial Statements**

In accordance with IPSAS 1, a complete set of financial statements have been prepared as follows:

- Statement of Financial Position;
- Statement of Financial Performance;
- Statement of Changes in Net Assets/Equity;
- Statement of Cash Flow;
- Statement of Comparison of Budget and Actual Amounts; and
- Notes to the financial statements, comprising a summary of significant accounting policies and other relevant information.

The accounting policies set out below have been consistently applied in the preparation of the financial statements throughout the period.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

### **3.1 Cash and cash equivalents held by WHO on behalf of UNAIDS**

Cash and cash equivalents held by WHO include cash on hand, deposits in transit, cash in bank and balances held by WHO on behalf of UNAIDS. These balances are held centrally by WHO and invested on behalf of UNAIDS in accordance with WHO's rules and practices. UNAIDS has adopted the disclosure notes of WHO to reflect the accounting policies for investments.

Financial instruments are recognized when WHO/UNAIDS becomes a party to the contractual provisions of the instrument until such time when the rights to receive cash flows from those assets have expired or have been transferred and WHO/UNAIDS has substantially transferred all the risks and rewards of ownership. Investments can be classified as financial assets or financial liabilities at fair value through surplus or deficit, held-to-maturity, available for sale and bank deposits and other receivables. All purchases and sales of investments are recognized on the basis of their trade date.

Financial assets or financial liabilities at fair value through surplus or deficit are financial instruments that meet either of the following conditions: (i) they are held for trading; or (ii) they are designated by the entity upon initial recognition at fair value through surplus or deficit. Financial instruments that belong to this category are measured at fair value and any gains and losses arising from changes in the fair value are accounted for through surplus or deficit and are included in the Statement of Financial Performance of WHO/UNAIDS in the period in which they arise. All derivative instruments, such as swaps, currency forward contracts and options are classified as held for trading except for designate and effective hedging instruments defined under IPSAS 29. Financial assets in the externally managed portfolios designated upon initial recognition as at fair value through surplus or deficit, are classified as current assets or non-current assets according to the time horizon of the investment objectives of each portfolio. If the time horizon is less than or equal to one year, they are classified as current assets.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that WHO has both the intention and ability to hold to maturity. Held-to-maturity investments are stated at amortized cost using the effective interest rate method, with interest revenue being recognized on an effective yield basis in the Statement of Financial Performance.

Available-for-sale investments are classified as being available-for-sale where WHO has not designated them either as held for trading or as held-to-maturity. Available-for-sale items are stated at fair value (including transaction costs that are directly attributable to the acquisition of the financial asset) with value changes recognized in net assets/equity. Impairment charges and interest calculated using the effective interest rate method are recognized in the Statement of Financial Performance of WHO. As at 31 December 2016, no available-for-sale financial assets were held by WHO.

Bank deposits and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Accrued revenue related to interest and dividend and pending cash to be received from investments to settle are included herein. Bank deposits and receivables are stated at amortized cost calculated using the effective interest rate method, less any impairment. Interest revenue is recognized on the effective interest rate basis, with the exception of short-term receivables for which the recognition of interest would be immaterial. The interest accrued is held globally by WHO, which includes UNAIDS' portion attributable due to the share in the portion of bank deposits held by WHO on UNAIDS' behalf.

### **3.2 Accounts receivables**

Accounts receivables are recorded at their estimated net realizable value after providing for allowances for non-recovery and after careful review of the outstanding receivable. Current receivables are for amounts due within 12 months of the reporting date, while non-current receivables are due more than 12 months from the reporting date of the financial statements.

An allowance for doubtful accounts receivable is recognized when there is a risk that the receivable may be impaired. Changes in allowance for doubtful accounts receivable are recognized in the Statement of Financial Performance.

### **3.3 Inventories**

UNAIDS inventory only comprises of publications on hand that are held for distribution, free of cost, and has no value.

### **3.4 Prepayments**

Prepayments relate to amounts paid to suppliers for goods and services not yet received. Advances are made to UNDP to cover payments made on behalf of UNAIDS in accordance with the “Working Arrangement between the United Nations Development Programme (UNDP) and the Joint United Nations Programme on HIV/AIDS (UNAIDS) covering the provision of administrative support services by UNDP” signed in April 1996 and updated in June 2008. Advances are made to UNAIDS Cosponsors to enable them to carry out their mandates under the UNAIDS 2016–2021 UBRAF when necessary.

### **3.5 Property, plant and equipment (PP&E)**

Property, plant and equipment (PP&E) with a value of US\$ 5,000 and above are recognized as non-current assets in the Statement of Financial Position. They are initially recognized at cost, unless acquired through a non-exchange transaction, in which case they are recognized at fair value at the date of acquisition. PP&E is stated at historical costs less accumulated depreciation and impairment. PP&E are reviewed annually for impairments to ensure that the carrying cost is still considered recoverable.

#### Additions to PP&E

UNAIDS has recognized equipment with a value of US\$ 5,000 and above purchased in 2016 under PP&E. Heritage assets have not been valued and are not considered in the financial statements.

#### Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset and are included in the Statement of Financial Performance. Impairment reviews are undertaken for all PP&E annually and all losses are recognized in the Statement of Financial Performance. Impairment indicators also include the obsolescence and deterioration of PP&E.

#### Subsequent Costs

Subsequent costs of major renovations and improvements to fixed assets that increase or extend the future economic benefits or service potential are valued at cost.

#### Depreciation

Depreciation is charged on property, plant and equipment other than land, over their estimated useful life using the straight-line method on the following basis:



<b>Asset Class</b>	<b>Estimated Useful Life (in years)</b>
Land	N/A
Buildings - Permanent	60
Buildings - Mobile	5
Fixtures and fittings	5
Vehicles and transport	5
Office equipment	3
Communications equipment	3
Audio Visual equipment	3
Computer equipment	3
Network equipment	3
Security equipment	3
Other equipment	3

### **3.6 Intangible assets**

Intangible assets are carried at cost less accumulated amortization and impairment. UNAIDS only recognizes intangible assets if the useful life of the asset is more than one year and the value is above US\$ 100 000. Intangible assets are amortized over their estimated useful lives using the straight-line method. The estimated useful life of “software acquired externally” is between 2 and 6 years.

Intangible assets are assumed to have a residual value of zero, as intangible assets are not sold or transferred at the end of their useful life. Intangible assets are reviewed annually for impairment.

### **3.7 Leases**

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. UNAIDS reviews all leases on an annual basis to determine whether these constitute a finance or operating lease.

### **3.8 Contributions received in advance**

Contributions received in advance arise from legally binding agreements between UNAIDS and its donors whereby the funds are received in advance of the amounts concerned falling due to the Organization.

### **3.9 Accounts payable and accrued liabilities**

Accounts payable are liabilities for goods and services received by the Programme but which have not yet been paid for. Accrued liabilities are liabilities where goods and services have been received by the Programme but have not been paid for and for which an invoice for payment to be made has not yet been received. Accounts payable and accrued liabilities are recognized at cost due to the discounting being considered not to be material.

### **3.10 Employee benefits**

UNAIDS recognizes the following categories of employee benefits:

- short-term employee benefits which fall due wholly within 12 months after the end of the accounting period in which employees render the related service;
- post-employment benefits;
- other long-term employee benefits; and
- termination benefits.

#### **3.10a Short-term employee benefits**

Liabilities are established for short-term employee benefits including items such as wages, salaries and social security contributions, paid annual leave and paid sick leave, and non-monetary benefits (such as medical care) for current employees. Actuarial assumptions and valuations have been used to measure accumulated annual leave. In addition, liabilities are established for the value of accumulated leave, deferred home leave and overtime earned but unpaid at the reporting date and for education grants payable at the reporting date that have not been included in current expenditure.

#### **3.10b Post-employment benefits**

Post-employment benefits include pension plans, post-employment medical care and post-employment insurance. Also included are benefits to which eligible staff members are entitled on termination of their contracts, including repatriation grants, repatriation removal and repatriation travel. Post-employment benefits under defined benefit plans are measured at the present value of the defined benefit obligation, (DBO) adjusted for unrecognized actuarial gains and losses and for unrecognized past service costs.

#### United Nations Joint Staff Pension Fund

UNAIDS is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to staff. The Pension Fund is a funded, multi-employer defined benefit plan. As specified by Article 3(b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

The plan exposes participating organizations to actuarial risks associated with the current and former staff of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the plan. UNAIDS and the UNJSPF, in line with the other participating organizations in the Fund, are not in a position to identify UNAIDS's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence UNAIDS has treated this plan as if it was a defined contribution plan in line with the requirements of IPSAS 39 (Employee Benefits). UNAIDS contributions to the plan during the financial period are recognized as expenses in the Statement of Financial Performance.

### **3.11 Borrowing costs**

UNAIDS has taken a loan from the Swiss Government and Canton de Genève jointly with WHO for the construction of the UNAIDS/WHO building in Geneva. There are no borrowing costs associated with this loan. Borrowings are currently stated at amortized cost; any difference between the proceeds and the redemption value is recognized in the Statement of Financial

Performance over the period of the borrowings using the effective interest method. The loan received by UNAIDS is an interest-free loan, and the benefit to UNAIDS of this arrangement has been treated as an in-kind contribution.

### **3.12 Deferred revenue**

Deferred revenue is recognized when legally binding agreements between the Programme and its donors (including governments, international organizations and private and public institutions) are confirmed and the funds are earmarked and due in the future periods. Deferred revenue which is due after one year from the reporting date has been classified as non-current.

### **3.13 Provisions and contingent liabilities**

Provisions are recognized for future liabilities and charges where UNAIDS has a present legal or constructive obligation as a result of past events and it is probable that the Programme will be required to settle the obligation. Provisions are recorded as expense in the Statement of Financial Performance, and a corresponding liability is established in the Statement of Financial Position when the occurrence of the obligation for settlement has been ascertained and can reasonably be estimated.

Other commitments which do not meet the recognition criteria for liabilities are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of UNAIDS.

### **3.14 Contingent assets**

Contingent assets will be disclosed when an event gives rise to a probable inflow of economic benefits or service potential and there is sufficient information to assess the probability of the inflow of economic benefits or service potential.

### **3.15 Revenue recognition**

**Voluntary contributions.** UNAIDS receives only voluntary contributions. Voluntary contributions are recorded on an accrual basis. Voluntary contributions which are supported by formal funding agreements, signed by both parties, are recognized as revenue at the time the agreement becomes binding and when control over the underlying asset is obtained. Where there are no payment terms specified by the contributor or when payment terms are in the current accounting year, revenue is recognized immediately.

Agreements which are subject to conditions such as performance and/or receipt of funds are conditional on a certain future date, such agreements are established recognizing a receivable and a corresponding deferred revenue as a liability. Revenue is recognized when the condition is discharged.

**Contributions in-kind and in-service.** Contributions of goods or services in-kind or in-service are recorded in the period in which the contribution was received by UNAIDS. They are recognized and reflected as revenue and expense under the non-core funds at the best estimate of fair value.

### **3.16 Expense recognition**

UNAIDS recognizes expense at the point when goods have been delivered or services rendered and not when cash or its equivalent is paid.

### **3.17 Segment reporting-fund accounting**

Fund accounting is a method of segregating resources into categories (i.e. funds) to identify both the source and use of funds. Establishment of such funds helps ensure better reporting of revenue and expenses, along with a distinguishable group of activities for achieving its objectives and making decisions for future allocation of resources. The five types of funds for UNAIDS are core UBRAF funds, supplementary UUBRAF funds, extra-budgetary funds, common fund and staff benefits and other funds. Any transfers between funds that would result in duplication of revenue and/or expense (including Programme Support Costs) are eliminated during consolidation. UNAIDS' assets and liabilities are not allocated to individual funds, since ownership rests with the Programme. However, the balances against the respective funds and working capital reserve are recognized.

### **3.18 Statement of cash flow**

The Statement of Cash Flow (Statement IV) is prepared using the indirect method.

### **3.19 Budget comparison**

The UBRAF continues to be prepared on a modified cash basis and is presented in the financial statements as Statement V, Statement of Comparison of Budget and Actual Amounts. The PCB provides approval of the UBRAF and the UNAIDS financial statements encompass all activities of the Programme.

As stipulated in IPSAS 24, the actual amounts presented on a comparable basis to the budget shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to the actual amounts presented in the financial statements, identifying separately any basis, timing, presentation and entity differences. There may also be differences in formats and classification schemes adopted for the presentation of financial statements and the budget. As the bases used to prepare the budget and financial statements differ, and in order to facilitate a comparison between the budget and the financial statements, reconciliation between the actual amounts presented in Statement V to the actual amounts presented in Statement II and Statement IV are included in the notes to the financial statements.

### 3.20 Note on the restatement of balances

Effective 1 January 2016, the Organization has changed its accounting policy to recognize employee benefits in accordance with IPSAS 39. As a result, actuarial gains and losses for After-Service Health Insurance Fund (ASHI) and Special Fund for Compensation Fund (SFFC) were accounted directly to net assets/equity. The effect of this change in accounting policy was recognized retrospectively, requiring restatement of the 2015 comparative numbers.

The impact on the Statement of Financial Performance was as follows:

Description	ASHI	SFFC	Total
	(in US dollars)	(in US dollars)	(in US dollars)
<b><u>Impact on Statement of Financial Performance</u></b>			
Finance revenue		( 10 342)	( 10 342)

The impact on the Statement of Financial Position was as follows:

Description	ASHI	SFFC	Total
	(in US dollars)	(in US dollars)	(in US dollars)
<b><u>Impact on Statement of Financial Position</u></b>			
<b>Non-current liabilities</b>			
Accrued staff benefits - non-current	(6 556 842)	( 283 682)	(6 840 524)
<b>Net Assets/Equity</b>			
Staff Benefits Fund	6 556 842	283 682	6 840 524

## 4. SUPPORTING INFORMATION TO THE STATEMENT OF FINANCIAL POSITION

### 4.1 Cash and cash equivalents held by WHO on behalf of UNAIDS

Cash and cash equivalents held by WHO include cash on hand, imprest bank account balances, petty cash, cash deposits in transit and balances held by WHO on behalf of UNAIDS. Cash and cash equivalents are held for meeting short-term cash commitments rather than for investment or other purposes. The balance also reflects cash and cash equivalents held in the portfolios managed by investment managers.

The cash and cash equivalents held on behalf of UNAIDS stood at US\$ 153 686 718 as at 31 December 2016 (US\$ 143 987 301 as at 31 December 2015).

	<b>31 December 2016</b>	<b>31 December 2015</b>
	(in US dollars)	(in US dollars)
Cash on hand and at bank (imprest accounts)	132 202	99 826
Cash held on behalf of UNAIDS by WHO	153 554 516	143 887 475
<b>Total cash and cash equivalents held by WHO</b>	<b>153 686 718</b>	<b>143 987 301</b>

### Investments

Details of significant accounting policies and methods, adopted criteria for recognition and de-recognition, basis of measurement and basis on which gains and losses are recognized, are set out in the Accounting Policies.

The main objectives for investments are the preservation of capital, the maintenance of sufficient liquidity to meet all payments of liabilities on time and the optimization of income return. The Investment Policy reflects the nature of funds, which may be held for the short-term, pending programme implementation, or for the longer term in order to meet liabilities under the other long-term funds of the Organization.

Short-term investments are funds related to pending programme implementation, which are invested in cash and high-quality, short-term, government, agency, corporate bonds and time deposits as defined in the approved Investment Policy. Investments included within “financial assets at fair value through surplus and deficit” include fixed income securities and derivatives instruments held to cover projected liabilities and unexpected cash requirements. Financial assets in the externally managed portfolios designated upon initial recognition as at fair value through surplus or deficit are classified as short-term investments where the investment time horizon objective of these portfolios is less than or equal to a year. For short-term tactical investment reasons, the external managers of these portfolios may from time to time decide to lengthen temporarily the average duration of these portfolios to slightly longer than one year. This will not change the short-term classification of these financial assets unless the investment time horizon objective of the portfolio and the duration of its benchmark have been changed to more than one year. The investments in the “held-to-maturity” portfolio with a duration of less than one year are classified as current assets in the category “financial assets at amortized costs”.

Long-term investments are for funds managed under the Terminal Payments Account as defined in the approved Investment Policy and are invested in high-quality, medium-dated and long-dated, government, agency and corporate bonds. The financial assets at fair value through surplus or deficit upon initial recognition in the Terminal Payments Fund investment portfolio are classified as long-term investments in accordance with the investment time horizon objective of the portfolio and the duration of its benchmark which are both greater than one year.

## **Risk exposure**

UNAIDS shares the risk of WHO which is exposed to financial risks including credit risk, interest rate risk, foreign currency exchange risk and investment price risk. Derivative financial instruments are used to hedge some of its risk exposures. In accordance with WHO Financial Regulations, funds not required for immediate use may be invested. All investments are carried out within the framework of the investment policy approved by the WHO Director-General. Some portfolios are managed by external managers appointed by WHO to manage funds in accordance with a defined mandate. The Advisory Investment Committee reviews regularly the investment policies, the investment performance and the investment risk for each investment portfolio. The Committee is composed of external investment specialists who can make investment recommendations to the Director-General of WHO.

### **Credit risk**

UNAIDS shares credit risks similar to those of WHO and makes full disclosures with respect to the same. The WHO's investments are widely diversified in order to limit its credit risk exposure to any individual investment counterparty. Investments are placed with a wide range of counterparties using minimum credit quality limits and maximum exposure limits by counterparty (and by groups of related counterparties) established in investment mandates. These limits are applied both to the portfolios managed internally by the WHO Treasury Unit, and also to the portfolios managed by external investment managers. The WHO Treasury Unit monitors the total exposure to counterparties across all internally and externally managed portfolios to ensure that total counterparty exposure across portfolios are tracked and managed.

The credit and liquidity risk for cash and cash equivalents are minimized by investing only in major financial institutions that have received strong investment grade credit ratings from primary credit rating agencies. The WHO Treasury Unit regularly reviews the credit ratings of the approved counterparties and takes prompt action whenever a credit rating is downgraded.

### **Interest rate risk**

UNAIDS is exposed to interest rate risk through short-term and long-term fixed income investments. The investment duration is a measure of sensitivity to changes in market interest rates, and the effective average duration of WHO's investment as at 31 December 2016 was 0.5 years for short-term investments and 6.6 years for the long term investments. The duration of the long-term investments was lengthened by purchasing longer-term fixed-income products to better match the duration of the liabilities which are funded by these investments.

Fixed-income derivatives may be used by external investment managers to manage interest rate risk under strict investment guidelines. Typically the interest rate instruments are used for portfolio duration management and strategic interest rate positioning.

### **Foreign exchange currency risk**

UNAIDS receives voluntary contributions and makes payments in currencies other than US dollars and it is exposed to foreign exchange currency risk arising from fluctuations in the currency exchange rates.

Exchange gains and losses on the purchase and sale of currencies, revaluation of cash book balances and all other exchange differences are adjusted against the funds and accounts eligible to receive interest under the interest apportionment programme. Translation into US dollars of transactions expressed in other currencies is performed at the United Nations Operational Rates of Exchange prevailing at the date of transaction. Assets and liabilities that are denominated in foreign currencies are translated at the United Nations Operational Rates of Exchange year end closing rate. Forward foreign exchange contracts are transacted to hedge foreign currency exposures and to manage short-term cash flows. Realized and unrealized

gains and losses resulting from settlement and revaluation of foreign currency transactions are recognized in the Statement of Financial Performance.

### Hedging foreign exchange exposures on future payroll costs

The value of non-dollar (i.e. Swiss Franc or CHF) payroll expenditures in 2017 has been protected from the impact of movements in foreign exchange rates against the US dollar. Protection has been effected through the transaction of forward currency contracts during 2016. As at 31 December 2016, the forward foreign currency exchange hedging contracts were CHF 17.3 million. Unrealized net loss on these contracts amounted to US\$ 0.7 million as at 31 December 2016 (US\$ 0.9 million net losses as at 31 December 2015). Realized gains or losses on these contracts will be recorded on maturity of the contracts and applied during 2017.

### Hedging foreign exchange exposures on receivables and payables

Currency exchange risk arises as a result of differences in the exchange rates at which foreign currency receivables or payables are recorded, and the exchange rates at which the cash receipt or payment is subsequently recorded. A monthly programme of currency hedging is in place to protect against this foreign currency risk. On a monthly basis, the exposures in respect of accounts receivable and accounts payable exposures are netted by currency and each significant net foreign currency exposure is bought or sold forward using a forward foreign exchange contract equal and opposite to the net currency exposure.

These exposures are re-balanced at each month end to coincide with the settings of the monthly United Nations Operational Rates of Exchange. Through this process the exchange gains or losses realized on the forward foreign currency contracts match the corresponding unrealized exchange losses and gains on the movements in the net accounts receivable and accounts payable. As at 31 December 2016, the total forward foreign currency hedging contracts by currency for UNAIDS were as follows:

Currency forward sold	Sum amount sold	Sum amount bought	Net unrealized gain/(loss)
		(US dollars)	(US dollars)
Canadian dollar	4 860 000	3 590 525	( 17 268)
Euro	4 500 000	4 710 653	( 50 379)
Pounds Sterling	30 000 000	36 732 360	( 300 756)
<b>Total</b>		<b>45 033 538</b>	<b>( 368 403)</b>

## 4.2 Accounts receivable

As at 31 December 2016, US\$ 111.3 million in contributions receivable was outstanding (US\$ 68 million as at 31 December 2015). A total of US\$ 56.6 million of this receivable is due to letters of credit outstanding with the Government of the United States of America, and US\$ 54.7 million represents receivables due in future financial periods (broken down between current, 2018 and beyond). An allowance for doubtful debts for US\$ 0.2 million has been established after review of all the outstanding receivables.



	<b>31 December 2016</b>	<b>31 December 2015</b>
	(in US dollars)	(in US dollars)
<b>Accounts receivable - current</b>		
Unified Budget, Results and Accountability Framework	52 221 701	46 638 488
Supplementary Funds	21 253 977	15 815 678
Extra-budgetary Funds	5 541 409	2 770 317
Allowance for doubtful debt against Extra-budgetary Funds	( 246 591)	( 246 591)
<b>Total Accounts receivable - current</b>	<b>78 770 496</b>	<b>64 977 892</b>
<b>Accounts receivable - non-current</b>		
Unified Budget, Results and Accountability Framework	28 940 839	1 687 289
Supplementary Funds	2 144 122	1 301 542
Extra-budgetary Funds	1 435 455	-
Others	56 984	56 984
<b>Total Accounts receivable - non current</b>	<b>32 577 400</b>	<b>3 045 815</b>
<b>Total Accounts receivable</b>	<b>111 347 896</b>	<b>68 023 707</b>

#### 4.3 Staff receivables

In accordance with WHO's Staff Rules and Regulations, staff members are entitled to certain advances including salary, rent, education grant and travel advances. Advances are recovered periodically from staff salaries through payroll, except for education grants, which are settled at the end of the scholastic year. International staff members are eligible to receive an advance equal to the estimated amount of education grant for each child at the beginning of the scholastic year, and are settled at the end of the scholastic year.

As at 31 December 2016, US\$ 1.8 million in staff receivables was outstanding including salary advances, rental advances, travel advances and education grant advances (US\$ 2.3 million as at 31 December 2015). The education grant advances represent the advances made to staff members for the scholastic year 2016–2017.

	<b>31 December 2016</b>	<b>31 December 2015</b>
	(in US dollars)	(in US dollars)
<b>Staff receivables</b>		
Salary advances	111 439	149 073
Rental advances	233 272	383 430
Education Grant advances	1 407 002	1 512 463
Travel advances	20 607	54 410
Expected Sick Leave Insurance Contribution	697	71 527
Other staff advances	-	99 638
<b>Total Staff receivables</b>	<b>1 773 017</b>	<b>2 270 541</b>

#### 4.4 Prepayments

The total value of prepayments as at 31 December 2016 was US\$ 3.4 million (US\$ 2.5 million as at 31 December 2015). Out of this amount, US\$ 3.2 million represents payments to suppliers in advance of receipt of goods or services which will be charged to expense in 2017. The remaining amount of US\$ 0.2 million relates to advances made to UNDP to cover payments made on behalf of UNAIDS.

	<b>31 December 2016</b>	<b>31 December 2015</b>
	(in US dollars)	(in US dollars)
<b>Prepayments</b>		
Advances to UNDP	250 330	542 247
Advances to Cosponsors	-	1 725 000
Advances to Suppliers	3 161 234	233 295
<b>Total Prepayments</b>	<b>3 411 564</b>	<b>2 500 542</b>

#### 4.5 Other current receivables

As at 31 December 2016, US\$ 16 105 in other receivables was outstanding, representing mainly value added tax (VAT) receivables.

#### 4.6 Property, plant and equipment (PP&E)

##### Building

The carrying value of the UNAIDS building at headquarters has been calculated at cost less depreciation. The building was constructed jointly with WHO and ownership is recognized at the 50% value with WHO. The land upon which the building has been constructed was made available by the Swiss Government at no cost. The value of the land has therefore not been valued and disclosed in the financial statements. The estimated useful life of the building has been determined at 60 years and has been depreciated using the straight-line method.

##### Plant and equipment

UNAIDS has capitalized all plant and equipment purchased in 2016 with a value of US\$ 5,000 or above.

The assets value purchased during 2016 has been depreciated over the estimated useful life using the straight-line method. Equipment with original cost value totalling US\$ 460 735 has been fully depreciated and are still in use by the Secretariat.

	<b>Building</b>	<b>Furniture and Fixtures</b>	<b>Vehicles</b>	<b>Communications and IT Equipment</b>	<b>Other Equipment</b>	<b>Total</b>
	(in US dollars)	(in US dollars)	(in US dollars)	(in US dollars)	(in US dollars)	(in US dollars)
Cost or fair value	25 613 445	11 298	831 502	315 237	279 739	27 051 221
Accumulated depreciation	(3 842 019)	(7 909)	(369 577)	(285 897)	(207 590)	(4 712 992)
Total carrying cost as at 31 December 2015	21 771 426	3 389	461 925	29 340	72 149	22 338 229
Movements 1 January to 31 December 2016						
Additions	-	-	138 701	6 350	60 350	205 401
Disposals						
Depreciation	(426 891)	(2 259)	(189 095)	(22 399)	(65 890)	(706 534)
<b>Total - Property, Plant and Equipment</b>	<b>21 344 535</b>	<b>1 130</b>	<b>411 531</b>	<b>13 291</b>	<b>66 609</b>	<b>21 837 096</b>

### Intangible assets

The Programme has no intangible assets to report.

### Inventory

The Secretariat only held publications for distribution, with no realizable value. The cost of publications expensed during 2016 amounted to US\$ 60 044.

#### **4.7 Contributions received in advance**

This represents funds received in advance for activities starting in 2017. The total amount of contribution received in advance during 2016 was US\$ 0.1 million.

#### **4.8 Accounts payable**

This represents the total amount outstanding to suppliers for goods and services. The total accounts payable for UNAIDS programme activities as at 31 December 2016 was US\$ 4.5 million (US\$ 5 million as at 31 December 2015).

	<b>31 December 2016</b>	<b>31 December 2015</b>
	(in US dollars)	(in US dollars)
<b>Accounts payable</b>		
Payables to suppliers	1 273 580	2 160 907
Non-staff meeting participants payable	-	24 190
Accrual of goods and services	3 144 995	2 505 189
Other payables	44 277	280 911
<b>Total - Accounts Payable</b>	<b>4 462 852</b>	<b>4 971 197</b>

#### **4.9 Staff payable**

The total balance for staff payable as at 31 December 2016 was US\$ 0.3 million (US\$ 0.1 million as at 31 December 2015). These amounts relate to salaries payable and other staff liabilities.

	<b>31 December 2016</b>	<b>31 December 2015</b>
	(in US dollars)	(in US dollars)
<b>Staff payables</b>		
Salaries payable	224 621	121 067
Other staff payables	75 427	993
<b>Total - Staff payables</b>	<b>300 048</b>	<b>122 060</b>

#### 4.10 Accrued staff benefits

UNAIDS staff benefits liabilities are determined by professional actuaries. The actuarial studies commissioned determined various liabilities to be established to cover different staff benefits in accordance with IPSAS for WHO, UNAIDS and the other non-consolidated entities as at 31 December 2016. The professional actuarial studies were calculated based on personnel data and past payment experience. As per the actuarial studies as at 31 December 2016, the total liability for staff benefits stood at US\$ 129.1 million (out of which US\$ 72.5 million is reflected in our accounts).

	<b>31 December 2016</b>	<b>31 December 2015 (restated)</b>
	(in US dollars)	(in US dollars)
<b>Accrued staff benefits - current</b>		
Terminal Payments	8 837 601	9 548 993
Special fund for compensation	4 545	9 566
<b>Total accrued staff benefits - current</b>	<b>8 842 146</b>	<b>9 558 559</b>
<b>Accrued staff benefits -non-current</b>		
Terminal payments	10 966 361	11 131 578
After-service health insurance	52 140 338	48 833 091
Special fund for compensation	535 579	734 941
<b>Total accrued staff benefits - non-current</b>	<b>63 642 278</b>	<b>60 699 610</b>
<b>Accrued staff benefits</b>		
Terminal payments	19 803 962	20 680 571
After-service health insurance	52 140 338	48 833 091
Special fund for compensation	540 124	744 507
<b>Total Accrued staff benefits</b>	<b>72 484 424</b>	<b>70 258 169</b>

#### Terminal Payments

The Terminal Payments Fund was established to finance the terminal emoluments of staff members, including repatriation grants, accrued annual leave, repatriation travel and removal on repatriation. It is funded by a salary and post adjustment budgetary provision set for 2016–2017.

Liabilities arising from repatriation benefits and annual leave are determined by independent consulting actuaries. However, the accrued leave is calculated on a walk-away basis—that is, as if all staff separated immediately—and therefore is not discounted.

The actuarial study as at 31 December 2016 has estimated the total liability for terminal payments (excluding annual leave) to be US\$ 12.1 million (US\$ 12.1 million as at 31 December 2015). This calculation did not include cost of end-of-service grant and separation by mutual agreement.

The annual leave entitlements stood at US\$ 7.7 million as at 31 December 2016. The liability has been reduced by US\$ 0.8 million from US\$ 8.5 million in 2015.

## **After-Service Health Insurance**

UNAIDS participates in a health insurance scheme which is managed as a separate entity, WHO Staff Health Insurance, and which has its own governance. It provides for the reimbursement of expenses for medically recognized health care incurred by staff members, recognized dependents and retired staff. It is financed from the contributions made by the participants and the Programme.

UNAIDS has recognized staff health insurance liabilities as a Post-Employment Benefit. Actuarial gains and losses are recognized in the net assets/equity in accordance with IPSAS 39 (Employee Benefits).

The defined benefit obligations as at 31 December 2016 determined by professional actuaries based on personnel data and past payments experience provided by WHO stood at US\$ 108.7 million (US\$ 98.3 million as at 31 December 2015 restated) of which US\$ 56.6 million is funded, resulting in net unfunded liability of US\$ 52.1 million which is reflected in the Statement of Financial Position. Further details on Staff Health Insurance can be found in the Staff Health Insurance Annual Report.

In accordance with IPSAS 39 (Employee Benefits), the actuarial gain of US\$ 2.4 million was transferred directly to net assets / equity in 2016 and an additional accrual of US\$ 5.7 million was charged to staff costs in the Statement of Financial Performance.

It should be noted that whilst the ASHI actuarial study reflects an unfunded liability of US\$ 52.1 million as at 31 December 2016, following the PCB decision at its 30<sup>th</sup> meeting (held in June 2012) to fully fund the organizational staff-related liabilities from the fund balance, a total of US\$ 25.1 million has been attributed thus far toward funding the ASHI liability. Therefore the unfunded ASHI liability as at 31 December 2016 stood at US\$ 27 million (i.e. US\$ 52.1 million as per actuarial study less the funding of US\$ 25.1 million).

## **Special Fund for Compensation**

In the event of a death or disablement attributable to the performance of official duties of an eligible staff member, the Special Fund for Compensation covers all reasonable medical, hospital and directly related costs, as well as funeral expenses. In addition, the fund will also provide compensation to the disabled staff member (for the duration of the disability) or the surviving family members.

UNAIDS accounts for the Special Fund for Compensation as a post-employment benefit. Actuarial gains and losses are recognized in the net assets / equity in accordance with IPSAS 39 (Employee Benefits).

As per the actuarial study, the total liability was US\$ 0.54 million at 31 December 2016 (US\$ 0.74 million as at 31 December 2015 restated). In accordance with IPSAS 39, the actuarial gain of US\$ 0.3 million was transferred directly to net assets/equity in 2016 and an additional accrual of US\$ 0.1 million has been recognized by nature of expenses in the Statement of Financial Performance.

## Actuarial calculations

Description	After Service Health Insurance <small>(in US dollars)</small>	Terminal Payments excluding Accrued Annual Leave <small>(in US dollars)</small>	Special Fund for Compensation <small>(in US dollars)</small>
<b>RECONCILIATION OF DEFINED BENEFIT OBLIGATIONS</b>			
Defined Benefit Obligation at 31-Dec-2015	98 342 714	12 137 553	744 507
Service cost for 2016	10 217 824	1 083 481	92 855
Interest on Defined Benefit Obligation for 2016	2 849 565	348 925	27 368
(Actual After Service Gross Benefit Payments in 2016)	( 233 432)	(1 583 569)	( 3 470)
(Actual After Service Administrative Expenses in 2016)	( 15 000)		
Actual Contributions by After Service Participants in 2016	136 749		
Plan Amendments	( 59 709)		
Actuarial (Gain)/Loss on Defined Benefit Obligation	<u>(2 533 452)</u>	<u>155 110</u>	<u>( 321 136)</u>
<b>Defined Benefit Obligation at 31-Dec-2016</b>	<b><u>108 705 259</u></b>	<b><u>12 141 500</u></b>	<b><u>540 124</u></b>
<b>RECONCILIATION OF ASSETS</b>			
Assets at 31-Dec-2015, for SHI Net of 470.1 Reserve	49 509 623		
(Actual Total Gross Benefit Payments for 2016)	(4 095 930)	(1 583 569)	( 3 470)
(Actual Total SHI Administrative Expenses in 2016)	( 263 191)		
Actual Total SHI Participant Contributions during 2016	3 227 260		
Actual Total Organization Contributions during 2016	6 283 633	1 583 569	3 470
(increase)/Decrease in 470.1 Reserve in 2016	552 000		
Interest on Net WHO-Administered SHI Assets for 2016	1 503 660		
Gain/(Loss) on Plan Assets during 2016	<u>( 152 134)</u>		
<b>Assets at 31-Dec-2016, for SHI Net of 470.1 Reserve</b>	<b><u>56 564 921</u></b>	<b><u>0</u></b>	<b><u>0</u></b>
<b>RECONCILIATION OF FUNDED STATUS</b>			
Defined Benefit Obligation (DBO)			
Active	97 709 657	12 141 500	435 161
Inactive	<u>10 995 602</u>		<u>104 963</u>
<b>Total DBO</b>	<b><u>108 705 259</u></b>	<b><u>12 141 500</u></b>	<b><u>540 124</u></b>
Plan Assets			
(Gross Plan Assets)	(58 017 921)		
Offset for WHO 470.1 Reserve	<u>1 453 000</u>		
<b>(Net Plan Assets)</b>	<b><u>(56 564 921)</u></b>		
<b>Net (Asset)/Liability Recognized in Statement of Financial Position</b>	<b><u>52 140 338</u></b>	<b><u>12 141 500</u></b>	<b><u>540 124</u></b>
Current (Asset)/Liability		1 175 139	4 545
Non-current (Asset)/Liability	<u>52 140 338</u>	<u>10 966 361</u>	<u>535 579</u>
<b>Net (Asset)/Liability Recognized in Statement of Financial Position</b>	<b><u>52 140 338</u></b>	<b><u>12 141 500</u></b>	<b><u>540 124</u></b>
<b>Annual Expense for 2016</b>			
Service cost	10 217 824	1 083 481	92 855
Interest cost	1 345 905	348 925	27 368
Remeasurements	(2 381 318)	155 110	
Past Service (Credit)/Cost	( 59 709)		
<b>Total Expense Recognized in Statement of Financial Performance</b>	<b><u>9 122 702</u></b>	<b><u>1 587 516</u></b>	<b><u>120 223</u></b>
<b>Expected Accounting Contributions during 2017</b>			
Expected Organization Contributions during 2017			
Contributions by UNAIDS	3 986 000	1 191 477	4 622
Contributions by participants	<u>608 000</u>		
<b>Total Expected Contributions for 2017</b>	<b><u>4 594 000</u></b>	<b><u>1 191 477</u></b>	<b><u>4 622</u></b>
<b>Sensitivity Analysis</b>			
<b>31 December 2016 Defined Benefit Obligation</b>			
Current Medical Inflation Assumption Minus 1%	84 026 354		
Current Medical Inflation Assumption	108 705 259		
Current Medical Inflation Assumption Plus 1%	142 320 973		
Current Discount Rate Assumption Minus 1%	144 361 031	13 232 673	680 438
Current Discount Rate Assumption	108 705 259	12 141 500	540 124
Current Discount Rate Assumption Plus 1%	83 324 032	11 196 038	437 298

## Actuarial methods and assumptions

Each year, the Programme identifies and selects assumptions and methods that will be used by actuaries in the year-end valuation to determine the expense and contribution requirements for the Programme's staff benefits. Actuarial assumptions are required to be disclosed in the financial statements, in accordance with IPSAS 39. In addition, each actuarial assumption is required to be disclosed in absolute terms.

### Measurement Date

All plans	31 December 2016
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### Discount rate

Terminal Payments (other than accrued leave)	The discount rate used is 2.8% (increase from 2.5% in the prior valuation). Based on the combined projected benefit payments from the prior valuation with weights of 75% on the Aon Hewitt AA Bond Universe yield curve and 25% on the SIX Swiss Exchange yield curve as of 31 December 2016. The resulting discount rate is rounded to the nearest 0.1%.									
After Service Health Insurance	<p>Europe—2.5% ( decrease from 2.9% in prior valuation).</p> <p>The Americas—4.3% (decrease from 4.5% in prior valuation).</p> <p>Other Countries—4.6% (decrease from 4.8% in prior valuation).</p> <p>The discount rates are based on the yields on high grade corporate bonds. The yield curve approach is used to reflect the expected cash flows and assumed currency exposure-specific to ASHI.</p> <p>The liability is assumed to be incurred in Swiss Francs, euros and US dollars, based on approximate liability mix for UNAIDS and the following yield curves:.</p> <p>Switzerland - SIX - Swiss Exchange curve Euro Zone - iBoxx Euro Zone curve United States - Aon Hewitt AA Bond Universe</p> <p>The discount rates for the 31 December 2016 valuation are based on the geographic locations of the UNAIDS offices. The resulting rates which are rounded to the nearest 0.1% are shown in the table below:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="3">% of Rate for 2016</th> </tr> <tr> <th>Switzerland</th> <th>Euro Zone</th> <th>United States</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">40%</td> <td style="text-align: center;">20%</td> <td style="text-align: center;">40%</td> </tr> </tbody> </table>	% of Rate for 2016			Switzerland	Euro Zone	United States	40%	20%	40%
% of Rate for 2016										
Switzerland	Euro Zone	United States								
40%	20%	40%								
Special Fund for Compensation	The discount rate used is 3.4% (decrease from 3.7% in the prior valuation). Based on the combined projected benefit payments from the prior valuation with weights of 75% on the Aon Hewitt AA Bond Universe yield curve and 25% on the SIX Swiss Exchange yield curve as of 31 December 2016. The resulting discount rate is rounded to the nearest 0.1%.									

### Annual General Inflation

Terminal Payments (other than accrued leave)	The inflation rate used is 2.2%. Based on inflation rates of 2.5% for United States and 1.1% for Switzerland with weights of 75% and 25%, respectively. The resulting inflation rate is rounded to the nearest 0.1%.
After Service Health Insurance	<p>Europe—1.4% ( no change from prior valuation).</p> <p>The Americas and Other Countries—2.5%. (no change from prior valuation)</p> <p>Based on Aon Hewitt's Q3 2016 10-year forecast of global capital market assumptions. Rate for Europe is the average of rates for Switzerland (1.1%) and the rest of Europe (1.6%), rounded to the nearest 0.1%. Rate for The Americas and Other Countries is based on the 31 December 2015 valuation of the United Nations Joint Staff Pension Fund (UNJSPF).</p>
Special Fund for Compensation	The inflation rate used is 2.2%. Based on inflation rates of 2.5% for the United States of America and 1.1% for Switzerland with weights of 75% and 25%, respectively. The resulting inflation rate is rounded to the nearest 0.1%.

### Annual Salary Scale

All Plans	General inflation, plus 0.5% per year productivity growth, plus merit component. Merit and productivity increases are set equal to those from the 31 December 2015 valuation of the UNJSPF.
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### Actuarial Method

Repatriation Travel and Removal on Repatriation	Calculated using projected unit credit with service prorate, with an attribution period from the "entry on duty date" to separation.
Repatriation Grant, Termination Indemnity, and Grant in Case of Death	Calculated using the projected unit credit method with accrual rate proration.
Accrued Leave	The liability is set equal to the walk-away liability as if all staff separated immediately.
Abolition of Post, End-of-Service Grant, and Separation by Mutual Agreement	These benefits are considered termination benefits under IPSAS 39 and, therefore, excluded from the valuation.
Special Fund for Compensation	Calculated using projected unit credit, with an attribution period from the "entry on duty date" to separation.
After- Service Health Insurance	Liabilities are attributed using the projected unit credit method linearly from the "entry on duty date" to the earlier of the full eligibility date (the latest of age 55, 10 years of service, and five years of continuous service) and retirement date.

### United Nations Joint Staff Pension Fund

The Pension Fund's Regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the Open Group Aggregate Method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

UNAIDS' financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (7.9% for participants and 15.8% for member organizations), together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

The latest actuarial valuation was performed as of 31 December 2015. The valuation revealed an actuarial surplus of 0.16% (a deficit of 0.72% in the 2013 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as of 31 December 2015 was 23.54% of pensionable remuneration, compared to the actual contribution rate of 23.7%. The next actuarial valuation will be conducted as of 31 December 2017.

At 31 December 2015, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 141.1% (127.5% in the 2013 valuation). The funded ratio was 100.9% (91.2% in the 2013 valuation) when the current system of pension adjustments was taken into account.

After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2015, for deficiency payments under Article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all



accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of Article 26.

During 2016, contributions paid to UNJSPF amounted to US\$ 22.9 million (US\$ 22.8 million contributions in 2015). Expected contributions due in 2017 are US\$ 22.6 million.

The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the UNJSPF Pension Board on the audit every two years. The UNJSPF publishes quarterly reports on its investments and these can be viewed by visiting the UNJSPF website at [www.unjspf.org](http://www.unjspf.org).

#### 4.11 Deferred revenue

As at 31 December 2016, deferred revenue amounted to US\$ 54.5 million (US\$ 5.1 million as at 31 December 2015). This represents multi-year pledges made in 2016 for which the revenue recognition has been deferred to future financial periods. Out of this amount, US\$ 32.5 million represents non-current deferred revenue for 2018 and future financial periods.

	<b>31 December 2016</b>	<b>31 December 2015</b>
	(in US dollars)	(in US dollars)
Deferred revenue - current		
Unified Budget, Results and Accountability Framework	16 524 410	843 644
Supplementary Funds	3 909 255	1 246 446
Extra-budgetary Funds	1 500 000	
Total Deferred revenue - current	<u>21 933 665</u>	<u>2 090 090</u>
Deferred revenue - non-current		
Unified Budget, Results and Accountability Framework	28 940 839	1 687 289
Supplementary Funds	2 144 122	1 301 542
Extra-budgetary Funds	1 435 455	-
Total Deferred revenue - non-current	<u>32 520 416</u>	<u>2 988 831</u>
<b>Total - Deferred Revenue</b>	<b><u>54 454 081</u></b>	<b><u>5 078 921</u></b>

#### 4.12 Long-term borrowings

At its 12<sup>th</sup> meeting in May 2004, the PCB endorsed UNAIDS' negotiation of a direct loan with the Swiss Confederation for the construction of a new building in Geneva for UNAIDS and WHO at an estimated cost of CHF 66 million, of which UNAIDS' share was estimated at CHF 33 million. In December 2003, the Swiss Confederation agreed to provide an interest-free loan of CHF 59.8 million, of which UNAIDS' share is CHF 29.9 million. The repayment, over a 50-year period, of UNAIDS' share of the interest-free loan provided by the Swiss Confederation is made through the reallocation of funds otherwise expended on the rental of office space with effect from the first year of the completion of the building. The building was completed in November 2006. The amount under Buildings includes US\$ 25.6 million which represents the 50% share of UNAIDS' expense incurred on the building up to 31 December 2007.

The loan repayable of US\$ 21.6 million has been amortized using the effective interest rate of 0.35% (Swiss Libor rate for 30 years) as compared to 0.70% for 2015.

The outstanding balance of the loan as at 31 December 2016 amounted to US\$ 21.2 million (US\$ 21.6 million as at 31 December 2015). Out of the total outstanding loan, US\$ 0.6 million, which is maturing in 2017, has been reflected separately under current liabilities.

#### **4.13 Changes in net assets/equity**

For the financial year ended 31 December 2016, the net assets/equity increased by US\$ 5.3 million, out of which US\$ 2.6 million related to a surplus during 2016 (compared to a deficit of US\$ 68 million in 2015) and US\$ 2.7 million related to actuarial gains under ASHI and SFFC which was transferred directly to net assets/equity in accordance with IPSAS 39 (Employee benefits).

In line with the Board's approval to fund the annual replenishment of the Building Renovation Fund, in 2016 the Executive Director authorized the transfer of a total of US\$ 0.43 million from the fund balance towards the Building Renovation Fund. The PCB, during its 38<sup>th</sup> meeting held from 28–30 June 2016, took note of the Executive Director's decision.

The unfunded staff-related liabilities, stood at US\$ 24.6 million as at 31 December 2016 (US\$ 20.5 million as at 31 December 2015 restated), an increase of US\$ 4.1 million. Of this amount, US\$ 3.8 million was due to the movements in the actuarial liabilities of ASHI, Special Fund for Compensation and Terminal Payments Fund, and a net increase of US\$ 0.3 million (arising from the transfer of US\$ 3 million from the Terminal Payments Fund to the non-core fund to cover part of the cost of staff separated by mutual agreements during 2016 and actuarial an gain of US\$ 2.7 million under ASHI and Special Fund for Compensation).

#### **4.14 Operating Reserve Fund**

Pending receipt of core contributions, implementation of the UBRAF may be financed from the Operating Reserve Fund (ORF), which the PCB established in June 1996. The rules and procedures guiding the use of the ORF by the Executive Director were decided by the PCB at its sixth meeting, held in Geneva in May 1998.

#### **4.15 Building Renovation Fund**

The Board established the Building Renovation Fund at its 30<sup>th</sup> meeting in June 2012. This fund was set up to meet the future costs of major repairs of, alterations to, and investments in the UNAIDS office building.

## **5. SUPPORTING INFORMATION TO THE STATEMENT OF FINANCIAL PERFORMANCE**

### **5.1 Statement overview**

The Statement of Financial Performance consolidates revenue and expenses for all activities throughout the Programme. The statement segregates operating activities from those arising from financing operations.

### **5.2 Voluntary contributions**

Voluntary contributions to the Joint Programme totalled US\$ 225.6 million (US\$ 219.4 million for 2015)—of which US\$ 216.2 million was from governments, US\$ 0.9 million from UNAIDS Cosponsors, and a net of US\$ 8.5 million from other operating revenue received from intergovernmental organizations, other United Nations Organizations, various institutions and the private sector). Included in this figure is an amount of US\$ 3.1 million, which represents in-

service contributions, and US\$ 0.1 million as in-kind contributions. There has been no revenue received on account of exchange transactions.

	<b>UBRAF Core Funds</b>	<b>Supplementary Funds</b>	<b>Extra budgetary Funds</b>	<b>Total</b>	<b>Total 2015</b>
	(in US dollars)	(in US dollars)	(in US dollars)	(in US dollars)	(in US dollars)
<b>Voluntary Contributions</b>					
Governments	177 148 681	25 546 114	13 538 985	216 233 780	210 834 890
Cosponsors	-	905 681	-	905 681	2 670 135
Others	445 244	4 454 542	3 551 691	8 451 477	5 879 215
<b>Total - Voluntary Contributions</b>	<b>177 593 925</b>	<b>30 906 337</b>	<b>17 090 676</b>	<b>225 590 938</b>	<b>219 384 240</b>

### 5.3 Finance revenue

The total interest earnings were US\$ 2.9 million for the financial period ended 31 December 2016 and the net realized gains on hedging and exchange transactions were US\$ 1.1 million for the same period. This has resulted in a total amount of US\$ 4 million as financial revenue as at 31 December 2016 (US\$ 6.5 million as at 31 December 2015). Interest revenue is recognized as it accrues and is allocated by WHO to UNAIDS.

	<b>31 December 2016</b>	<b>31 December 2015</b>
	(in US dollars)	(restated) (in US dollars)
<b>Finance revenue</b>		
Interest	2 865 588	2 249 746
Realised foreign exchange gains on balance sheet hedging	1 131 924	2 623 928
Net unrealized foreign exchange gains on revaluation	-	1 638 347
<b>Total finance revenue</b>	<b>3 997 512</b>	<b>6 512 021</b>

### 5.4 Expense

UNAIDS recognizes expense at the point when goods have been delivered or services rendered. An encumbrance represents a firm commitment or obligation for goods and services which have not been delivered. Encumbrances are not reported in the Statement of Financial Performance.

#### 5.4.1 Staff and other personnel costs

Staff and other personnel costs represent the total cost of employing staff at all locations, including remuneration of base salary, post adjustment and any other type of entitlements (e.g. pension and insurance) paid by the Programme. Staff costs also include the increase in the SHI actuarial liability, which is recognized as expense in the Statement of Financial Performance.

#### 5.4.2 Transfers and grants to counterparts

Transfers and grants to counterparts represent agreements signed with UNAIDS Cosponsors, other UN entities, non-profit non-governmental organizations and academic institutions to perform activities to help achieve specific objectives of the UNAIDS Secretariat and transfers to UNAIDS Cosponsors for their share of the UBRAF for 2016.

### 5.4.3 Contractual services

Contractual services represent expenses for service providers. The main components are Agreements for Performance of Work (APWs), consulting contracts given to individuals to perform activities on behalf of the Programme.

### 5.4.4 General operating expenses

General operating expenses represent expenses related to general operations in support of headquarters, regional and country offices. This includes costs such as utilities, telecommunications and rent.

### 5.4.5 Travel

Travel of staff, meeting participants and consultants paid by UNAIDS are included in the total travel costs. Travel expenses include airfare, *per diem* and other travel-related costs.

### 5.4.6 Equipment vehicles and furniture

Equipment, vehicles and furniture are charged as expense at the point of delivery. PP&E purchased during 2016 have been recognized and capitalized in accordance with IPSAS 17.

### 5.4.7 Depreciation

Depreciation has been charged on property, plant and equipment (PP&E), using the straight-line method. Depreciation is the expense resulting from the systematic allocation of the amounts on the PP&E over their useful lives. The useful life of the building has been estimated at 60 years. The useful lives of furniture and vehicles have been estimated at 5 years and equipment has been estimated at 3 years.

### 5.4.8 Finance costs

These include realized foreign exchange losses resulting from treatment of transactions in currencies as well as losses from realized losses on accounts receivable and payables and other management fees paid. It also includes actuarial interest cost related to valuation of Terminal Payments and Special Fund for Compensation. Net unrealized foreign exchange losses on revaluation of the accounts receivables and Swiss loan adjustments amounted to US\$ 1.2 million.

	<b>31 December 2016</b>	<b>31 December 2015</b>
	(in US dollars)	(in US dollars)
<b>Finance Costs</b>		
Bank charges and investment management fees	24 608	202
Net realized foreign exchange losses	1 826 103	4 523 614
Net unrealized foreign exchange losses on revaluation	1 177 844	-
Actuarial interest cost related to valuation of Terminal Payments Fund and Special Fund for Compensation	531 403	411 147
<b>Total - Finance Costs</b>	<b>3 559 958</b>	<b>4 934 963</b>

## 6. SEGMENT REPORTING

### Schedule 1

#### Statement of Financial Performance by Segments All sources of funds for the year ended 31 December 2016 (in US dollars)

	UBRAF Core Funds	Non-Core Funds								Sub-total non-core funds	TOTAL
		UBRAF Supplementary Funds	Extra-budgetary Funds	Terminal Payments	Non-payroll Entitlements	Special Fund for Compensation	Staff Health Insurance	Common Fund	Eliminations		
<b>Revenue</b>											
Governments	177 148 681	25 546 114	13 538 985							39 085 099	216 233 780
Cosponsoring organizations		905 681								905 681	905 681
Others	445 244	4 454 542	3 551 691							8 006 233	8 451 477
Finance revenue	2 784 217	150,750	180,500	851 821				30 224		1 213 295	3 997 512
<b>Total</b>	<b>180 378 142</b>	<b>31 057 087</b>	<b>17 271 176</b>	<b>851 821</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30 224</b>	<b>-</b>	<b>49 210 308</b>	<b>229 588 450</b>
Programme Support Costs			2 100 838						(2 100 838)	-	-
Payroll transfers to accrual funds				2 553 708	9 135 326				(11 689 034)	-	-
<b>Total revenue</b>	<b>180 378 142</b>	<b>31 057 087</b>	<b>19 372 014</b>	<b>3 405 529</b>	<b>9 135 326</b>	<b>-</b>	<b>-</b>	<b>30,224</b>	<b>(13 789 872)</b>	<b>49 210 308</b>	<b>229 588 450</b>
<b>Expense</b>											
Staff and other personnel costs	113 670 757	2 245 896	6 004 581	633 557	6 055 182	92 855	5 688 565		(11 689 034)	9 031 602	122 702 359
Transfers and grants to counterparts	46 209 643	8 245 081	9 495 983							17 741 064	63 950 707
Contractual services	4 396 681	10 171 486	558 671		838 389					11 568 546	15 965 227
General operating expenses	12 797 575	716 748	201 574	242 999	59					1 161 380	13 958 955
Travel	3 141 605	1 764 741	703 004	(27 471)	(7 662)					2 432 612	5 574 217
Equipment, vehicles and furniture	936 045	191 318						(565 730)		(374 412)	561 633
Programme Support Costs	84 817	1 376 926	639 095						(2 100 838)	(84 817)	-
Depreciation								706 534		706 534	706 534
Finance costs	1 847 828			506 918		27 368		1 177 844		1 712 130	3 559 958
<b>Total expense</b>	<b>183 084 951</b>	<b>24 712 196</b>	<b>17 602 908</b>	<b>1 356 003</b>	<b>6 885 968</b>	<b>120 223</b>	<b>5 688 565</b>	<b>1 318 648</b>	<b>(13 789 872)</b>	<b>43 894 639</b>	<b>226 979 590</b>
<b>Total Surplus/(Deficit) by fund</b>	<b>(2 706 809)</b>	<b>6 344 891</b>	<b>1 769 106</b>	<b>2 049 526</b>	<b>2 249 358</b>	<b>(120 223)</b>	<b>(5 688 565)</b>	<b>(1 288 424)</b>	<b>-</b>	<b>5 315 669</b>	<b>2 608 860</b>

#### Schedule 1 (A)

##### Reconciliation of total expense between 2014-2015 and 2016-2017 incurred in 2016

Expense	UBRAF Core Funds	UBRAF								Sub-total non-core funds	Grand Total
		Supplementary Funds	Extra-budgetary Funds	Terminal Payments	Non-payroll Entitlements	Special Fund for Compensation	Staff Health Insurance	Common Fund	Eliminations		
2016	181 632 611	23 297 414	17 384 850	1 288 802	6 885 968	120 223	5 688 565	1 318 648	(13 789 872)	42 194 598	223 827 209
2015	1 452 340	1 414 782	218 058	67 201						1 700 041	3 152 381
<b>Total</b>	<b>183 084 951</b>	<b>24 712 196</b>	<b>17 602 908</b>	<b>1 356 003</b>	<b>6 885 968</b>	<b>120 223</b>	<b>5 688 565</b>	<b>1 318 648</b>	<b>(13 789 872)</b>	<b>43 894 639</b>	<b>226 979 590</b>

## 7. COMPARISON OF BUDGET AND ACTUAL AMOUNTS

UNAIDS' Programme Budget is established on a modified cash basis and is approved by the PCB.

UNAIDS' budget and financial accounts are prepared using two different accounting basis. The Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets and Statement of Cash Flow are prepared on a full accrual basis, whereas the Statement of Comparison of Budget and Actual Amounts (Statement V) is prepared on a modified cash basis.

As required by IPSAS 24, reconciliation has been provided between the actual amounts on a comparable basis, as presented in Statement V, and the actual amounts in the financial accounts identifying separately any basis, timing, presentation and entity differences.

Basis differences occur when the approved budget is prepared on a basis other than the full accrual accounting basis. Basis differences include the depreciation and capitalization of assets and repayment of the principal on the outstanding loan from the Swiss Confederation and Canton de Genève.

Timing differences occur when the budget period differs from the reporting period reflected in the financial statements. Commitments made in 2015 have been liquidated in 2016, which has contributed to the timing difference.

Presentation differences are due to differences in the format and classification schemes adapted for presentation of Statement of Cash Flow and Statement of Comparison of Budget and Actual Amounts.

Entity differences include expenses under non-core funds, which are financed from other sources and are not included in the UBRAF approved by the Board.

Reconciliation between the actual amounts on a comparable basis in the Statement of Comparison of Budget and Actual Amounts (Statement V), and the actual amounts in the Statement of Financial Performance (Statement II) and Statement of Cash Flow (Statement IV) for the year ended 31 December 2016 are presented below.

### Reconciliation of Budget Utilization (Statement V) with Statement of Cash Flow (Statement IV) as at 31 December 2016

	2016			
	Operating	Investing	Financing	Total
	(in US dollars)	(in US dollars)	(in US dollars)	(in US dollars)
Actual amount on budget implementation (Statement V)	(180 763 010)			(180 763 010)
Basis Difference	( 565 730)	( 205 401)	2 927 419	2 156 288
Timing Difference	3 152 375			3 152 375
Presentation Difference	141 318 428			141 318 428
Entity Difference	43 835 336			43 835 336
<b>Actual Amount in Statement of Cash Flow (Statement IV)</b>	<b>6 977 399</b>	<b>( 205 401)</b>	<b>2 927 419</b>	<b>9 699 417</b>

## 8. ADMINISTRATIVE WAIVERS, AMOUNTS WRITTEN OFF AND, EX-GRATIA PAYMENTS AND FRAUD

During the financial year ended 31 December 2016, a total amount of US\$ 18 586 was approved for write-off relating to travel advances made mainly to former staff members who were no longer with the organization and where recovery was not deemed possible.

There were no administrative waivers or *ex-gratia* payments during the financial period end 31 December 2016.

There were two cases of suspected fraud that were investigated under the direction of the WHO Office of Internal Oversight (OIS), which performs this function for UNAIDS. In both cases, the findings led to the separation of the two staff members concerned from the Organization.

## 9. RELATED PARTY AND SENIOR MANAGEMENT DISCLOSURE

Key management personnel of UNAIDS consists of all staff members graded at the D2 level and above as they have the authority and responsibility for planning, directing and controlling the activities of UNAIDS.

The aggregate remuneration paid to key management personnel includes salaries, allowances, statutory travel and other entitlements paid in accordance with the Staff Rules and Regulations and applicable to all staff.

Key management personnel are members of the UN Joint Staff Pension Fund (UNJSPF) to which the personnel and UNAIDS contribute and are also eligible for participation in the Staff Health Insurance scheme, including the after-service medical insurance scheme if they meet the eligibility requirements.

During the year, no loans were granted to key management personnel beyond those available to staff outside this group.

### Key Management Personnel

(in US dollars)

Number of individuals	18
Compensation and post adjustment	3 810 748
Entitlements	238 558
Pension and Health Plans	1 072 994
Total remuneration 2016	5 122 300
Outstanding advances against entitlements	67 470
Outstanding loans (in addition to normal entitlements if any)	-

## 10. EVENTS AFTER THE REPORTING DATE

The Programme's reporting date is 31 December 2016. On the date of the certification of these accounts by the Executive Director and submission to the External Auditor, no material events, favourable or unfavourable, that would have impacted these statements occurred between the balance sheet date and the date when the financial statements were authorized for issue.

## 11. CONTINGENT LIABILITIES, COMMITMENTS AND CONTINGENT ASSETS

### Contingent Liabilities

As at 31 December 2016, there was one outstanding personnel matter (appeal) before the WHO Headquarters Board of Appeal (HBA). The proceedings are still underway and have been transferred to the new WHO Global Board of Appeal (GBA), which will replace the HBA. A recommendation from the GBA for decision by the UNAIDS Executive Director is expected during 2017. There was one outstanding personnel matter (complaint) pending with the ILO Administrative Tribunal. The legal proceedings have not progressed sufficiently to determine, with any degree of certainty, the extent of any liability of the Programme. The Secretariat has no material, unrecognized contractual commitments.

### Operating leases

The Secretariat enters into operating lease arrangements for the use of country, regional and liaison offices premises. Future minimum lease rental payments for the following periods are:

	<b>31 December 2016</b>
	(in US dollars)
<b>Operating Leases</b>	
Within one year	2 924 701
Later than one year but not later than five years	4 784 266
Later than five years	574 583
<b>Total Operating Lease</b>	<b>8 283 550</b>

### Contingent Assets

In accordance with IPSAS 19, contingent assets will be disclosed for cases where an event will give rise to a probable inflow of economic benefits. As at 31 December 2016, there were no material contingent assets to disclose.



Schedule 2

**Unified Budget, Results and Accountability Framework - details of revenue  
for the year ended 31 December 2016**

(in US dollars)

Voluntary contributions	Funds made available towards year 2016 of the Unified Budget, Results and Accountability Framework
<b>Governments</b>	
Andorra	33 296
Australia	3 427 266
Belgium	4 424 779
Belgium - Flanders	843 644
Canada	3 869 427
China	150 000
Czech Republic	41 237
Denmark	4 418 210
France	445 931
Germany	2 192 331
Ghana	100 000
Ireland	2 894 849
Israel	10 000
Japan	650 000
Kazakhstan	50 000
Liechtenstein	25 907
Luxembourg	4 960 981
Mali	168 014
Monaco	167 598
Netherlands	22 346 368
New Zealand	1 038 781
Norway	16 867 862
Poland	29 960
Portugal	109 289
Russian Federation	500 000
Sweden	31 645 525
Switzerland	11 847 412
Thailand	100 014
Turkey	40 000
United Kingdom of Great Britain & Northern Ireland	18 750 000
United States of America	45 000 000
<b>Sub-total</b>	<b>177 148 681</b>
<b>Other</b>	
Miscellaneous	445 244
<b>Sub-total</b>	<b>445 244</b>
<b>Total operating revenue</b>	<b>177 593 925</b>
<b>Finance revenue</b>	<b>2 784 217</b>
<b>TOTAL</b>	<b>180 378 142</b>

Schedule 3

**Supplementary - details of revenue  
for the year ended 31 December 2016**

(US dollars)

<b>Voluntary contributions</b>	<b>Funds made available towards Supplementary funds 2016</b>
<b>Governments</b>	
China	450 000
Denmark	15 152
Japan	400 000
Russian Federation	3 500 000
Sweden	3 661 070
Switzerland	593 963
United States of America (CDC)	1 960 000
United States of America (USAID)	14 965 929
<b>Sub-total Governments</b>	<b>25 546 114</b>
<b>Cosponsoring Organizations</b>	
UNDP	132 628
UNFPA	505 115
UNHCR	94 457
UNICEF	148 681
WFP	24 800
<b>Sub-total Cosponsors</b>	<b>905 681</b>
<b>Other</b>	
African Society for Laboratory Medicine (ASLM)	217 000
British Columbia Centre for Excellence in HIV/AIDS (BC-CFE)	62 067
Drosos Foundation	169 679
Ford Foundation	200 000
Global Fund	61 370
IAPAC	25 000
IFRC	19 841
Islamic Development Bank	160 000
MAC AIDS Fund	749 610
MPTF Office	2 041 057
MINUSMA	6 286
OFID	300 000
UNOPS	831 343
Miscellaneous	55 092
Refund to donors	( 443 803)
<b>Sub-total</b>	<b>4 454 542</b>
<b>Total operating revenue</b>	<b>30 906 337</b>
<b>Finance revenue</b>	
Interest	150 750
<b>Sub-total</b>	<b>150 750</b>
<b>TOTAL</b>	<b>31 057 087</b>

Schedule 4

**Extra-budgetary funds - details of revenue**  
**for the year ended 31 December 2016**  
(US dollars)

Voluntary contributions	Funds made available towards Extra-budgetary funds 31 December 2016		
	In Cash	In- Kind and In-service	Total
<b>Governments</b>			
Belgium		245 438	245 438
Finland		243 302	243 302
France		476 447	476 447
Germany		335 592	335 592
Italy		43 911	43 911
Luxembourg		165 403	165 403
Netherlands		403 033	403 033
Norway		148 869	148 869
Russian Federation	5 100 000		5 100 000
Sweden		304 640	304 640
Switzerland		340 340	340 340
United States of America (CDC)		307 691	307 691
United States of America (USAID)	5 350 000		5 350 000
Canton de Genève, Switzerland		74 319 <sup>(1)</sup>	74 319
<b>Sub-total</b>	<b>10 450 000</b>	<b>3 088 985</b>	<b>13 538 985</b>
Miscellaneous	3 551 691		3 551 691
<b>Sub-total</b>	<b>3 551 691</b>	<b>-</b>	<b>3 551 691</b>
<b>Total operating revenue</b>	<b>14 001 691</b>	<b>3 088 985</b>	<b>17 090 676</b>
<b>Finance revenue</b>			
Interest	180 500		180 500
<b>Sub-total</b>	<b>180 500</b>		<b>180 500</b>
<b>TOTAL</b>	<b>14 182 191</b>	<b>3 088 985</b>	<b>17 271 176</b>

(1) Represents the value of interest on the interest free building loan

## PART III

### MANAGEMENT INFORMATION

#### I. Funds made available for the financial period ended 31 December 2016

During the period under review, revenue totalling US\$ 180.4 million was made available towards the UBRAF. Thirty-one governments contributed 98.2% of this amount, and the remaining 1.8% was made up of financial revenue (primarily interest earnings) received and apportioned during the reporting period as well as miscellaneous income, including funds received from private contributors and public institutions other than governments, as well as miscellaneous donations and honoraria. Schedule 2 on page 49 provides the details of this revenue.

Furthermore, non-core resources amounting to US\$ 48.3 million were made available to UNAIDS to provide support to a number of global, regional and country activities that are designated for specific countries or purposes. Details on the sources of these funds are detailed in Schedules 3 and 4 on pages 50 and 51.

#### II. Funds expended for the financial period ended 31 December 2016

The total expense for the financial period ended 31 December 2016 against the UBRAF for 2016–2017 amounted to US\$ 180.8 million and expenses against the non-core funds amounted to US\$ 42.3 million (excluding encumbrances).

##### A. Unified Budget, Results and Accountability Framework

During the year ended 31 December 2016, expense and encumbrance (including transfers to Cosponsors) totalling US\$ 183.5 million were incurred against the budget of US\$ 484.8 million approved for the 2016–2017 UBRAF. This corresponds to a financial implementation rate of 37.8% of the biennial budget.

The total expense and encumbrance for the implementation of the activities contained in the UBRAF were distributed as follows: US\$ 43.7 million was transferred to Cosponsors, representing 50% of the Cosponsors' budget for 2016 under the 2016–2017 UBRAF (Figure 3 provides information on the proportion of funds transferred to each individual Cosponsor); US\$ 137.1 million was expended and US\$ 2.7 million encumbered for Secretariat activities and staff costs.

**Figure 3. Funds transferred to the Cosponsors as of 31 December 2016**

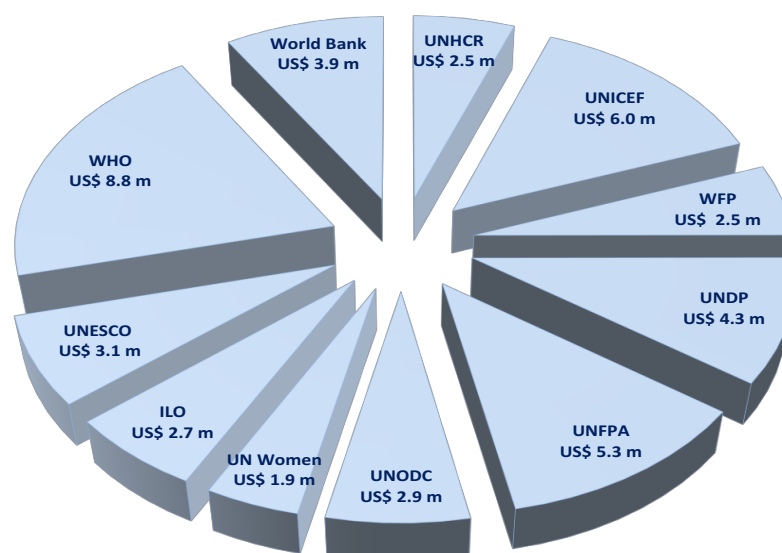


Table 4 provides details on the 2016–2017 UBRAF approved core budget, expense and encumbrances, broken down by result area, and the Secretariat core functions for the financial year ended 31 December 2016.

**Table 4. 2016–2017 UBRAF-approved core budget, expense, and encumbrance for the period ended 31 December 2016 (in US dollars)**

		2016-2017 Approved core budget	Expense	Encumbrance <sup>a/</sup>	Total	Balance
		(a)	(b)	(c)	(d) = (b + c)	(e) = (a-d)
<b>I. Result Areas</b>						
1	HIV testing and treatment	51 245 000	12 726 485		12 726 485	38 518 515
2	Elimination of Mother To Child Transmission	9 260 000	2 314 800		2 314 800	6 945 200
3	HIV prevention among young people	27 410 000	6 897 538		6 897 538	20 512 462
4	HIV prevention among key populations	26 802 000	6 932 210		6 932 210	19 869 790
5	Gender inequality and GBV	18 214 000	4 494 997		4 494 997	13 719 003
6	Human rights, stigma and discrimination	13 054 000	3 260 338		3 260 338	9 793 662
7	Investment and efficiency	10 906 000	2 726 486		2 726 486	8 179 514
8	HIV and health services integration	17 709 000	4 297 146		4 297 146	13 411 854
<b>Total Cosponsors</b>		<b>174 600 000</b>	<b>43 650 000</b>		<b>43 650 000</b>	<b>130 950 000</b>
<b>II. Core Functions</b>						
1	Leadership, advocacy and communication	84 218 000	37 525 668	804 114	38 329 782	45 888 218
2	Partnerships, mobilization and innovation	54 216 000	21 708 426	504 901	22 213 327	32 002 673
3	Strategic information	47 088 000	20 647 359	605 756	21 253 115	25 834 885
4	Coordination, convening & country implementation support	57 140 000	24 455 913	518 375	24 974 288	32 165 712
5	Governance and mutual accountability	67 558 000	32 775 644	293 396	33 069 040	34 488 960
<b>Total Secretariat</b>		<b>310 220 000</b>	<b>137 113 010</b>	<b>2 726 542</b>	<b>139 839 552</b>	<b>170 380 448</b>
<b>Grand Total</b>		<b>484 820 000</b>	<b>180 763 010</b>	<b>2 726 542</b>	<b>183 489 552</b>	<b>301 330 448</b>

<sup>a/</sup> Encumbrances representing firm commitment for goods and/or services which have not yet been delivered

## B. Expense incurred against the non-core funds

During the year ended 31 December 2016, a total amount of US\$ 42.3 million was expended by the Secretariat against non-core funds (US\$ 24.7 million was expended against supplemental funds and US\$ 17.6 million was expended against extra-budgetary funds). In addition to the above, US\$ 2.4 million and US\$ 0.3 million was encumbered against supplemental and extra-budgetary funds, respectively, as indicated in Table 5 and Table 6 on pages 55 and 56.

### **C. Country and regional expense against all sources of funds**

As recommended by the PCB at its 22<sup>nd</sup> meeting, held in Chiang Mai, Thailand from 23–25 April 2008, the report in Table 7 on pages 57 to 58 presents a breakdown of expense and encumbrances of the Secretariat by country and region for both the UBRAF and non-core funds. Country and regional expense amounted to US\$ 92.2 million for the financial period ended 31 December 2016. In addition to the above expense, a total of US\$ 8.6 million was encumbered during the same period, which together totalled US\$ 100.8 million for the financial period ended 31 December 2016.

Table 5

**Supplementary funds**  
**Funds available, expense and encumbrance summary by source of revenue**  
**for the year ended 31 December 2016**  
(in US dollars)

Source of revenue	2015	Funds made	Total	Expense	Encumbrance <sup>a/</sup>	Total	Percentage
	carry-over	available in 2016	available funds				implementation
	(a)	(b)	(c) = (a+b)	(d)	(e)	(f) = (d + e)	(g) = (f / c)
<b>Voluntary contributions and other revenue</b>							
China	1 211 485	450 000	1 661 485	193 075		193 075	11.6%
Denmark		15 152	15 152	15 152		15 152	100.0%
Japan	179 716	400 000	579 716	546 101	31 228	577 329	99.6%
Luxembourg	1 213 165		1 213 165	1 213 139	1 207	1 214 346	100.1%
Netherlands	193 967		193 967		26 045	26 045	13.4%
Norway	26 455		26 455	10 273	14 400	24 673	93.3%
Republic of Korea	24 667		24 667	16 357		16 357	66.3%
Russian Federation	93 385	3 500 000	3 593 385	1 837 388	861 739	2 699 127	75.1%
Sweden	3 504 727	3 661 070	7 165 797	3 059 078	2 101 420	5 160 498	72.0%
Switzerland	861 635	593 963	1 455 598	991 532	457 758	1 449 290	99.6%
United States of America (CDC)	325 706	1 960 000	2 285 706	333 038	50 513	383 551	16.8%
United States of America (USAID)	7 147 108	14 965 929	22 113 037	10 605 269	3 628 989	14 234 258	64.4%
African Society for Laboratory Medicine (ASLM)	75 000	217 000	292 000	197 794		197 794	67.7%
AIDS Life	30 202		30 202	30 095		30 095	99.6%
Asian Development Bank	808 160		808 160	209 120	62 134	271 254	33.6%
Bill & Melinda Gates Foundation	2 038 457		2 038 457	849 467	433 916	1 283 383	63.0%
British Columbia Centre for Excellence in HIV/AIDS(BC-CFE)	84 876	62 067	146 943	93 926	7 500	101 426	69.0%
Drosos Foundation	144 593	169 679	314 272	152 797	45 361	198 158	63.1%
Ford Foundation	69 868	200 000	269 868	69 504		69 504	25.8%
Global Fund		61 370	61 370	56 370		56 370	91.9%
International Association of Providers of AIDS (IAPAC)		25 000	25 000	25 000		25 000	100.0%
International Federation of Red Cross (IFRC)		19 841	19 841	19 841		19 841	100.0%
Islamic Development Bank	122 516	160 000	282 516	94 130	48 903	143 033	50.6%
MDTF Office	1 110 333	2 041 057	3 151 390	1 349 168	300 384	1 649 552	52.3%
M.A.C. AIDS Fund		749 610	749 610	250 000		250 000	33.4%
OFID	585 516	300 000	885 516	158 600	103 779	262 379	29.6%
UNDP	110 024	132 628	242 652	175 566	14 209	189 775	78.2%
UNESCO	18 892		18 892	18 885		18,885	100.0%
UNHCR		94 457	94 457	63 959	6 973	70 932	75.1%
UNICEF	120 495	148 681	269 176	83 849	9 577	93 426	34.7%
UNFPA	1 174 639	505 115	1 679 754	1 273 938	280 786	1 554 724	92.6%
UNAIDS USA	36 225		36 225	503		503	1.4%
UNOHCHR	36 140		36 140	20 140		20 140	55.7%
UNOPS	456 593	831 343	1 287 936	806 293	239 749	1 046 042	81.2%
WFP		24800	24 800			0	0.0%
Interest and other	493 717	( 231 675)	262 042	( 107 151)	22 035	( 85 116)	-32.5%
<b>Total</b>	<b>22 298 264</b>	<b>31 057 087</b>	<b>53 355 351</b>	<b>24 712 196</b>	<b>8 748 605</b>	<b>33 460 801</b>	<b>62.7%</b>

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

Table 6

**Extra-budgetary funds**  
**Funds available, expense and encumbrance summary by source of revenue**  
**for the year ended 31 December 2016**  
(in US dollars)

Source of revenue	2015 carry-over	Funds made available in 2016	Total available funds	Expense	Encumbrance <sup>a/</sup>	Total	Percentage implementation
	(a)	(b)	(c) = (a+b)	(d)	(e)	(f) = (d + e)	(g) = (f / c)
<b>Voluntary contributions and other revenue</b>							
Belgium	179 354	245 438	424 792	245 438		245 438	57.8%
Finland		243 302	243 302	243 302		243 302	100.0%
France		476 447	476 447	476 447		476 447	100.0%
Germany (including GIZ)	218 601	335 592	554 193	335 592		335 592	60.6%
Italy		43 911	43 911	43 911		43 911	100.0%
Japan	300 000		300 000			-	0.0%
Luxembourg	27 341	165 403	192 744	165 403		165 403	85.8%
Netherlands	375 293	403 033	778 326	398 416		398 416	51.2%
Norway	294 945	148 869	443 814	148 869		148 869	33.5%
Russian Federation	8 366	5 100 000	5 108 366	5 204 726		5 204 726	101.9%
Sweden		304 640	304 640	304 626		304 626	100.0%
Switzerland		340 340	340 340	340 340		340 340	100.0%
Canton de Genève, Switzerland		74 319	74 319	74 319		74 319	100.0%
United States of America (CDC)	99 341	307 691	407 032	307 691		307 691	75.6%
United States of America (USAID)	2 414 927	5 350 000	7 764 927	4 340 000	3 000 000	7 340 000	94.5%
European Commission	203 761		203 761			-	0.0%
UNDP	150 617		150 617			-	0.0%
WHO	821 261		821 261	292 334		292 334	35.6%
Interest and other	6 984 829	3 732 191	10 717 020	4 681 494	476 095	5 157 589	48.1%
<b>Total</b>	<b>12 126 022</b>	<b>17 271 176</b>	<b>29 397 198</b>	<b>17 602 908</b>	<b>3 476 095</b>	<b>20 960 773</b>	<b>71.3%</b>

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



Table 7

Country and Regional expense and encumbrance against all sources of funds  
for the financial year ended 31 December 2016  
(in US dollar)

Region	Countries	Unified Budget, Results and Accountability Framework			Non-core Funds			Total		
		Expense	Encumbrance <sup>a/</sup>	Total	Expense	Encumbrance <sup>a/</sup>	Total	Expense	Encumbrance <sup>a/</sup>	Total
<b>Asia and Pacific</b>	Regional Support Team, Asia and Pacific	3 487 026	138 596	3 625 622	1 945 754	328 848	2 274 602	5 432 781	467 443	5 900 224
	Bangladesh	210 673	5 563	216 236				210 673	5 563	216 236
	Bhutan	1 898		1 898				1 898		1 898
	Cambodia	601 926	45 445	647 371	129 759		129 759	731 685	45 445	777 130
	China	1 147 170	4 728	1 151 898				1 147 170	4 728	1 151 898
	Fiji	495 571	10 904	506 476	13 525		13 525	509 097	10 904	520 001
	India	1 262 289	70 469	1 332 758	675 234	53 771	729 005	1 937 523	124 240	2 061 763
	Indonesia	665 892	93 139	759 031				665 892	93 139	759 031
	Lao People's Democratic Republic	66 511	170	66 682				66 511	170	66 682
	Malaysia	4 828		4 828				4 828		4 828
	Mongolia	551		551				551		551
	Myanmar	956 337	14 513	970 850	2 044 018	628 591	2 672 609	3 000 355	643 105	3 643 460
	Nepal	402 534	28 696	431 230	14 999		14 999	417 534	28 696	446 230
	Pakistan	668 823	7 508	676 331	132 885	40 806	173 691	801 708	48 314	850 022
	Papua New Guinea	1 135 404	8 305	1 143 709				1 135 404	8 305	1 143 709
	Philippines	307 518	21 252	328 770				307 518	21 252	328 770
	Sri Lanka	45 843	1 502	47 345				45 843	1 502	47 345
Thailand	698 997	19 122	718 120				698 997	19 122	718 120	
Viet Nam	674 041	7 730	681 771	313 092	21 878	334 971	987 133	29 608	1 016 741	
<b>Total Asia and Pacific</b>		<b>12 833 834</b>	<b>477 644</b>	<b>13 311 478</b>	<b>5 269 267</b>	<b>1 073 894</b>	<b>6 343 161</b>	<b>18 103 101</b>	<b>1 551 538</b>	<b>19 654 639</b>
<b>East and South Africa</b>	Regional Support Team, East and South Africa	3 786 850	60 923	3 847 773	3 613 464	4 011 821	7 625 285	7 400 315	4 072 743	11 473 058
	Angola	1 284 090	10 507	1 294 597				1 284 090	10 507	1 294 597
	Botswana	745 627	4 763	750 390	349 297		349 297	1 094 924	4 763	1 099 688
	Eritrea	51 634	3 510	55 144				51 634	3 510	55 144
	Ethiopia	813 778	6 794	820 572	178 564	2 675	181 239	992 342	9 469	1 001 811
	Kenya	1 305 205	59 044	1 364 248	334 686	31 548	366 235	1 639 891	90 592	1 730 483
	Lesotho	526 548	2 467	529 016	11 988		11 988	538 536	2 467	541 004
	Madagascar (covering Seychelles, Comores, Mauritius)	528 540	7 419	535 959				528 540	7 419	535 959
	Malawi	1 008 492	14 990	1 023 481	628 861	197 586	826 448	1 637 353	212 576	1 849 929
	Mozambique	1 184 934	10 234	1 195 168	208 410		208 410	1 393 344	10 234	1 403 578
	Namibia	647 018	6 517	653 534	40 972	24 941	65 913	687 990	31 457	719 447
	Rwanda	685 890	7 345	693 235	145 599		145 599	831 489	7 345	838 834
	South Africa	1 680 505	57 364	1 737 869	269 183	216 846	486 029	1 949 688	274 210	2 223 898
	South Sudan	844 459	32 630	877 089	40 269		40 269	884 728	32 630	917 358
	Swaziland	962 896	7 759	970 655				962 896	7 759	970 655
	Tanzania, United Republic of	1 156 533	771	1 157 304	377 937	110 538	488 475	1 534 470	111 309	1 645 779
	Uganda	731 509	23 188	754 698	293 884	12 221	306 105	1 025 394	35 409	1 060 803
Zambia	1 080 089	3 883	1 083 972	127 663	18 255	145 918	1 207 752	22 137	1 229 890	
Zimbabwe	1 174 655	18 908	1 193 562	450 342	16 665	467 008	1 624 997	35 573	1 660 570	
<b>Total East and South Africa</b>		<b>20 199 251</b>	<b>339 016</b>	<b>20 538 267</b>	<b>7 071 121</b>	<b>4 643 096</b>	<b>11 714 217</b>	<b>27 270 372</b>	<b>4 982 112</b>	<b>32 252 484</b>
<b>Europe</b>	Regional Support Team, Europe	2 755 560	35 862	2 791 422	6 856 932	919 191	7 776 124	9 612 492	955 053	10 567 545
	Armenia				46 327		46 327	46 327		46 327
	Belarus	12 123	994	13 117	79 295		79 295	91 418	994	92 412
	Kazakhstan	767 014	18 354	785 368				767 014	18 354	785 368
	Kyrgyzstan	10 935	3 325	14 260	61 278		61 278	72 213	3 325	75 539
	Moldova, Republic of	61 780		61 780	22 821	12 000	34 821	84 601	12 000	96 601
	Tajikistan	55 505	1 500	57 005	80 807	1 706	82 513	136 312	3 206	139 518
	Ukraine	942 042	53 948	995 990				942 042	53 948	995 990
	Uzbekistan	156 718	6 143	162 861				156 718	6 143	162 861
<b>Total Europe</b>		<b>4 761 677</b>	<b>120 127</b>	<b>4 881 804</b>	<b>7 147 461</b>	<b>932 897</b>	<b>8 080 358</b>	<b>11 909 138</b>	<b>1 053 024</b>	<b>12 962 161</b>

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

Table 7 continued

Region	Countries	Unified Budget, Results and Accountability Framework			Non-core Funds			Total		
		Expense	Encumbrance <sup>a/</sup>	Total	Expense	Encumbrance <sup>a/</sup>	Total	Expense	Encumbrance <sup>a/</sup>	Total
Latin America and Caribbean	Regional Support Team, Latin America and Caribbean	3 241 444	38 960	3 280 403	25 877		25 877	3 267 321	38 960	3 306 281
	Argentina	734 818	24 328	759 146				734 818	24 328	759 146
	Bolivia	10 839	1 021	11 859				10 839	1 021	11 859
	Brazil	593 766	2 909	596 675	94 486	12 593	107 078	688 251	15 502	703 754
	Chile	109		109				109		109
	Colombia	157 520	4 295	161 815	1 016		1 016	158 536	4 295	162 831
	Costa Rica	2 582		2 582				2 582		2 582
	Dominican Republic	368 915	26 214	395 129	4 377	79 562	83 939	373 292	105 776	479 068
	Ecuador	1 020	172	1 191				1 020	172	1 191
	El Salvador	115 996	381	116 377				115 996	381	116 377
	Guatemala	1 037 801	11 600	1 049 401	32 976		32 976	1 070 777	11 600	1 082 376
	Guyana	670 222	13 370	683 592				670 222	13 370	683 592
	Haiti	1 181 714	34 653	1 216 367	9 600	14 400	24 000	1 191 314	49 053	1 240 367
	Honduras	459 872	5 273	465 145				459 872	5 273	465 145
	Jamaica	476 307	22 238	498 544	34 511	2 500	37 011	510 817	24 738	535 555
	Mexico	5 200		5 200				5 200		5 200
	Nicaragua	2 240		2 240				2 240		2 240
	Panama	4 412		4 412				4 412		4 412
	Paraguay	908		908				908		908
Peru	604 251	4 969	609 219				604 251	4 969	609 219	
Uruguay	1 385		1 385				1 385		1 385	
Venezuela	43 301	1 567	44 869				43 301	1 567	44 869	
<b>Total Latin America and Caribbean</b>		<b>9 714 622</b>	<b>191 947</b>	<b>9 906 569</b>	<b>202 842</b>	<b>109 055</b>	<b>311 897</b>	<b>9 917 464</b>	<b>301 002</b>	<b>10 218 466</b>
Middle East & North Africa	Regional Support Team, Middle East and North Africa	1 403 996	27 887	1 431 883	116 419	50 562	166 981	1 520 415	78 449	1 598 864
	Algeria	163 758	21 390	185 148				163 758	21 390	185 148
	Djibouti	382 608	1 395	384 003	98 226	59 899	158 124	480 833	61 293	542 127
	Egypt	96 778	8 619	105 397	175 067	71 406	246 474	271 845	80 025	351 871
	Iran	342 629	5 228	347 856				342 629	5 228	347 856
	Morocco	443 696	13 410	457 106	29 502	11 497	40 999	473 198	24 907	498 105
	Somalia	300 183	4 040	304 222	31 157	18 568	49 725	331 340	22 607	353 947
	Sudan	417 624	2 169	419 793	21 689	4 656	26 345	439 314	6 824	446 138
	Tunisia	55 519		55 519	887	7 501	8 387	56 406	7 501	63 907
	Yemen	133 137		133 137				133 137		133 137
<b>Total Middle East and North Africa</b>		<b>3 739 927</b>	<b>84 137</b>	<b>3 824 064</b>	<b>472 947</b>	<b>224 088</b>	<b>697 035</b>	<b>4 212 874</b>	<b>308 225</b>	<b>4 521 099</b>
West and Central Africa	Regional Support Team, West and Central Africa	3 029 039	22 017	3 051 056	2 911 841		2 911 841	5 940 880	22 017	5 962 897
	Benin	468 194	12 711	480 904	48 895	1 104	50 000	517 089	13 815	530 904
	Burkina Faso	625 893	1 951	627 844				625 893	1 951	627 844
	Burundi	482 196	6 530	488 726	23 214	1 616	24 830	505 410	8 146	513 556
	Cameroon	711 337	18 649	729 986	306 542	39 969	346 512	1 017 880	58 618	1 076 498
	Central African Republic	636 530	4 560	641 090	15 287		15 287	651 817	4 560	656 377
	Chad	551 004	7 040	558 044				551 004	7 040	558 044
	Congo	538 228	11 149	549 377				538 228	11 149	549 377
	Côte d'Ivoire	790 407	6 288	796 694	184 682	74 972	259 655	975 089	81 260	1 056 349
	Democratic Republic of Congo	1 704 475	31 714	1 736 189	213 869		213 869	1 918 344	31 714	1 950 058
	Equatorial Guinea	246 585	2 361	248 946				246 585	2 361	248 946
	Gabon	458 291	10 068	468 359				458 291	10 068	468 359
	Gambia	72 478		72 478				72 478		72 478
	Ghana	773 078	17 999	791 076	179 997		179 997	953 075	17 999	971 074
	Guinea	387 190		387 190				387 190		387 190
	Guinea-Bissau	5 809	1 069	6 878	120 824	35 701	156 526	126 633	36 770	163 404
	Liberia	584 926	22 301	607 227	129 936	23 150	153 086	714 862	45 451	760 313
	Mali	416 332	4 794	421 127				416 332	4 794	421 127
	Mauritania	132 209	3 152	135 361				132 209	3 152	135 361
	Niger	378 819	12 376	391 195	63 959	6 973	70 932	442 778	19 349	462 127
	Nigeria	2 379 220	12 407	2 391 628	41 276		41 276	2 420 496	12 407	2 432 904
	Senegal	106 786	1 478	108 264				106 786	1 478	108 264
	Sierra Leone	610 786	32 874	643 659				610 786	32 874	643 659
Togo	426 436	12 520	438 956				426 436	12 520	438 956	
<b>Total West &amp; Central Africa</b>		<b>16 516 246</b>	<b>256 008</b>	<b>16 772 254</b>	<b>4 240 324</b>	<b>183 486</b>	<b>4 423 810</b>	<b>20 756 570</b>	<b>439 494</b>	<b>21 196 064</b>
<b>Grand Total</b>		<b>67 765 557</b>	<b>1 468 878</b>	<b>69 234 435</b>	<b>24 403 962</b>	<b>7 166 516</b>	<b>31 570 479</b>	<b>92 169 519</b>	<b>8 635 395</b>	<b>100 804 914</b>

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

**PART IV**

**REPORT OF THE EXTERNAL AUDITOR**

**Republic of the Philippines  
COMMISSION ON AUDIT  
Quezon City**



**Report of the External Auditor  
to the Programme Coordinating Board  
on the Financial Operations of the  
Joint United Nations Programme on HIV/AIDS**

**For the Financial Year Ended  
31 December 2016**

## ACRONYMS

ASHI	After Service Health Insurance
DFC	Direct Financial Cooperation
HRM	Human Resources Management
ICSC	International Civil Service Commission
JPMS	Joint Programme Monitoring System
IPSAS	International Public Sector Accounting Standards
JIU	Joint Inspection Unit
ORF	Operating Reserve Fund
PAHO	Pan-American Health Organization
PALM	Performance and Learning Policy
PDC	Property Disposal Committee
PCB	Programme Coordinating Board
PDP	People Development and Performance Policy and Guidelines
PIP	Performance Improvement Plan
PMP	Performance Management Policy
RBM	Results-Based Management
UBRAF	Unified Budget, Results and Accountability Framework
UNAIDS	Joint United Nations Programme on HIV/AIDS
WHO	World Health Organization

## EXECUTIVE SUMMARY

### Introduction

1. This Report of the External Auditor on the audit of the financial statements and operations of the Joint United Nations Programme on HIV/AIDS (UNAIDS) is issued pursuant to Regulation XIV of the Financial Regulations of the World Health Organization (WHO).

2. This is the first long-form report to the Programme Coordinating Board (PCB) by the Chairperson of the Commission on Audit of the Republic of the Philippines, under a new mandate as External Auditor of the WHO for the financial periods 2016-2019, granted by the Sixty-eighth World Health Assembly (WHA).

3. We have detailed in this Long-form Report the financial and governance matters that we believe should be brought to the attention of the Programme Coordinating Board of UNAIDS. We have recommended to Management three value-adding measures to improve the financial management and governance in UNAIDS.

### Overall result of the audit

4. We have audited the financial statements of UNAIDS in accordance with the Financial Regulations and in conformity with International Standards on Auditing issued by the International Auditing Assurance Board.

5. We commend UNAIDS Management for preparing quality financial statements which warranted the issuance of an unmodified opinion for five years now, since the adoption of the International Public Sector Accounting Standards (IPSAS) in 2012. For 2016, we issued an unmodified audit opinion on the Organization's financial statements for the financial year ended 31 December 2016. As such, we are of the opinion that the financial statements present fairly, in all material respects, the financial position of UNAIDS for the financial year ended 31 December 2016, the results of its financial

performance, the changes in net assets/equity, the cash flows and the comparison of budget and actual amounts in accordance with the IPSAS.

6. As part of our value-adding services, we have identified three areas where mechanisms over UNAIDS's governance could be better improved. UNAIDS could effectively achieve its goals and objectives with the support of structured Management Accountability and Internal Control Frameworks. We laud Management as they are now in the process of preparing a Management Accountability Framework that meets UNAIDS-specific needs and will be designed to complement the Unified Budget Results and Accountability Framework (UBRAF) and as the initial draft of the Internal Control Framework has already been prepared for Senior Management's review and endorsement. UNAIDS could also enhance the policies to mainstream its succession strategy.

#### **Summary of recommendations**

7. The following audit recommendations which are discussed in detail in this report are provided to Management to further improve financial management and governance:

##### **Recommendation No. 1**

**Finalize a structured Management Accountability Framework in the context of the Joint Programme's operations and objectives to further enhance accountability and transparency.**

##### **Recommendation No. 2**

**Move forward to finalizing its own Internal Control Framework and the supporting tools to provide reasonable assurance on the attainment of the objectives relating to the operations, reporting and compliance with or adherence to applicable policies, rules and regulations of UNAIDS.**

##### **Recommendation No. 3**

**Report to the PCB the plan and policy to mainstream its succession strategy, with particular emphasis on:**

- a. Forecasting vacancies and identifying the appropriate timeline for the selection of potential next-in line successor/s; and**
- b. Needs assessment for potential successors on leadership skills and other career development opportunities which may be addressed through improved or enhanced training and mentoring activities.**

#### **Implementation of External Auditor's recommendations in prior years**

8. We reviewed the action taken on the audit recommendations provided in the 2015 External Auditor's Report, and we noted that all of the seven recommendations, or 100%, were fully implemented. We commend Management for the immediate action/s on and recognizing the value of the audit recommendations which improved the financial management and governance in the areas covered by our examination.

## **A. MANDATE, SCOPE AND METHODOLOGY**

### **Mandate**

9. The Chairperson of the Commission on Audit of the Republic of the Philippines was appointed by the Sixty-eighth World Health Assembly as the External Auditor of the World Health Organization and its hosted entities for the financial periods 2016-2019.

### **Scope and objectives**

10. An audit is an independent examination of the evidence supporting the amounts and disclosures in the financial statements. Our audit included an assessment of UNAIDS's compliance with the WHO Financial Regulations and legislative authority. The primary objectives of the audit were to provide an independent opinion on whether:

- a. the financial statements present fairly the financial position of UNAIDS as at 31 December 2016, the results of its financial performance, the changes in net assets/equity, the cash flows, and the comparison of actual amounts and budget for the financial year ended 31 December 2016 in accordance with IPSAS;
- b. the significant accounting policies set out in Note 3 to the financial statements were applied on a basis consistent with that of the preceding financial period; and
- c. the transactions that have come to our notice or that we have tested as part of the audit, in all significant respects, complied with the Financial Regulations and legislative authority.

11. In addition, the audit intends to provide independent assurance to the Governing Body, to increase transparency and accountability in UNAIDS, and to support the objectives of UNAIDS's work through the external audit process.

### **Methodology and auditor's responsibilities**

12. We conducted our audit in accordance with the International Standards on Auditing. These standards require that we plan and perform an audit to obtain



reasonable assurance that the financial statements are free from material misstatements. An audit includes examining evidence supporting the amounts and disclosures in the financial statements on a test basis. An audit also includes assessing the accounting principles used and the significant estimates made by Management as well as evaluating the overall presentation of the financial statements.

13. The Risk-based Audit Approach was adopted in the audit of the financial statements. This approach requires the conduct of risk assessments of material misstatements at the financial statements and assertions levels based on an appropriate understanding of the entity and its environment including its internal control.

14. The auditor's responsibility is to express an opinion on the financial statements based on an audit. An audit is performed to obtain reasonable assurance, not absolute assurance, as to whether the financial statements are free from material misstatement including those caused by fraud or error.

15. We also carried out a review of UNAIDS operations with regard to Financial Regulation 14.3 which requires the External Auditor to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls, and in general, the administration and management of UNAIDS operations. We focused on the (a) Management Accountability Framework; (b) Internal Control Frameworks; and (c) Human Resource Processes–Personnel Turnover (Mobility and Succession Planning).

16. Further, the objectives of the audit are to provide independent assurance to the Governing Body, to add value to the UNAIDS's financial management and governance, and to support the objectives of UNAIDS's work through the external audit process.

17. For the financial year 2016, the audit was performed at the Headquarters of the UNAIDS in Geneva, Switzerland. This is the fifth year of the implementation of IPSAS in UNAIDS, and the audit resources were focused primarily on the review of its

implementation to enable Management to sustain the sufficient ground already gained in the preparation of IPSAS-compliant financial statements.

18. We continued to report audit results to UNAIDS Management in the form of management letters containing detailed observations and recommendations. The practice provides a continuing dialogue with Management.

## **B. RESULTS OF AUDIT**

19. The present report covers matters that, in the opinion of the External Auditor, should be brought to the attention of the Programme Coordinating Board (PCB) of UNAIDS. The recommendations provided to Management are designed to support the objectives of UNAIDS's mandate, and to improve and add value to UNAIDS's financial management and governance.

### **1. Financial matters**

#### **1.1 Audit of financial statements**

20. In the audit of UNAIDS for the financial year 2016, a number of recommendations were made to improve the presentation and disclosure requirements in compliance with IPSAS. We issued an unmodified opinion on the financial statements. As such, we concluded that the financial statements present fairly, in all material respects, the financial position of UNAIDS for the financial year ended 31 December 2016, the results of its financial performance, the changes in net assets/equity, the cash flows, and the comparison of budget and actual amounts in accordance with IPSAS. Management agreed with our recommendations and acted on or committed to act on them accordingly. We recognized the commitment and professionalism of UNAIDS Management and Finance staff to sustain the preparation of IPSAS-compliant financial statements.

## 1.2 Overall financial performance

21. The audited financial statements of UNAIDS reflect a total surplus of US\$ 2.61 million for the year, as shown in the Statement of Financial Performance (Statement II). This is a 103.83% increase from that of the previous year's total deficit of US\$ 68.04 million. The surplus could be attributed mainly to an increase in Revenue of US\$ 3.69 million. There was also a remarkable decrease in Total expenses (US\$ 66.96 million), which made a remarkable offset; hence, the increase in Total surplus of US\$ 70.65 million in 2016.

22. Net assets/equity, as reflected in the Statement of Changes in Net Assets/Equity (Statement III), show an increase of US\$ 5.31 million or 3.99% from US\$ 133.14 million for the year ended 31 December 2015 to US\$ 138.46 million for the year ended 31 December 2016. Considering the reported 103.83% increase in total surplus and the 3.99% increase in net assets/equity, we commend and enjoin Management to continuously intensify its efforts to improve UNAIDS's financial performance in the ensuing years.

23. Specifically, total revenue for 2016 was US\$ 229.59 million broken down as follows: US\$ 216.23 million from Governments, US\$ 0.91 million from Cosponsoring organizations, US\$ 8.45 million from other sources, and the balance of US\$ 3.99 million from financial revenue. On the other hand, total expenses for the same financial period amounted to US\$ 226.98 million which consisted of the following: US\$ 122.70 million for salaries and other personnel costs, US\$ 63.95 million for transfers and grants to counterparts, US\$ 15.97 million for contractual services, US\$ 13.96 million for general operating expenses, US\$ 5.57 million for travel, US\$ 0.56 million for equipment, vehicles and furniture, US\$ 0.71 million for depreciation, and the remaining US\$ 3.56 million for finance costs. As earlier stated, the overall "surplus" (i.e., revenue less expenses) in 2016 that was carried forward to 2017 was US\$ 2.61 million.

24. Of the US\$ 484.82 million 2016-2017 approved allocations, expenditures of US\$ 180.76 million under the 2016 Unified Budget, Results and Accountability

Framework (UBRAF) were incurred, representing 37.28% budget implementation for the first year of the biennium. The balance remaining of the approved UBRAF as at 31 December 2016 amounted to US\$ 304.06 million.

25. The Operating Reserve Fund (ORF) which was established by the PCB in June 1996 stood at US\$ 35 million for the year ended 31 December 2016. This fund can be used to finance the implementation of the UBRAF while awaiting the receipt of core contributions. The rules and procedures guiding the use of the ORF by the Executive Director were decided by the PCB at its Sixth Meeting in May 1998. With the ORF, the continued operation of UNAIDS is relatively secure.

26. Comparatively, total current assets amounted to US\$ 237.66 million while total current liabilities reached US\$ 36.22 million; thus, registering a liquidity ratio of 6.56:1. Cash and cash equivalents at the beginning of the year amounted to US\$ 143.99 million, and increased to US\$ 153.69 million at the end of the year after accounting for a net increase of US\$ 9.7 million or 6.74% from operating, investing and financing activities. UNAIDS, thus, needs to reinforce its financial performance in the coming years and ensure the inflow of additional funds into the Joint Programme.

### **1.3 Financing awareness**

27. UNAIDS has made remarkable achievements in the fight against AIDS and has commenced to address the challenges going forward. Critical to UNAIDS is a robust financing scheme to sustain its global advocacy and leadership of the AIDS response. Significant reductions in contributions by several of the strongest supporters and key donors of UNAIDS were eminent. In year 2015, the Joint Programme raised 46.60% of its total approved budget for the biennium 2014-2015; but in 2016, it achieved 47.36% of its resource mobilization target for the biennium 2016-2017. For UNAIDS to effectively support the implementation of its strategies and to achieve the goals jointly set via the 2016-2021 UBRAF, it is vital to be adequately resourced.

28. At the referral for approval of the UNAIDS Strategy for 2016-2021 and the associated UBRAF at the PCB Meeting, the UNAIDS Executive Director reiterated the aim for the expansion of the donor base and the need to continue to reach out to all current and potential new donors seeking their continued and increased financial support. He urged awareness on the UNAIDS financial situation and the consequences of its current inadequate funding. Without additional resources, there will certainly be profound implications for the working of UNAIDS and for its reach and ability to deliver results. For the year 2016, UNAIDS made great efforts in its resource mobilization and in adjusting its expenditures in order to operate within the budget as allocated.

29. On June 8, 2016, the United Nations General Assembly adopted a new Political Declaration on HIV and AIDS, highlighting the need to Fast-Track the AIDS response to reach the ambitious targets in the Declaration and to end the AIDS epidemic by 2030 as part of the Sustainable Development Goals (SDGs). The General Assembly called for reinforcing and expanding the unique multi-sector, multi-stakeholder development and rights-based approach of the Joint Programme. The fragile window that exists to reach the ambitious goals and targets in the Political Declaration comes at an uncertain time in funding of development assistance driven by a number of external factors, including humanitarian crises, security concerns, currency fluctuations, and a shifting political landscape. A second financing dialogue was conducted on June 27, 2016, the timing of which was agreed upon by the PCB at its 37<sup>th</sup> meeting in October 2015, where the PCB noted that it “looks forward to a Second Financing Dialogue, aimed at ensuring predictable and full funding for the implementation of the 2016-2021 UBRAF, to be held before the 38<sup>th</sup> meeting of the Programme Coordinating Board”. The UNAIDS First Financing Dialogue was held in November 2014.

30. We look forward to the full implementation of the UNAIDS Strategy to bring life-transforming results to people and communities.

#### **1.4 After service health insurance**

31. The defined benefit obligations of UNAIDS for After Service Health Insurance (ASHI) as at 31 December 2015 stood at US\$ 108.70 million, of which US\$ 56.56 million is funded, resulting in a net unfunded liability of US\$ 52.14 million. These were determined by professional actuaries based on personnel data and past experience on payments as provided by WHO. Following the PCB decision at its 30<sup>th</sup> meeting held in June 2012 to fully fund the organizational staff-related liabilities from the fund balance, a total of US\$ 25.1 million has so far been attributed towards the funding of ASHI liability. Therefore, the unfunded ASHI liability as at 31 December 2016 stood at US\$ 27.0 million.

32. We have identified three areas where governance over UNAIDS's resources could be better enhanced. These are along the areas of: a) Management Accountability and Internal Control Frameworks; and b) human resource processes-personnel turnover (mobility and succession planning).

### **2. Governance matters**

#### **2.1 Management Accountability Framework**

33. A Management Accountability Framework will support the alignment of the UNAIDS to a common vision, creating an environment where staff and stakeholders can contribute to the goals and objectives, and for Management to propel the UNAIDS forward. The benefits of a Management Accountability Framework are clear. It will enable to deliver strategic objectives by: (a) providing clarity to the organization's vision; (b) driving alignment of strategy implementation with vision; (c) creating impact and in the long term, ensuring accountability across the entire organization; and (d) building engagement to achieve results.

34. As a Management Accountability Framework sets the shared values of the Joint Programme and the standards set down in the Standards of Conduct for the International Civil Service, it should also comprise the full range of legal instruments, regulations and rules, policies, procedures and formally documented functions, responsibilities and authorities which, taken as a whole, establish the accountability of officers and staff at all levels for their decisions, actions and omissions.

35. We noted that UNAIDS has yet to adopt a Management Accountability Framework of its own. They are, however, currently in the process of adapting to the WHO Accountability Framework (version 3 March 2015) to meet their specific needs. (The WHO Accountability Framework was specifically designed for the Organization as part of the WHO Reform in 2010, which was an inclusive and Member-State-driven process aimed at enabling the WHO to be effective, efficient, responsive, objective, transparent and accountable.)

36. Management informed us that accountability has always been embedded in the management and governance structure of UNAIDS, including its operational policies and procedures. These include the PCB and uniquely, the UBRAF as a tool to operationalize the strategy and to report to stakeholders using a results-based management approach.

37. UNAIDS should align its decisional and operational processes more closely with accountability and transparency, along the lines of strategic decisions, and programme implementation, among others. This action could enhance UNAIDS's relational value with its stakeholders that constantly need assurance that their monies are disposed of to achieve the very purpose of its existence. In setting out to improve accountability in programme implementation, a Management Accountability Framework specifically designed for UNAIDS should be formulated and crafted.

38. Moreover, the objectives of UNAIDS which were further refined and updated in the new vision and mission statements endorsed by the UNAIDS Programme Coordinating Board at its 26th meeting held in Geneva, strengthen the requirement of crafting a Management Accountability Framework exclusively tailored for UNAIDS.

39. Hence, in view of the evolving environment and the need to reinforce UNAIDS accountability and transparency, we laud Management for adapting to the process of preparing a Management Accountability Framework that meets UNAIDS specific needs designed to support the UBRAF and the organization's results-based management approach, which underline UNAIDS's commitment to the culture of accountability and transparency.

**Recommendation No. 1**

**Finalize a structured Management Accountability Framework in the context of the Joint Programme's operations and objectives to further enhance accountability and transparency.**

**2.2 Internal Control Framework**

40. As a system, internal control is described as a summary of all smaller systems within an entity that are put in place to control risks. On the other hand, internal control is considered a process where specific controls within critical processes are logically embedded and undertaken to achieve an entity's operating objectives. In whatever form it may take, internal control is always framed by an entity in a manner that will make that entity function as expected. The COSO Framework defines internal control as a process effected by an entity's board of directors, management and other personnel, designed to provide "reasonable assurance" regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations.



41. As with the Management Accountability Framework, UNAIDS has yet to prepare its own Internal Control Framework as it is currently adopting the WHO Internal Control Framework that was completed in November 2013 in order to meet their specific needs.

The UNAIDS Internal Control Framework (ICF) should be developed based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Model of Internal Control. It sets out five inter-related components of internal control and 18 principles that are required in order to have an integrated and effective internal control system. The five inter-related components are internal environment, risk assessment, control activities, information and communication, and monitoring.

42. The dependency of one internal control component with the other components suggests that the whole internal control must be viewed at a level where all components enable the policy managers to pinpoint some weak links. With this, we highlight the recommendation made by the UN Secretary-General – the adoption of an integrated risk management and internal control framework that will provide a consistent and comprehensive risk management methodology for the entire Secretariat. The integration of the two governance mechanisms will not be possible without an existing internal control framework to start with. UNAIDS can also take a significant step toward having a more effectively understood internal control with the formal framework in as much as it has its own internal control arrangement that should evolve.

43. Management informed us that UNAIDS is adopting the WHO Internal Control Framework to meet their specific needs and which, as they share the financial and administrative systems, has always been embedded in the structure of UNAIDS. That, it defines a policy framework for an effective internal control system, assisting all stakeholders within the organization to respond to the risks faced in pursuit of the UNAIDS Strategy, operationalized through the UBRAF. Management further explained that the system control activities of the internal control framework are defined and implemented in the Enterprise Resource Planning (ERP) System and refined as

necessary to ensure compliance procedures and controls that remain timely, relevant and robust.

44. Furthermore, UNAIDS considers internal control as a process designed to provide reasonable assurance to Management regarding the achievement of its objectives relating to operations, reporting and compliance.

45. We were likewise informed that UNAIDS is in the process of adapting an Internal Control Framework to meet UNAIDS-specific needs and to reflect the 2016-2021 Strategy and directions of the UBRAF 2016-2021. This framework will also be in line with international best practices and the recommendations of the High Level Committee on Management (HLCM). It will be guided by and will incorporate the principles of internal control outlined by the COSO and the Three Lines of Defense (3LoDs) model of the Institute of Internal Auditors. These two models are complementary and can be leveraged over each other. The 3LoDs model will be used in support of the COSO. The Internal Control Framework will be supplemented by a Reference Guide to internal control and a Self-Assessment checklist. This annual process will contribute to the mechanisms for providing assurances of internal control within UNAIDS and eventually, to the publishing of an Annual Statement of Internal Control.

46. We commend Management for the initial draft of the UNAIDS Internal Control Framework for Senior Management's endorsement. We look forward to the publishing of an Annual Statement of Internal Control as envisioned.

**Recommendation No. 2**

**Move forward to finalizing its own Internal Control Framework and the supporting tools to provide reasonable assurance on the attainment of the objectives relating to the operations, reporting and compliance with or adherence to applicable policies, rules and regulations of UNAIDS.**

### **2.3 Human Resource Processes – Personnel Turnover (Mobility and Succession Planning)**

47. The UNAIDS has updated and extended its *Human Resources Strategy for 2016-2021* by building upon the previous eight elements birthed for 2011-2015, and developed these into four pillars to support the Secretariat's core functions, which in turn shall position UNAIDS to reach the targets and strategic milestones that contribute to the AIDS-related Sustainable Development Goals (SDGs) and the target of ending AIDS by 2030. In focus for 2016-2021, the *Sustainable Development Goals require staff to become increasingly multi-skilled and able to deploy across a range of projects, functions and geographical areas*. Among the initiatives to support the evolution include workforce planning and mobility.

48. Workforce planning ensures that the profile of the Secretariat workforce remains aligned to its core functions, careful management and monitoring of HR data will be required. Accurate, real-time reporting of staffing data and trends will ensure that management decision-making is informed, and that workforce planning is a regular and sustained management activity that will result in a staffing profile that continues to evolve to remain fit for purpose. For mobility, the international nature of the Secretariat requires a workforce that is global, with skills and experience that are built progressively through exposure to different organizational levels and geographical locations.

49. During the period December 2015-January 2017, 110 out of the 830 UNAIDS staff separated from the Secretariat and approximately 10% of its staff in the headquarters (HQ) and in the field will be moving during the first half of 2017 as a direct result of its repositioning exercise. The latter was a *key management response* to not only a tough funding climate but, as quoted from Management's response to our query, *was also a strategic, comprehensive and inclusive process by which UNAIDS repositioned itself to deliver the SDGs and to have maximum impact in the new political and financial environment, with an organizational design that reflects a coherent*

*structure, cost-effective and efficient systems and business process, and strong internal capacity.*

50. A key outcome of the repositioning was a re-profiling and reduction in potentially overlapping functions across HQ and regional support teams, which is relevant as we observed that 68% of the total reduction in staff pertained to regional support teams. *This issue is still programmed to be addressed by 1 April 2017 wherein a new workforce structure for the Secretariat is set to become operational and through the establishment of so-called new country-focused departments at HQ, including the Fast Track Implementation Department and the Community Support Department.* These departments directly support additional staff with new functions located in country offices and with this streamlined and rationalized approach in place, overlapping functions and positions in the regional offices could be reorganised.

51. With the mobility aspect aptly addressed by the repositioning exercise and safely considered to be at midpoint pending the operationalization of the new workforce structure in the second quarter of 2017, another element which could influence effective streamlining of the HR Strategy aside from an unpredictable funding environment is succession planning.

52. Evaluation of the latest HR data revealed the following significant information:

Total staff with retirement dates within SDG Target Date Periods 2017-2030	Staff with retirement dates expected within five years (2017-2021)			
	Strategic Positions		Others	Total
	D1-D2	P3-P5		
313	20	51	29	100

53. Relevant data compiled per PCB Meeting 28-30 June 2016 Issuance on UNAIDS workforce planning and profile also showed the following:

- Staff delivering core functions in the Secretariat serve on fixed-term appointments, and comprise 95% of the workforce. The rest of the workforce (5%) is comprised of a small proportion of staff serving on temporary appointments.
- Thirty-five Secretariat staff participated in online courses offered by the UN System Staff College. Over 80% of the places were offered to General Service staff, mostly based in the field. To accommodate linguistic diversity, two courses were offered in both English and French. The first course, Skills for Administrative Assistants, equipped 19 support staff to effectively plan work, deliver results, manage time and effectively communicate around deliverables. The second course, Effective Writing Skills, assisted 13 staff in all categories to improve the structure, clarity and concision of written work. As a pilot, three colleagues with supervisory responsibilities attended the online course Creating High-Performing Teams.
- The average age distribution of the Secretariat workforce is 47.5 years. Currently, staff aged between 20 and 39 constitute 19% of the overall workforce.

54. Based on Management's reply to our query on the existence of a succession policy/plan, we noted that succession planning in UNAIDS is *carried out in an integrated fashion and is connected to the strategic objectives of the organization, in which succession planning is embedded directly in the organization's policies on recruitment, mobility, and development.*

55. The recruitment policy is presented in UNAIDS Information Note 2015-4, supported by the governing framework of the WHO Staff Regulations and Staff Rules, adjusted for the special needs of UNAIDS, and the guiding principles on completion, objectivity, transparency and diversity, among others. Further complementing the recruitment policy are the *Mobility Policy and Procedures* under UNAIDS Information Note 2014-4, which directly facilitates succession planning by ensuring the “timely placement of qualified staff in positions around the world, [and a] workforce fit for purpose. Mobility is implemented through an assessment of the interests, operational needs and priorities of the Secretariat.”

56. While the existing policies on recruitment and mobility may have an inter-relation with UNAIDS personnel succession, in-depth assessment would suggest that these three activities are geared towards distinctly different objectives.

57. While recruitment would primarily be for attraction and selection of the best talents and skills for UNAIDS, mobility would be for placement and staff development (multi-skills achieved through versatility and diversity). Moreover, succession would be for the effective continuity of the organization as a whole.

58. As succession would entail a study of the long-term goals of the organization, it should be undertaken under a structured process of needs assessment, the strategies and tools to address those needs and any underlying gap, within an acceptable timeline in which to implement them. In the scenario prevailing for UNAIDS, the HR focal points need to consider not only the reassignment/mobility turn-over of personnel within the next two or three years, wherein the effects of the repositioning exercise may become perceptible; the projected or expected number of vacancies, along with the appropriate resources available (weighing on age and professional experience) should likewise be a matter of concern.

**Recommendation No. 3**

**Report to the PCB the plan and policy to mainstream its succession strategy, with particular emphasis on:**

- a. Forecasting vacancies and identifying the appropriate timeline for the selection of potential next-in-line successor/s; and**
- b. Needs assessment for potential successors on leadership skills and other career development opportunities which may be addressed through improved or enhanced training and mentoring activities.**

**C. DISCLOSURES BY MANAGEMENT**

**Administrative waivers, amounts written off, ex-gratia payments and cases of fraud**

59. During the period 1 January 2016 to 31 December 2016, UNAIDS reported a total amount of US\$ 18 586 that was approved for write-off relating to travel advances mainly to former staff members no longer with the organization and where recovery was deemed not possible. There were no administrative waivers or ex-gratia payments during the financial period ended 31 December 2016. Furthermore, there were two cases of suspected fraud that were investigated under the direction of the WHO Office of Internal Oversight (OIS) which performs this function for UNAIDS. In both cases, the findings led to the separation from the Organization of the two staff members concerned.

**D. IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS**

60. We validated the implementation of External Audit Recommendations contained in the 2015 audit report. We noted that Management implemented all of the seven recommendations we provided; thereby, registering a 100% implementation. We recognize the prompt action by Management on the recommendations. Annex A presents the detailed analysis of the implementation of the recommendations.

## **E. ACKNOWLEDGEMENT**

61. We wish to express our appreciation for the cooperation and assistance extended to our staff by the Executive Director, the Director of Planning, Finance and Accountability, and the Chief of Risk Management, Financial Services and Compliance, and the members of their team.

62. We also wish to express our appreciation to the Programme Coordinating Board for their support for and interest in our work.

**COMMISSION ON AUDIT  
REPUBLIC OF THE PHILIPPINES  
External Auditor**

**3 April 2017  
Quezon City, Philippines**



**Annex A**

**Implementation of External Audit Recommendations in Prior Year**

<b>No.</b>	<b>Recommendation</b>	<b>External Auditor's Validation</b>
<p><b>1</b></p>	<p>Request enhancements of the Enterprise Resource Planning (ERP) system and its functionalities in order to eliminate the abnormal negative balances noted in the Staff Costs (LT, ST and Supplementary); Consulting Research, Contractual Services, Medical Supplies, Equipment Vehicles and Letters of Agreement (Transfers and Grants to Counterparts).</p>	<p><b>Implemented</b> In accordance with the External Auditor's recommendation, the UNAIDS continued to thoroughly monitor and review the transactions where the impact of the negative balances can be reduced. It should be noted that due to the configuration of the ERP and the closing and opening of the biennium, it is not possible to entirely eliminate the negative balances. However, due to the close monitoring and review, the number of negative balances has continued to decrease.</p>
<p><b>2</b></p>	<p>Craft quality assurance guidelines for reporting on the implementation of the UBRAF that:</p> <ul style="list-style-type: none"> <li>a. establish clear criteria for specifically defining quality and validated information in each key checkpoint or for each deliverable;</li> <li>b. outline roles and responsibilities for the key data quality assurance evaluators; and</li> <li>c. obtain agreement on the points and time that quality reviews will occur and how and to whom findings will be reported.</li> </ul>	<p><b>Implemented</b> In accordance with the External Auditor's recommendation regarding reporting on the implementation of the Unified Budget, Results and Accountability Framework (UBRAF), guidelines for quality assurance have been developed as part of this CY 2016 revision of the Joint Programme Monitoring System (JPMS)-(Annex II). The JPMS serves as the UNAIDS primary data collection and monitoring tool for the 2016-2021 UBRAF. These guidelines establish clear criteria for defining quality and validating information and outline roles and responsibilities for data quality assurance.</p>

No.	Recommendation	External Auditor's Validation
3	<p>Take the lead, through the UNAIDS Secretariat, in engaging with the Programme Coordinating Board (PCB) for the 2012-2015 UBRAF assessment as a primary operational tool. The assessment to include the analysis of strengths as well as lessons learned and weaknesses to be addressed for an improved 2016-2021 UBRAF, and to be presented in the 38<sup>th</sup> Meeting of the PCB in June 2016 at the time of the presentation of the final, more detailed and prioritized 2016-2021 UBRAF.</p>	<p><b>Implemented</b> In line with the recommendation of the External Auditor, an assessment of the 2012-2015 UBRAF was prepared. The assessment included an analysis of strengths and weaknesses as well as lessons learned which resulted in a more detailed and prioritized 2016-2021 UBRAF presented to the 38<sup>th</sup> PCB in June 2016.</p>
4	<p>Ensure, through the Human Resources Management (HRM), the full implementation and monitoring of its performance management policies and system with emphasis in the area of staff career development as the UNAIDS strengthens its management performance processes.</p> <p>Provide, through the HRM, greater focus on training supervisors in managing performance to include the management of underperformance.</p>	<p><b>Implemented</b> Management took note of our recommendation and confirmed our position that training for supervisors is essential, particularly one-on-one support for managers who are dealing with cases of underperformance. The UNAIDS has continued to ensure regular training and support for managers in this area. Most recently, during the final evaluation phase of the 2015-2016 performance cycle in March 2016, the Organizational Development team in HRM contacted all supervisors of staff not meeting performance expectations, to provide guidance on tools and managerial strategies for addressing underperformance.</p>
5	<p>Enhance its asset management procedures/policy by incorporating the following:</p> <ul style="list-style-type: none"> <li>a. criteria defining various circumstances surrounding asset loss;</li> <li>b. updated guidelines for documentation in case of asset loss; and</li> </ul>	<p><b>Implemented</b> In line with the recommendation, the UNAIDS has enhanced and expanded its existing guidance on asset management with respect to loss of assets, to include criteria defining various circumstances surrounding asset loss and levels of administrative and fiscal</p>

No.	Recommendation	External Auditor's Validation
	<p>c. levels of administrative and fiscal responsibility for every type of circumstance defined as the cause of asset loss.</p>	<p>responsibility for every type of circumstance defined as the cause of asset loss. An information note advising staff of these revisions has been issued and all of these revisions have been incorporated in the procurement manual (Chapter 16 refers).</p>
<p><b>6</b></p>	<p>Present the current portion of its long-term borrowings on the face of Statement I not only in compliance with the requirement of IPSAS 1 but more on offering relevant information in determining the cash flow requirements on currently maturing obligations. For the current reporting period, we recommended that Management include a note disclosing that there are currently maturing obligations out of the total reported long-term borrowings in Note 4.12.</p>	<p><b>Implemented</b> As indicated earlier, Management is in agreement with our recommendation to present the effective interest rate used in calculating the annual amortized cost of the loan in comparison to prior periods. Furthermore, as agreed, they reflected the current portion of the long-term borrowing under Current liabilities in Statement I of the 2016 Financial Report.</p>
<p><b>7</b></p>	<p>To be more observant in the implementation of the provisions of the Travel SOP in the recovery of <i>Delinquent</i> travel advances and a stringent adherence to the policy in the GSM regarding <i>Delinquent</i> travel claims that, if not submitted within the 60 days deadline, the advances be recovered by GSC as a Payroll deduction.</p>	<p><b>Implemented</b> In line with our recommendation, Management continued to ensure close collaboration with the Global Service Centre to ensure stringent adherence to the travel policy regarding delinquent travel claims. Management submitted an updated table which indicated that the number of delinquent travel claims has been significantly reduced.</p>