

FINANCIAL REPORTING

Financial report and audited financial statements for the year ended 31 December 2017

Additional documents for this item: Interim Financial Management Update for the period 1 January 2018 to 31 March 2018 (UNAIDS/PCB (42)/18.11).

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 2017

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 2017 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 sixth 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 2017.

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 37th 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 37th 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 38th meeting.
8. At its 38th 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

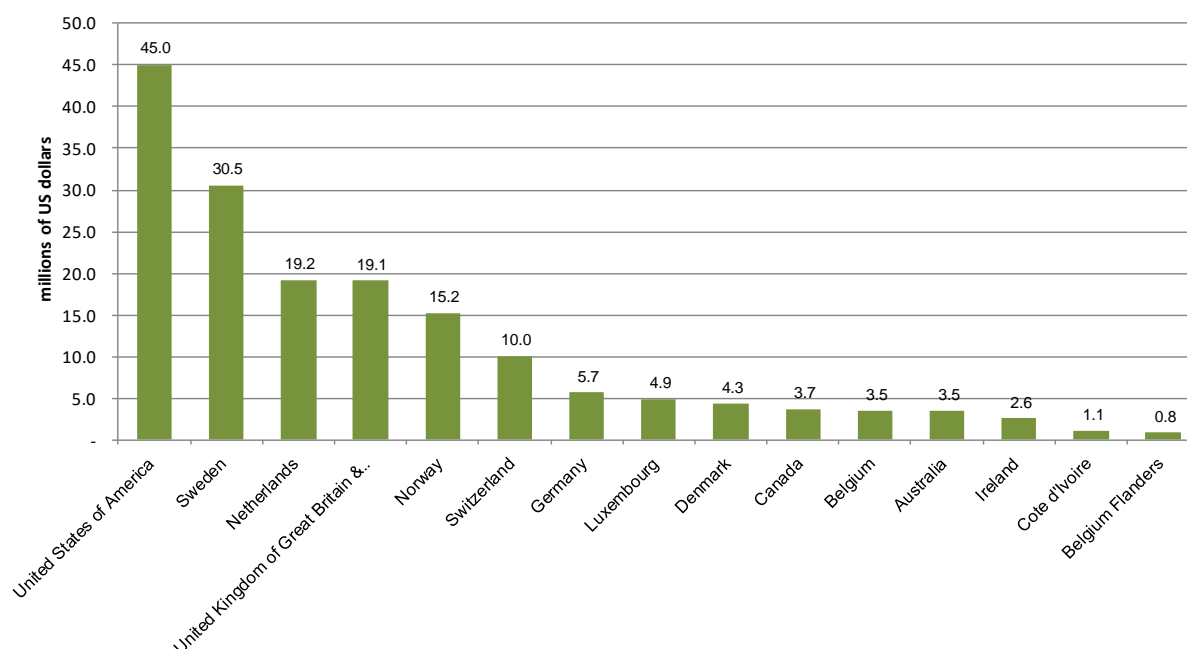
9. Total revenue for the year ended 2017 was US\$ 232.9 million for both core and non-core funds. Of this amount, US\$ 176.9 million was made available towards the UBRAF and US\$ 56 million to non-core funds. Of the non-core funds, US\$ 52 million was made available to UNAIDS to provide support to a number of global, regional and country activities that are designated for specific countries or purposes. The balance of US\$ 4 million represented unrealized exchange gains of US\$ 2.5 million and actuarial gains under the Terminal Payments Fund of US\$ 1.5 million. Table 1 provides details of revenue for 2017 and 2016.

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

Revenue	2017			Total 2016
	UBRAF Core Funds	Non-Core Funds	TOTAL	
Governments	172 402 332	46 717 440	219 119 772	216 233 780
Cosponsoring organizations	-	975 728	975 728	905 681
Others	481 497	4 320 221	4 801 718	8 451 477
Finance revenue	3 978 772	4 061 922	8 040 694	3 997 512
Grand Total	176 862 601	56 075 311	232 937 912	229 588 450

10. As summarized in Table 1 above, revenue totaling US\$ 176.9 million was mobilized and made available towards the UBRAF. This represented 73% of the Secretariat resource mobilization target of US\$ 242.4 million for the year 2017 (compared to US\$ 180.3 million or 75% for 2016; US\$ 200.9 million or 83% in 2015 and US\$ 232.8 million or 96% in 2014), which resulted in a shortfall of US\$ 65.5 million against the PCB-approved budget. The 2017 shortfall of US\$ 65.5 million is higher than the US\$ 62 million and US\$ 42 million shortfall in 2016 and 2015, respectively. Figure 1 (below) provides details of revenue received from UNAIDS main donors towards the UBRAF for the year 2017.

Figure 1. Details of revenue received from main donors towards the core Unified Budget, Results and Accountability Framework for the year 2017 (in millions of US dollars)



Expense

11. Total expenses for the year ended 31 December 2017 amounted to US\$ 225.2 million, of which US\$ 172.4 million related to expenses against the UBRAF for 2016–2017 and US\$ 50.3 million represented expenses under the non-core funds and US\$ 2.5 million represented finance costs. Table 2 provides details of expense by fund type for 2017 and 2016.

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

Expense	2017	2016
UBRAF core funds	172 425 127	179 784 783
Non-core funds	50 311 636	40 482 468
Prior period expense	-	3 152 381
Finance costs	2 470 891	3 559 958
Total Expense	225 207 654	226 979 590

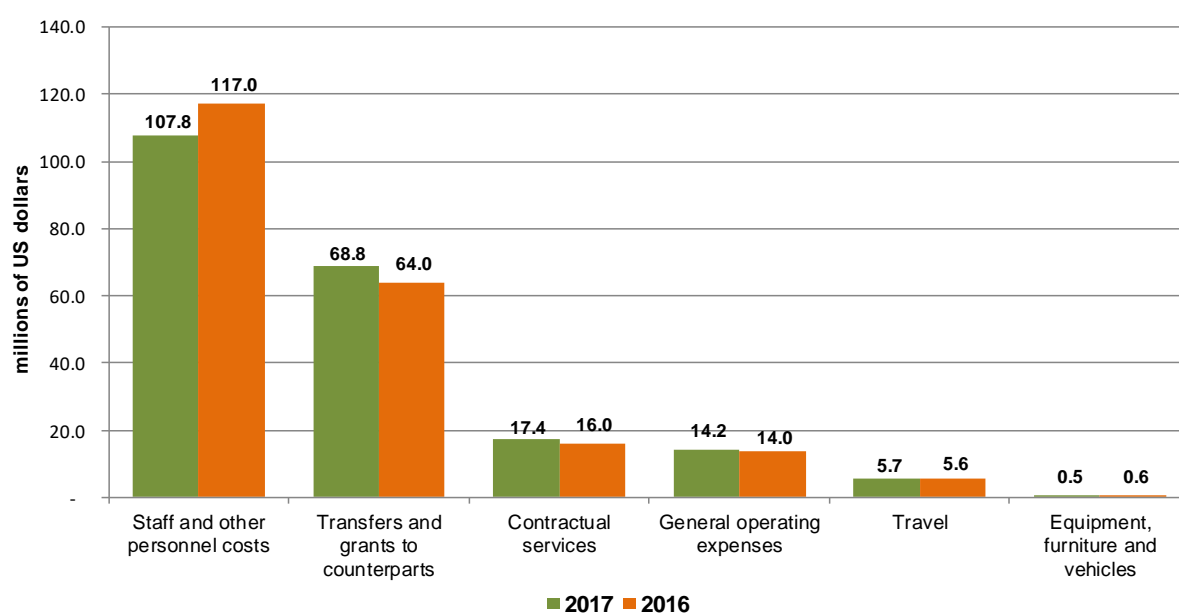
12. In view of the projected shortfall in revenue for the Joint Programme, and pursuant to decision 6.8 of the 37th PCB to ensure a sufficiently funded Secretariat from the core UBRAF, 50% of the envisaged core UBRAF allocation for 2017 was provided to the Cosponsors (US\$ 43.7 million against US\$ 87.3 million in the approved budget). Simultaneously, the Secretariat UBRAF expenditure for 2017 was reduced by 15% of the approved UBRAF (i.e. a reduction of US\$ 23.3 million to US\$ 131.7 million against US\$ 155 million in the approved budget).
13. Through the strategic repositioning completed in 2016 and together with initiatives and measures put in place to reduce costs and increase cost-effectiveness and efficiency the Secretariat achieved a reduction of its approved share of the UBRAF expense by 15% or US\$ 23.3 million (i.e. to US\$ 131.7 million against US\$ 155 million in the approved budget). The 2017 Secretariat UBRAF expense of US\$ 131.7 million also represented a reduction of US\$ 8.3 million or 5.9% when compared to the 2016 Secretariat UBRAF expense of US\$ 140 million.
14. Additionally, the total 2017 expense of US\$ 214.5 million is consistent to that of 2016 and represented a reduction of US\$ 2.5 million or 1.1% compared to the total expense for the year ended 2016 which amounted to US\$ 217 million. This is reflected in Table 3 and Figure 2 (below), which also show a reduction of costs under the staff expense category and consistent expense under the other major expense categories (when compared to 2016).

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

Expense	2017	2016
Staff and other personnel costs ^{a/}	107 828 029	117 013 794
Transfers and grants to counterparts	68 754 908	63 950 707
Contractual services	17 440 269	15 965 227
General operating expenses	14 181 316	13 958 955
Travel	5 712 605	5 574 217
Equipment, furniture and vehicles	541 989	561 633
Sub-total	214 459 116	217 024 533
Depreciation	670 342	706 534
Finance costs	2 470 891	3 559 958
ASHI and Terminal Payment (actuarial valuations)	7 607 305	5 688 565
Total Expense	225 207 654	226 979 590

^{a/} **Excludes** US\$7.6 million for 2017 and US\$5.7 million for 2016 related to expense against the Staff Health Insurance due to movement in the actuarial liability.

Figure 2. Details of expense by major category for year 2017 and 2016 (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 26th 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 36th 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 2017, the net fund balance of the UBRAF stood at US\$ 82 million or 16.9% of the biennial budget¹ (compared to US\$ 79.8 million or 16.5% as at 31 December 2016 and 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 the same level as in 2016 despite challenging financial constraints. This has been made possible through the initiatives and measures introduced to reduce costs and increase cost-effectiveness and efficiency and the transfer of 50% of the Cosponsors' allocations for 2017.
19. As highlighted under paragraph 15, 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 2017 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.

¹ In addition to the expense of US\$ 172.4 million in 2017 under the 2016–2017 UBRAF, US\$ 3 million was encumbered during 2017 (representing firm commitments of goods and services to be delivered in 2018). As a result, the net fund balance as at 31 December 2017 under the UBRAF to cover 2018 UBRAF activities was US\$ 81.7 million (US\$ 84.7 million less US\$ 3 million reserved for 2017 encumbrances).

PART II

FINANCIAL STATEMENTS, SCHEDULES AND NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2017

This section of the financial report presents the overall financial position of UNAIDS as of and for the year ended 31 December 2017. 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 2017.

Certification of Financial Statements

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



George Farhat
Director, Planning, Finance
and Accountability a.i.



Michel Sidibé
Executive Director
UNAIDS

6 March 2018



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

LETTER OF TRANSMITTAL

10 April 2018

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 2017.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Michael G. Aguinaldo".

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

Opinion

We have audited the financial statements of the Joint United Nations Programme on HIV/AIDS (UNAIDS), which comprise the statement of financial position as at 31 December 2017, 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 2017, 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 2017**, 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.

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 economics 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
10 April 2018



Statement I

Statement of Financial Position

All sources of funds as at 31 December 2017

(in US dollars)

	Note	31 December 2017	31 December 2016
ASSETS			
Current assets			
Cash and cash equivalents held by WHO	4.1	145 527 017	153 686 718
Accounts receivable - current	4.2	110 541 452	78 770 496
Staff receivables	4.3	1 927 433	1 773 017
Prepayments	4.4	496 699	3 411 564
Other current receivables	4.5	56 745	16 105
Total current assets		258 549 346	237 657 900
Non-current assets			
Accounts receivable - non-current	4.2	26 740 517	32 577 400
Property, plant and equipment	4.8	21 231 816	21 837 096
Total non-current assets		47 972 333	54 414 496
TOTAL ASSETS		306 521 679	292 072 396
LIABILITIES			
Current liabilities			
Contributions received in advance	4.9	-	97 666
Accounts payable	4.10	7 456 834	4 462 852
Staff payable	4.11	99 170	300 048
Accrued staff benefits - current	4.12	8 831 138	8 842 146
Deferred revenue - current	4.13	24 944 173	21 933 665
Long-term borrowings - current	4.14	611 452	583 415
Total current liabilities		41 942 767	36 219 792
Non-current liabilities			
Accrued staff benefits - non-current	4.12	87 354 408	63 642 278
Deferred revenue - non-current	4.13	26 683 533	32 520 416
Long-term borrowings - non-current	4.14	21 679 554	21 233 916
Total non-current liabilities		135 717 495	117 396 610
TOTAL LIABILITIES		177 660 262	153 616 402
NET ASSETS/EQUITY			
Net assets/reserves			
Operating Reserve Fund	4.16	35 000 000	35 000 000
Equity in capital assets		7 197 737	6 586 285
Common Fund		(8 846 120)	(10 647 411)
Non-restricted funds		84 658 898	82 490 168
Restricted funds		55 583 168	45 490 897
Building Renovation Fund	4.17	4 868 300	4 350 224
Staff Benefits		(47 700 657)	(24 554 122)
Non-payroll staff entitlements Fund		(1 899 909)	(260 047)
TOTAL NET ASSETS/EQUITY		128 861 417	138 455 994
TOTAL LIABILITIES AND NET ASSETS/EQUITY		306 521 679	292 072 396

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 2017
(in US dollars)

	Notes	31 December 2017	31 December 2016
Revenue			
Voluntary contributions	5.2		
Governments		219 119 772	216 233 780
Cosponsoring organizations		975 728	905 681
Others		4 801 718	8 451 477
Finance revenue	5.3	8 040 694	3 997 512
Total revenue		232 937 912	229 588 450
Expense			
	5.4		
Staff and other personnel costs		115 435 334	122 702 359
Transfers and grants to counterparts		68 754 908	63 950 707
Contractual services		17 440 269	15 965 227
General operating expenses		14 181 316	13 958 955
Travel		5 712 605	5 574 217
Equipment, vehicles and furniture		541 989	561 633
Depreciation		670 342	706 534
Finance costs		2 470 891	3 559 958
Total expense		225 207 654	226 979 590
Total surplus/(deficit) for the year		7 730 258	2 608 860

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

Statement III
Statement of Changes in Net Assets/Equity
All sources of funds for the year ended 31 December 2017
(in US dollars)

	Notes	31 December 2017	2017 Movements	2017 Adjustments	31 December 2016
Net assets/reserves	4.15				
Operating Reserve Fund	4.16	35 000 000			35 000 000
Equity in capital assets		4 458 270			4 458 270
Loan adjustments		2 739 467	611 452		2 128 015
Total Equity in capital assets		7 197 737	611 452	-	6 586 285
Common Fund					
Depreciation on property, plant and equipment		(6 089 868)	(670 342)		(5 419 526)
Revaluation reserve		(2 756 252)	2 471 633		(5 227 885)
Total Common Fund		(8 846 120)	1 801 291	-	(10 647 411)
Non-restricted funds					
UBRAF Core unrestricted		84 658 898	2 598 730	(430 000)	82 490 168
Restricted funds					
UBRAF Supplementary restricted		37 293 110	8 649 956		28 643 154
Extra-budgetary funds		18 290 058	1 442 315		16 847 743
Total Restricted		55 583 168	10 092 271	-	45 490 897
Other Funds					
Building Renovation Fund	4.17	4 868 300	88 076	430 000	4 350 224
Staff Benefits Fund					
Terminal Payments		4 571 894	1 868 149		2 703 745
Staff Health Insurance		(51 898 794)	(7 607 305)	(17 284 067)	(27 007 422)
Special Fund for Compensation		(373 757)	(82 544)	(40 768)	(250 445)
Total Staff Benefits Fund		(47 700 657)	(5 821 700)	(17 324 835)	(24 554 122)
Non-payroll staff entitlements Fund		(1 899 909)	(1 639 862)		(260 047)
Net assets/equity		128 861 417	7 730 258	(17 324 835)	138 455 994

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 2017
(in US dollars)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Surplus/(deficit) for the year	7 730 258	2 608 860
Depreciation	670 342	706 534
(Increase)/decrease in accounts receivables - current	(31 770 956)	(13 792 604)
(Increase)/decrease in accounts receivables - non-current	5 836 883	(29 531 585)
(Increase)/decrease in staff receivables	(154 416)	497 524
(Increase)/decrease in prepayments	2 914 865	(911 022)
(Increase)/decrease in other current receivables	(40 640)	16 905
Increase/(decrease) in contributions received in advance	(97 666)	(3 888 271)
Increase/(decrease) in accounts payables	2 993 982	(508 345)
Increase/(decrease) in staff payables	(200 878)	177 988
Increase/(decrease) in accrued staff benefits - current	(11 008)	(716 413)
Increase/(decrease) in deferred revenue - current	3 010 508	19 843 575
Increase/(decrease) in deferred revenue - non-current	(5 836 883)	29 531 585
Increase/(decrease) in accrued staff benefits - non-current	23 712 130	2 942 668
Increase/(decrease) in other current liabilities	-	-
<i>Net cash flow from operating activities</i>	<u>8 756 521</u>	<u>6 977 399</u>
Cash flows from investing activities		
(Increase)/decrease in purchase of property, plant and equipment	(65 062)	(205 401)
<i>Net cash flow from investing activities</i>	<u>(65 062)</u>	<u>(205 401)</u>
Cash flows from financing activities		
Increase/(decrease) in long-term borrowings - current	28 037	583 415
Increase/(decrease) in long-term borrowings -non-current	445 638	(358 450)
Direct adjustments to net assets/equity	(17 324 835)	2 702 454
<i>Net cash flow from financing activities</i>	<u>(16 851 160)</u>	<u>2 927 419</u>
Net Increase/(decrease) in cash and cash equivalents	<u>(8 159 701)</u>	<u>9 699 417</u>
Cash and cash equivalents at beginning of year	<u>153 686 718</u>	<u>143 987 301</u>
Cash and cash equivalents at end of year	<u>145 527 017</u>	<u>153 686 718</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 2017

(in US dollars)

	2016-2017 Approved core budget	Expense 2016	Expense 2017	Expense 2016-2017	Balance	Percentage implementation
	(a)	(b)	(c)	(d) = (b) + (c)	(e) = (a-d)	(f) = (d / a)
I. Result Areas						
1 HIV testing and treatment	51 245 000	12 726 485	13 436 740	26 163 225	25 081 776	51.1%
2 Elimination of Mother To Child Transmission	9 260 000	2 314 800	2 327 531	4 642 331	4 617 669	50.1%
3 HIV prevention among young people	27 410 000	6 897 538	6 416 841	13 314 379	14 095 621	48.6%
4 HIV prevention among key populations	26 802 000	6 932 210	6 857 999	13 790 209	13 011 791	51.5%
5 Gender inequality and GBV	18 214 000	4 494 997	4 408 606	8 903 603	9 310 397	48.9%
6 Human rights, stigma and discrimination	13 054 000	3 260 338	3 247 191	6 507 529	6 546 472	49.9%
7 Investment and efficiency	10 906 000	2 726 486	2 726 485	5 452 971	5 453 029	50.0%
8 HIV and health services integration	17 709 000	4 297 146	4 228 608	8 525 754	9 183 247	48.1%
Total Cosponsors	174 600 000	43 650 000	43 650 000	87 300 000	87 300 000	50.0%
II. Core Functions						
1 Leadership, advocacy and communication	84 218 000	37 525 668	33 140 382	70 666 050	13 551 950	83.9%
2 Partnerships, mobilization and innovation	54 216 000	21 708 426	23 618 453	45 326 879	8 889 121	83.6%
3 Strategic information	47 088 000	20 647 359	18 195 443	38 842 802	8 245 198	82.5%
4 Coordination, convening & country implementation support	57 140 000	24 455 913	23 591 700	48 047 613	9 092 387	84.1%
5 Governance and mutual accountability	67 558 000	32 775 644	30 229 149	63 004 793	4 553 207	93.3%
Total Secretariat	310 220 000	137 113 010	128 775 127	265 888 137	44 331 863	85.7%
Grand Total	484 820 000	180 763 010	172 425 127	353 188 137	131 631 863	72.8%

Basis differences

Capitalization of assets	205 401	(65 062)
Loan repayment	(565 730)	(611 452)

Total basis differences (360 329) (676 514)

Timing differences

Expenses incurred in prior period against all funds	3 152 375	-
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Entity differences

Expenses under other funds	43 424 534	53 459 041
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Total expense as per the Statement of Financial Performance (Statement II) 226 979 590 225 207 654

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 eleven United Nations organizations referred to as Cosponsors.²

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

The objectives of the Joint United Nations Programme on HIV/AIDS (UNAIDS), are contained in the Memorandum of Understanding among Cosponsors establishing UNAIDS and in the Economic and Social Council of the United Nations (ECOSOC) resolutions 1994/24 and 1995/2.

The objectives of UNAIDS were further refined and updated in UNAIDS new vision “*Zero new HIV infections. Zero discrimination. Zero AIDS-related deaths.*” and mission statement which were endorsed by the UNAIDS Programme Coordinating Board at its 26th meeting held in Geneva, from 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 United States dollar.

² When UNAIDS was established in 1994 the Joint Programme consisted of six UN system organizations: UNDP, UNICEF, UNFPA, WHO, UNESCO and the World Bank. Since that time, a further five UN agencies, namely UNODC, ILO, WFP, UNHCR and UN Women, have become UNAIDS Cosponsors.

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 at the dates of the transaction. The Operational Rates of Exchange are set once a month and 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 taken 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 included within 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 2017, 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 twelve months of the reporting date, while non-current receivables are due more than twelve 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 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 Unified Budget, Results and Accountability Framework 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 2017 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:

Asset Class	Estimated Useful Life (in years)
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 two to six 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 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 and include 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 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, 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 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 Unified Budget, Results and Accountability Framework funds, supplementary Unified Budget, Results and Accountability Framework 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 Unified Budget, Results and Accountability Framework 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 Programme Coordinating Board provides approval of the Unified Budget, Results and Accountability Framework 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.

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\$ 145 527 017 as at 31 December 2017 (US\$ 153 686 718 as at 31 December 2016).

	31 December 2017	31 December 2016
	(in US dollars)	(in US dollars)
Cash on hand and at bank (imprest accounts)	104 965	132 202
Cash held on behalf of UNAIDS by WHO	<u>145 422 052</u>	<u>153 554 516</u>
Total cash and cash equivalents held by WHO	<u>145 527 017</u>	<u>153 686 718</u>

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 similar credit risks 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 2017 was 0.5 years for short-term investments and 6.9 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) payroll expenditures in 2018 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 2017. As at 31 December 2017 the forward foreign currency exchange hedging contracts were CHF 17.3 million. Unrealized net loss on these contracts amounted to US\$ 0.1 million as at 31 December 2017 (US\$ 0.7 million net losses as at 31 December 2016). Realized gains or losses on these contracts will be recorded on maturity of the contracts and applied during 2018.

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 2017 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)
Euro	15 150 000	18 131 128	(88 622)
Pounds Sterling	22 500 000	30 282 921	(157 298)
Total		48 414 049	(245 920)

4.2 Accounts receivable

As at 31 December 2017, US\$ 137.3 million in contributions receivable was outstanding (US\$ 111.3 million as at 31 December 2016). A total of US\$ 80.4 million of this receivable is due to letters of credit outstanding with the Government of the United States of America; and US\$ 56.9 million represents receivables due in future financial periods (broken down between current, 2019 and beyond). An allowance for doubtful debts has been established after review of all the outstanding receivables for US\$ 0.2 million.

	31 December 2017	31 December 2016
	(in US dollars)	(in US dollars)
Accounts receivable - current		
Unified Budget, Results and Accountability Framework	68 152 472	52 221 701
Supplementary Funds	37 622 888	21 253 977
Extra-budgetary Funds	5 012 683	5 541 409
Allowance for doubtful debt against Extra-budgetary Funds	(246 591)	(246 591)
Total accounts receivable - current	110 541 452	78 770 496
Accounts receivable - non-current		
Unified Budget, Results and Accountability Framework	25 892 612	28 940 839
Supplementary Funds	790 921	2 144 122
Extra-budgetary Funds	-	1 435 455
Others	56 984	56 984
Total accounts receivable - non current	26 740 517	32 577 400
Total accounts receivable	137 281 969	111 347 896

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 2017, US\$ 1.9 million in staff receivables was outstanding including salary advances, rental advances, travel advances and education grant advances (US\$ 1.8 million as at 31 December 2016). The education grant advances represent the advances made to staff members for the scholastic year 2017-2018.

	31 December 2017	31 December 2016
	(in US dollars)	(in US dollars)
Staff receivables		
Salary advances	38 968	111 439
Rental advances	428 383	233 272
Education Grant advances	1 227 934	1 407 002
Travel advances	15 712	20 607
Expected Sick Leave Insurance Contribution	54 184	697
Other staff receivables	162 252	-
Total staff receivables	1 927 433	1 773 017

4.4 Prepayments

The total value of prepayments as at 31 December 2017 was US\$ 0.5 million (US\$ 3.4 million as at 31 December 2016). Out of this amount US\$ 0.3 million represents payments to suppliers in advance of receipt of goods or services which will be charged to expense in 2018. The remaining amount of US\$ 0.2 million relates to advances made to UNDP to cover payments made on behalf of UNAIDS.

	31 December 2017	31 December 2016
	(in US dollars)	(in US dollars)
Prepayments		
Advances to UNDP	146 048	250 330
Advances to Suppliers	350 651	3 161 234
Total prepayments	496 699	3 411 564

4.5 Other current receivables

As at 31 December 2017, US\$ 56 745 in other receivables was outstanding representing mainly value added tax (VAT) receivables.

4.6 Inventories

The Secretariat only held publication for distribution with no realizable value. The cost of publications expensed during 2017 amounted to US\$ 17 533.

4.7 Intangibles

The Secretariat has no intangible assets to report.

4.8 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 2017 with a value of US\$ 5 000 or above.

The assets value purchased during 2017 has been depreciated over the estimated useful life using the straight-line method. Equipment with original cost value totalling US\$ 756 400 has been fully depreciated and are still in use by the Secretariat.

	Building	Furniture and Fixtures	Vehicles	Communications and IT Equipment	Other Equipment	Total
	(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	970 203	321 587	340 089	27 256 622
Accumulated depreciation	(4 268 910)	(10 168)	(558 672)	(308 296)	(273 480)	(5 419 526)
Total carrying cost as at 31 December 2016	21 344 535	1 130	411 531	13 291	66 609	21 837 096
Movements 1 January to 31 December 2017						
Additions	-	-	53 625	5 597	5 840	65 062
Disposals						
Depreciation	(426 891)	(1 130)	(194 105)	(9 214)	(39 002)	(670 342)
Total property, plant and equipment	20 917 644	-	271 051	9 674	33 447	21 231 816

4.9 Contributions received in advance

This represents funds received in advance for activities starting in 2018. During 2017 there was no contribution received in advance.

4.10 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 2017 was US\$ 7.5 million (US\$ 4.5 million as at 31 December 2016).

	31 December 2017	31 December 2016
	(in US dollars)	(in US dollars)
Accounts payable		
Payables to suppliers	1 992 505	1 273 580
Non-staff meeting participants payable	69 616	-
Accrual of goods and services	5 361 204	3 144 995
Other payables	33 509	44 277
Total - accounts payable	7 456 834	4 462 852

4.11 Staff payable

The total balance for staff payable as at 31 December 2017 was US\$ 0.1 million (US\$ 0.3 million as at 31 December 2016). These amounts relate to salaries payable and other staff liabilities.

	31 December 2017	31 December 2016
	(in US dollars)	(in US dollars)
Staff payables		
Salaries payable	61 864	224 621
Other staff payables	37 306	75 427
Total - staff payables	99 170	300 048

4.12 *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 2017. The professional actuarial studies were calculated based on personnel data and past payment experience. As per the actuarial studies as at 31 December 2017, the total liability for staff benefits stood at US\$ 162.9 million (out of which US\$ 96.2 million is reflected in our accounts).

	31 December 2017	31 December 2016
	(in US dollars)	(in US dollars)
Accrued staff benefits - current		
Terminal Payments	8 823 843	8 837 601
Special fund for compensation	7 295	4 545
Total accrued staff benefits - current	8 831 138	8 842 146
Accrued staff benefits -non-current		
Terminal payments	9 671 800	10 966 361
After-service health insurance	77 031 710	52 140 338
Special fund for compensation	650 898	535 579
Total accrued staff benefits - non-current	87 354 408	63 642 278
Accrued staff benefits		
Terminal payments	18 495 643	19 803 962
After-service health insurance	77 031 710	52 140 338
Special fund for compensation	658 193	540 124
Total accrued staff benefits	96 185 546	72 484 424

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 2017 has estimated the total liability for terminal payments (excluding annual leave) to be US\$ 10.9 million (US\$ 12.1 million as at 31 December 2016). This calculation did not include cost of end of service grant and separation by mutual agreement.

The annual leave entitlements stood at US\$ 7.6 million as at 31 December 2017. The liability has been reduced by US\$ 0.1 million from US\$ 7.7 million in 2016.

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 2017 determined by professional actuaries based on personnel data and past payments experience provided by WHO stood at US\$ 143.7 million (US\$ 108.7 million as at 31 December 2016) of which US\$ 66.7 million is funded resulting in net unfunded liability of US\$ 77 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 loss of US\$ 17 million was transferred directly to net assets / equity in 2017 and an additional accrual of US\$ 7.6 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\$ 77 million as at 31 December 2017, following the Programme Coordinating Board decision at its 30th 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 funding the ASHI liability. Therefore, the unfunded ASHI liability as at 31 December 2017 stood at US\$ 51.9 million (i.e. US\$ 77 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\$ 0.66 million at 31 December 2017 (US\$ 0.54 million as at 31 December 2016). In accordance with IPSAS 39, the actuarial loss of US\$ 0.04 million was transferred directly to net assets / equity in 2017 and an additional accrual of US\$ 0.06 million has been recognized by nature of expenses in the Statement of Financial Performance.

Actuarial calculations

Description	After Service Health Insurance	Terminal Payments excluding Accrued Annual Leave	Special Fund for Compensation
	(in US dollars)	(in US dollars)	(in US dollars)
RECONCILIATION OF DEFINED BENEFIT OBLIGATIONS			
Defined Benefit Obligation at 31-Dec-2016	108 705 259	12 141 500	540 124
Service cost for 2017	10 703 955	818 403	64 258
Interest on Defined Benefit Obligation for 2017	2 715 274	323 396	18 286
(Actual After Service Gross Benefit Payments in 2017)	(350 288)	(1 736 092)	(5 243)
(Actual After Service Administrative Expenses in 2017)	(25 513)		
Actual Contributions by After Service Participants in 2017	171 199		
Plan Amendments		(19 650)	
Annual Expenses			
(Gain)/Loss on DBO Due to Financial Assumption Changes	10 598 301	(665 274)	19 185
(Gain)/Loss on DBO Due to Other Assumption Changes	11 194 448	58 169	21 583
Defined Benefit Obligation at 31-Dec-2017	143 712 635	10 920 452	658 193
RECONCILIATION OF ASSETS			
Assets at 31-Dec-2016, for SHI Net of 470.1 Reserve	56 564 921		
Reversal of IBNP Reserve at 31.12.2016	1 453 000		
(Actual Total Gross Benefit Payments for 2017)	(3 974 369)	(1 736 092)	(5 243)
(Actual Total SHI Administrative Expenses in 2017)	(289 466)		
(Actual Total SHI Aetna Administrative Expenses in 2017)			
Actual Total SHI Participant Contributions during 2017	3 098 053		
Actual Total Organization Contributions during 2017	5 960 204	1 736 092	5 243
Actual Aetna Expenses (Directly Paid by PAHO) during 2017	(655 936)		
(increase)/Decrease in 470.1 Reserve in 2017			
Interest on Net WHO-Administered SHI Assets for 2017	1 505 161		
Expected return on Assets for 2017			
Gain/(Loss) on Plan Assets during 2017	4 439 129		
Assets at 31-Dec-2017, for SHI Net of 470.1 Reserve	68 100 697	-	-
RECONCILIATION of Incurred-But-Not-Paid Reserve, Offset to Assets			
Incurred-But-Not-Paid Reserve at 31-12-2016	1 453 000		
Interest On Incurred-but-Not-Paid Reserve for 2017	36 325		
(Gain)/Loss on Incurred-But-Not-Paid Reserve	(68 325)		
Incurred-But-Not-Paid Reserve at 31-12-2017	1 421 000		
Net Assets (Gross Assets Minus Incurred-but-Not-Paid Reserve at 31-12-2017)	(66 679 697)		
RECONCILIATION OF FUNDED STATUS			
Defined Benefit Obligation (DBO)			
Active	123 596 447	10 920 452	461 318
Inactive	20 116 188		196 875
Total DBO	143 712 635	10 920 452	658 193
Plan Assets			
(Gross Plan Assets)	(68 100 697)		
Offset for WHO 470.1 Reserve	1 421 000		
(Net Plan Assets)	(66 679 697)	-	
Net (Surplus)/Deficit	77 032 938	10 920 452	658 193
Current (Asset)/Liability		1 248 652	7 295
Noncurrent (Asset)/Liability	77 032 938	9 671 800	650 898
Unrecognized Gain/(Loss)		(607 105)	
Net (Asset)/Liability Recognized in Statement of Financial Position	77 032 938	10 313 347	658 193
(Gain)/Loss on Defined Benefit Obligation	17 285 295		40 768
Current (Asset)/Liability		1 248 652	7 295
Non-current (Asset)/Liability	77 032 938	9 671 800	650 898
Net (Asset)/Liability Recognized in Statement of Financial Position	77 032 938	10 920 452	658 193
Annual Expense for 2017			
Service cost	10 703 955	818 403	64 258
Interest cost	1 246 438	323 396	18 286
Remeasurements		(607 105)	
Past Service (Credit)/Cost		(19 650)	
Total Expense Recognized in Statement of Financial Performance	11 950 393	515 044	82 544
Expected Accounting Contributions during 2018			
Expected Organization Contributions during 2018			
Contributions by UNAIDS for Active Staff	5 209 000	1 270 315	7 407
Contributions by UNAIDS for Inactives	665 000		
Total Expected Contributions for 2018	5 874 000	1 270 315	7 407
Sensitivity Analysis			
31 December 2017 Defined Benefit Obligation			
Current Medical Inflation Assumption Minus 1%	110 774 340		
Current Medical Inflation Assumption	143 712 635		
Current Medical Inflation Assumption Plus 1%	188 775 792		
Current Discount Rate Assumption Minus 1%	192 555 968	11 861 487	831 283
Current Discount Rate Assumption	143 712 635	10 920 452	658 193
Current Discount Rate Assumption Plus 1%	109 225 202	10 101 480	531 873

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 2017
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Discount rate

Terminal Payments (other than accrued leave)	The discount rate used is 3.5% (increase from 2.8% in the prior valuation). Based on the projected benefit payments with weights of 100% on the Aon AA Above Median Curve outside of Switzerland. The resulting discount rate is rounded to the nearest 0.1%									
After Service Health Insurance	<p>Europe—2.3% (decrease from 2.5% in prior valuation).</p> <p>The Americas—3.8% (decrease from 4.3% in prior valuation).</p> <p>Other Countries—4.0% (decrease from 4.6% 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 ASHL.</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 2017 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 2017</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 2017			Switzerland	Euro Zone	United States	40%	20%	40%
% of Rate for 2017										
Switzerland	Euro Zone	United States								
40%	20%	40%								
Special Fund for Compensation	The discount rate used is 3.1% (decrease from 3.4% 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 2017. The resulting discount rate is rounded to the nearest 0.1%.									

Annual General Inflation

Terminal Payments (other than accrued leave)	The weighted-average inflation rate used is 2.2%. The regional weightings used are 100% on non-Swiss rate. Rounding of the resulting weighted-average inflation rates for each plan to the nearest 0.1%.T
After Service Health Insurance	<p>Europe—1.8% (increase from 1.4% in prior valuation).</p> <p>The Americas and Other Countries—2.2% (decrease from 2.5% in prior valuation)</p> <p>The inflation rates are based on the U.N. common assumptions (for long-duration plans) of 1.3% Switzerland, 1.8% Euro Zone, and 2.2% for the United States as directed by the U.N. System Task Force on Accounting Standards, using the same weighted average methodology as the discount rate.</p>
Special Fund for Compensation	The weighted-average inflation rate used is 2%. The regional weightings used are 75% on non-Swiss rate and 25% on Swiss rate. Rounding of the resulting weighted-average inflation rates for each plan to the nearest 0.1%.

Annual Salary Scale

All Plans	Includes merit/promotional increases, plus 3.5 static increases for general inflation, plus productivity growth.
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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. Plus 2% increased is applied for incurred but not paid benefits (IBNP).
Repatriation Grant, Termination Indemnity, and Grant in Case of Death	Calculated using the projected unit credit method with accrual rate proration. Plus 2% increased is applied for incurred but not paid benefits (IBNP).
Accrued Leave	The liability is set equal to the walk-away liability as if all staff separated immediately. Plus 2% increased is applied for incurred but not paid benefits (IBNP).
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 some 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 proportionates 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 2017, contributions paid to UNJSPF amounted to US\$ 20.3 million (US\$ 22.9 million contributions in 2016). Expected contributions due in 2018 are US\$ 20 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.

4.13 *Deferred revenue*

As at 31 December 2017 deferred revenue amounted to US\$ 51.6 million (US\$ 54.5 million as at 31 December 2016). This represents multi-year pledges made in 2017 for which the revenue recognition has been deferred to future financial periods. Out of this amount, US\$ 26.7 million represents non-current deferred revenue for 2019 and future financial periods.

	31 December 2017	31 December 2016
	(in US dollars)	(in US dollars)
Deferred revenue - current		
Unified Budget, Results and Accountability Framework	19 442 151	16 524 410
Supplementary Funds	4 066 567	3 909 255
Extra-budgetary Funds	1 435 455	1 500 000
Total deferrred revenue - current	<u>24 944 173</u>	<u>21 933 665</u>
Deferred revenue - non-current		
Unified Budget, Results and Accountability Framework	25 892 612	28 940 839
Supplementary Funds	790 921	2 144 122
Extra-budgetary Funds	-	1 435 455
Total deferred revenue - non-current	<u>26 683 533</u>	<u>32 520 416</u>
Total deferred revenue	<u>51 627 706</u>	<u>54 454 081</u>

4.14 *Long-term borrowings*

At its 12th meeting in May 2004, the Programme Coordinating Board 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 outstanding amount for the UNAIDS building loan of US\$ 22.3 million is reflected at an amortized cost using the effective interest rate of 0.36% (0.35% for 2016) applicable for Swiss Confederation 30-year bond rate. Out of the total outstanding loan, US\$ 0.6 million will be due in the next 12 months and is shown as current liability.

4.15 Changes in net assets/equity

For the financial year ended 31 December 2017, the net assets/equity decreased by US\$ 9.6 million, out of which US\$ 7.7 million related to a surplus during 2017 (compared to a surplus of US\$ 2.6 million in 2016) and US\$ 17.3 million related to actuarial losses under ASHI and SFFC which was transferred directly to net assets/equity in accordance with IPSAS 39 (Employee benefits).

In line with the Programme Coordinating Board's approval to fund the annual replenishment of the Building Renovation Fund, in 2017 the Executive Director authorized the transfer of a total of US\$ 0.43 million from the fund balance towards the Building Renovation Fund. The Programme Coordinating Board during its 40th meeting held from 27 - 29 June 2017 took note of the Executive Director's decision.

The unfunded staff-related liabilities, stood at US\$ 47.7 million as at 31 December 2017 (US\$ 24.6 million as at 31 December 2016), an increase of US\$ 23.1 million. Of this amount, US\$ 5.8 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 loss of US\$ 17.3 million under ASHI and Special Fund for Compensation).

4.16 Operating Reserve Fund

Pending receipt of core contributions, implementation of the Unified Budget, Results and Accountability Framework may be financed from the Operating Reserve Fund (ORF), which was established by the Programme Coordinating Board in June 1996. The rules and procedures guiding the use of the ORF by the Executive Director were decided by the Programme Coordinating Board at its sixth meeting held in Geneva in May 1998.

4.17 Building Renovation Fund

The Building Renovation Fund was established by the Programme Coordinating Board at its 30th meeting in June 2012. This fund has been 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 Programme totalled US\$ 224.9 million (US\$ 225.6 million for 2016). Out of which US\$ 219.1 million from governments; US\$ 1 million from UNAIDS Cosponsors; and a net of US\$ 4.8 million from other operating revenue received from intergovernmental organizations, other United Nations Organizations, institutions, as well as the private sector). Included in this figure is an amount of US\$ 3.3 million representing in-service contributions and US\$ 0.1 million as in-kind contributions. There has been no revenue received on account of exchange transactions.

	UBRAF Core Funds (in US dollars)	Supplementary Funds (in US dollars)	Extra budgetary Funds (in US dollars)	Total 2017 (in US dollars)	Total 2016 (in US dollars)
Voluntary contributions					
Governments	172 402 332	31 828 654	14 888 786	219 119 772	216 233 780
Cosponsors	-	975 728		975 728	905 681
Others	481 497	4 386 713	(66 492)	4 801 718	8 451 477
Total voluntary contributions	172 883 829	37 191 095	14 822 294	224 897 218	225 590 938

5.3 Finance revenue

The total interest earnings were US\$ 2.5 million for the financial period ended 31 December 2017; the net realized foreign exchange gains were US\$ 2.5 million and actuarial revaluation gains on the terminal payment fund of US\$ 0.6 million for the same period. Net unrealized foreign exchange gains on revaluation of the accounts receivables and Swiss loan adjustments amounted to US\$ 2.4 million. This has resulted in a total amount of US\$ 8 million as financial revenue as at 31 December 2017 (US\$ 4 million as at 31 December 2016). Interest revenue is recognized as it accrues and is allocated by WHO to UNAIDS.

	31 December 2017 (in US dollars)	31 December 2016 (in US dollars)
Finance revenue		
Interest	2 470 084	2 865 588
Realised foreign exchange gains on balance sheet hedging	-	1 131 924
Net realized foreign exchange gains	2 491 872	-
Net unrealized foreign exchange gains on revaluation	2 471 633	-
Actuarial revaluation gains on Terminal Payments Funds	607 105	-
Total finance revenue	8 040 694	3 997 512

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 Unified Budget, Results and Accountability Framework 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 exchange losses on hedging and exchange and also includes actuarial interest cost related to valuation of Terminal Payments and Special Fund for Compensation.

Finance Costs	31 December 2017 (in US dollars)	31 December 2016 (in US dollars)
Bank charges and investment management fees	1 682	24 608
Net realized foreign exchange losses	-	1 826 103
Net unrealized foreign exchange losses on revaluation	-	1 177 844
Realised foreign exchange losses on balance sheet hedging	2 127 527	-
Actuarial interest cost related to valuation of Terminal Payments Fund and Special Fund for Compensation	341 682	531 403
Total finance costs	2 470 891	3 559 958

6. SEGMENT REPORTING

Schedule 1

Statement of Financial Performance by Segments

All sources of funds for the year ended 31 December 2017

(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		
Revenue										
Governments	172 402 332	31 828 654	14 888 786						46 717 440	219 119 772
Cosponsoring organizations		975 728							975 728	975 728
Others	481 497	4 386 713	(66 492)						4 320 221	4 801 718
Finance revenue	3 978 772			1 502 213				2 559 709	4 061 922	8 040 694
Total	176 862 601	37 191 095	14 822 294	1 502 213	-	-	-	2 559 709	-	232 937 912
Programme Support Costs			2 674 855						(2 674 855)	-
Payroll transfers to accrual funds				2 305 239	8 194 572				(10 499 811)	-
Total revenue	176 862 601	37 191 095	17 497 149	3 807 452	8 194 572	-	-	2,559,709	(13 174 666)	56 075 311
Expense										
Staff and other personnel costs	102 132 735	1 884 699	3 627 770	1 486 132	9 132 246	64 258	7 607 305		(10 499 811)	115 435 334
Transfers and grants to counterparts	46 144 455	11 667 191	10 943 262							68 754 908
Contractual services	5 990 445	10 336 547	411 923		701 354					17 440 269
General operating expenses	13 055 423	808 667	173 927	143 010	289					14 181 316
Travel	3 692 898	1 964 497	67 900	(13 235)	545					5 712 605
Equipment, vehicles and furniture	1 032 925	110 520	9 996					(611 452)	(490 936)	541 989
Programme Support Costs	85 781	1 769 018	820 056						(2 674 855)	-
Depreciation								670 342		670 342
Finance costs	2 129 209			323 396		18 286				2 470 891
Total expense	174 263 871	28 541 139	16 054 834	1 939 303	9 834 434	82 544	7 607 305	58 890	(13 174 666)	225 207 654
Total Surplus/(Deficit) by fund	2 598 730	8 649 956	1 442 315	1 868 149	(1 639 862)	(82 544)	(7 607 305)	2 500 819	-	7 730 258

7. COMPARISON OF BUDGET AND ACTUAL AMOUNTS

UNAIDS Programme Budget is established on a modified cash basis and is approved by the Programme Coordinating Board.

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.

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 Unified Budget Results and Accountability Framework approved by the Programme Coordinating 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 2017 are presented below.

Reconciliation of Budget Utilization (Statement V) with Statement of Cash Flow (Statement IV) as at 31 December 2017

	2017			
	Operating	Investing	Financing	Total
	(in US dollars)	(in US dollars)	(in US dollars)	(in US dollars)
Actual amount on budget implementation (Statement V)	(172 425 127)			(172 425 127)
Basis Difference	(611 452)	(65 062)	(16 851 160)	(17 527 674)
Timing Difference	-			-
Presentation Difference	128 334 059			128 334 059
Entity Difference	53 459 041			53 459 041
Actual Amount in Statement of Cash Flow (Statement IV)	8 756 521	(65 062)	(16 851 160)	(8 159 701)

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

During the financial year ended 31 December 2017, there were no administrative waivers, amounts written off or ex-gratia payments.

There was one case of suspected fraud that has been reported to the WHO Office of Internal Oversight (OIS) which performs investigation services on behalf of UNAIDS.

9. RELATED PARTY AND SENIOR MANAGEMENT DISCLOSURE

Key management personnel of UNAIDS consists of all staff members graded at the D1 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	22
Compensation and post adjustment	4 494 941
Entitlements	396 969
Pension and Health Plans	1 347 495
Total remuneration 2017	6 239 405
Outstanding advances against entitlements	79 661
Outstanding loans (in addition to normal entitlements if any)	-

10. EVENTS AFTER THE REPORTING DATE

The Programme's reporting date is 31 December 2017. On the date of the certifying of these accounts by the Executive Director and submission to the External Auditor, there have been no material events, favorable or unfavorable, occurred between the balance sheet date and the date when the financial statements have been authorized for issue that would have impacted these statements.

11. CONTINGENT LIABILITIES, COMMITMENTS AND CONTINGENT ASSETS

Contingent Liabilities

As at 31 December 2017, there were four outstanding personnel matters (appeal) before the WHO Global Board of Appeal (HBA). The respective recommendations from the WHO Global Board of Appeal (GBA) for decision by the UNAIDS Executive Director are expected during 2018. There were no outstanding personnel matters (complaint) pending with the ILO Administrative Tribunal. The legal proceeding pending before the ILOAT in 2016 was dismissed in its entirety. 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:

	31 December 2017	31 December 2016
	(in US dollars)	(in US dollars)
Operating leases		
Within one year	1 719 277	2 924 701
Later than one year but not later than five years	5 250 722	4 784 266
Later than five years	643 281	574 583
Total operating leases	7 613 280	8 283 550

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 2017, 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 2017**

(in US dollars)

Voluntary contributions	Funds made available towards year 2017 of the Unified Budget, Results and Accountability Framework
Governments	
Argentina	10 000
Australia	3 453 569
Belgium	3 529 412
Belgium Flanders	843 644
Canada	3 724 138
China	250 000
Cote d'Ivoire	1 084 003
Denmark	4 331 504
France	455 063
Germany	5 680 301
Ghana	200 000
Ireland	2 561 366
Japan	600 000
Kazakhstan	50 000
Liechtenstein	25 100
Luxembourg	4 915 114
Monaco	168 536
Netherlands	19 210 245
New Zealand	693 963
Norway	15 210 015
Poland	48 023
Portugal	111 982
Russian Federation	500 000
Sweden	30 524 258
Switzerland	10 010 010
Thailand	97 700
Turkey	40 000
United Kingdom of Great Britain & Northern Ireland	19 074 386
United States of America	45 000 000
Sub-total	172 402 332
Other	
Miscellaneous	481 497
Sub-total	481 497
Total operating revenue	172 883 829
Finance revenue	3 978 772
TOTAL	176 862 601

Schedule 3

**Supplementary - details of revenue
for the year ended 31 December 2017**

(US dollars)

Voluntary contributions	Funds made available towards Supplementary funds 2017
Governments	
China	750 000
Italy	559 910
Japan	250 000
Luxembourg	533 618
Netherlands	77 562
Russian Federation	2 000 000
Switzerland	586 312
United States of America (CDC)	1 618 432
United States of America (USAID)	25 452 820
<i>Sub-total Governments</i>	<u>31 828 654</u>
Cosponsoring Organizations	
UNDP	282 628
UNFPA	166 457
UNICEF	28 643
WFP	498 000
<i>Sub-total Cosponsors</i>	<u>975 728</u>
Other	
Asian Development Bank (ADB)	538 579
Bill and Melinda Gates Foundation	1 598 524
Children's Investment Fund Foundation (CIFF)	460 255
Ford Foundation	100 000
Global Fund	107 950
ICAP North America Inc.	55 000
Instituto Humanista De Cooperacion Para el Desarrollo - HIVOS	13 000
MAC AIDS Fund	250 000
MDTF Office	224 943
OFID	300 000
Support for International Change UK	14 916
UNOPS	726 526
Miscellaneous	272 216
Refund to donors	(275 196)
<i>Sub-total</i>	<u>4 386 713</u>
TOTAL	<u>37 191 095</u>

Schedule 4

Extra-budgetary funds - details of revenue
for the year ended 31 December 2017
(US dollars)

Voluntary contributions	Funds made available towards Extra-budgetary funds 31 December 2017		
	In Cash	In- Kind and In-service	Total
Governments			
Belgium		198 582	198 582
Finland		132 629	132 629
France		579 011	579 011
Germany		350 960	350 960
Italy		175 644	175 644
Luxembourg		302 870	302 870
Netherlands		452 871	452 871
Russian Federation	1 500 000		1 500 000
Sweden		304 640	304 640
Switzerland		505 842	505 842
United States of America (CDC)		307 691	307 691
United States of America (USAID)	10 000 000		10 000 000
Canton de Genève, Switzerland		78 046 ⁽¹⁾	78 046
Sub-total	11 500 000	3 388 786	14 888 786
Miscellaneous	99 534		99 534
Refund to donors	(166 026)		(166 026)
Sub-total	(66 492)	-	(66 492)
TOTAL	11 433 508	3 388 786	14 822 294

(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 2017

During the period under review, revenue totalling US\$ 176.9 million was made available towards the UBRAF. Twenty-nine governments contributed 97.5% of this amount. The remaining 2.5% 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 47 provides the details of this revenue.

Furthermore, non-core resources amounting to US\$ 52 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 48 and 49.

II. Funds expended for the financial period ended 31 December 2017

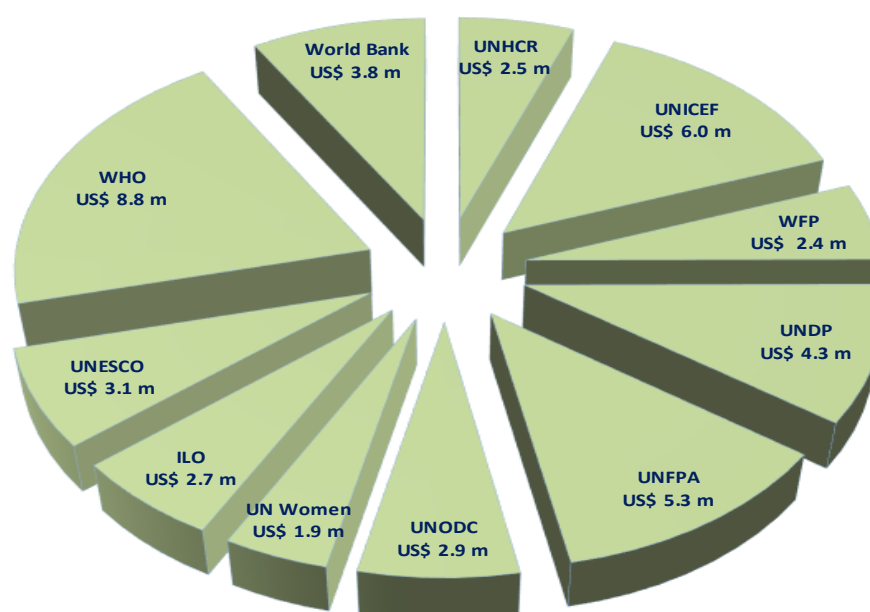
The total expense for the financial period ended 31 December 2017 against the UBRAF for 2016–2017 amounted to US\$ 172.4 million and expenses against the non-core funds amounted to US\$ 44.6 million (excluding encumbrances).

A. Unified Budget, Results and Accountability Framework

During the year ended 31 December 2017, expense and encumbrance (including transfers to Cosponsors) totalling US\$ 175.4 million were incurred against the budget of US\$ 484.8 million approved for the 2016–2017 UBRAF.

The 2017 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 2017 under the 2016–2017 UBRAF (Figure 3 provides information on the proportion of funds transferred to each individual Cosponsor); US\$ 128.7 million was expended and US\$ 3 million encumbered for Secretariat activities.

Figure 3. Funds transferred to the Cosponsors as of 31 December 2017



Total UBRAF expenses and encumbrances for 2016-2017 amounted to US\$ 356.1 million representing a financial implementation of 73.5% (US\$180.8 million expended in 2016 and US\$ 172.4 million expended and US\$ 3 million encumbered in 2017). 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 2017 and for the biennium 2016–2017.

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

Statement of Comparison of Budget and Actual Amount
2016-2017 Unified Budget, Results and Accountability Framework
for the period ended 31 December 2017
(in US dollars)

	2016-2017 Approved core budget	Expense 2016	Expense 2017	Encumbrances ^{a/}	Expense 2016-2017	Balance	Percentage implementation
	(a)	(b)	(c)	(d)	(e) = (b + c + d)	(f) = (a-e)	(f) = (d / a)
I. Result Areas							
1	HIV testing and treatment	51 245 000	12 726 485	13 436 740	26 163 225	25 081 776	51.1%
2	Elimination of Mother To Child Transmission	9 260 000	2 314 800	2 327 531	4 642 331	4 617 669	50.1%
3	HIV prevention among young people	27 410 000	6 897 538	6 416 841	13 314 379	14 095 621	48.6%
4	HIV prevention among key populations	26 802 000	6 932 210	6 857 999	13 790 209	13 011 791	51.5%
5	Gender inequality and GBV	18 214 000	4 494 997	4 408 606	8 903 603	9 310 397	48.9%
6	Human rights, stigma and discrimination	13 054 000	3 260 338	3 247 191	6 507 529	6 546 472	49.9%
7	Investment and efficiency	10 906 000	2 726 486	2 726 485	5 452 971	5 453 029	50.0%
8	HIV and health services integration	17 709 000	4 297 146	4 228 608	8 525 754	9 183 247	48.1%
Total Cosponsors		174 600 000	43 650 000	43 650 000	-	87 300 000	50.0%
II. Core Functions							
1	Leadership, advocacy and communication	84 218 000	37 525 668	33 140 382	1 018 766	71 684 816	85.1%
2	Partnerships, mobilization and innovation	54 216 000	21 708 426	23 618 453	397 615	45 724 494	84.3%
3	Strategic information	47 088 000	20 647 359	18 195 443	721 826	39 564 628	84.0%
4	Coordination, convening & country implementation support	57 140 000	24 455 913	23 591 700	346 467	48 394 080	84.7%
5	Governance and mutual accountability	67 558 000	32 775 644	30 229 149	475 124	63 479 917	94.0%
Total Secretariat		310 220 000	137 113 010	128 775 127	2 959 798	268 847 935	86.7%
Grand Total		484 820 000	180 763 010	172 425 127	2 959 798	356 147 935	73.5%

^{a/} Encumbrances representing firm commitment for good and/or services which have not yet been delivered

B. Expense incurred against the non-core funds

During the year ended 31 December 2017, a total amount of US\$ 44.6 million was expended by the Secretariat against non-core funds (US\$ 28.5 million was expended against supplemental funds and US\$ 16.1 million was expended against extra-budgetary funds). In addition to the above, US\$ 4.6 million and US\$ 0.1 million was encumbered against supplemental and extra-budgetary funds, respectively, as indicated in Table 5 and Table 6 on pages 52 and 53.

C. Country and regional expense against all sources of funds

As recommended by the PCB at its 22nd meeting, held in Chiang Mai, Thailand from 23–25 April 2008, the report in Table 7 on pages 54 to 55 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\$ 85.4 million for the financial period ended 31 December 2017. In addition to the above expense, a total of US\$ 5.4 million was encumbered during the same period, which together totalled US\$ 90.8 million for the financial period ended 31 December 2017.

Table 5

Supplementary funds
Funds available, expense and encumbrance summary by source of revenue
for the year ended 31 December 2017
(in US dollars)

Source of revenue	2016 carry-over	Funds made available in 2017	Total available funds	Expense	Encumbrance ^{a/}	Total	Percentage implementation
	(a)	(b)	(c) = (a+b)	(d)	(e)	(f) = (d + e)	(g) = (f / c)
Voluntary contributions and other revenue							
China	1 188 410	750 000	1 938 410			0	0.0%
Italy		559 910	559 910			0	0.0%
Japan	33 615	250 000	283 615	279 803		279 803	98.7%
Luxembourg	26	533 618	533 644	530 238	8 513	538 751	101.0%
Netherlands	193 967	77 562	271 529	69 138	18 389	87 527	32.2%
Norway	16 182		16 182	12 839		12 839	79.3%
Republic of Korea	8 310		8 310			0	0.0%
Russian Federation	1 755 997	2 000 000	3 755 997	3 140 899	169 635	3 310 534	88.1%
Sweden	4 106 719		4 106 719	3 632 423	251 773	3 884 196	94.6%
Switzerland	464 066	586 312	1 050 378	663 819	88 782	752 601	71.7%
United States of America (CDC)	1 952 668	1 618 432	3 571 100	1 955 313	92 432	2 047 745	57.3%
United States of America (USAID)	11 507 768	25 452 820	36 960 588	12 149 952	3 256 209	15 406 161	41.7%
African Society for Laboratory Medicine (ASLM)	94 206		94 206	19 205		19 205	20.4%
Asian Development Bank	599 040	538 579	1 137 619	371 825	164 690	536 515	47.2%
Bill & Melinda Gates Foundation	1 188 990	1 598 524	2 787 514	1 112 347	68 308	1 180 655	42.4%
British Columbia Centre for Excellence in HIV/AIDS(BC-CFE)	53 017		53 017	53 017		53 017	100.0%
Children's Investment Fund Foundation (CIFF)		460 255	460 255	48 275	14 650	62 925	13.7%
Drosos Foundation	161 475		161 475	88 767	35 051	123 818	76.7%
Ford Foundation	200 364	100 000	300 364	95 813	4 990	100 803	33.6%
Global Fund	5 000	107 950	112 950	112 950		112 950	100.0%
ICAP North America Inc.		55 000	55 000			0	0.0%
Instituto Humanista De Cooperacion Para el Desarrollo - HIVOS		13 000	13 000	9 672	2 282	11 954	92.0%
Islamic Development Bank	188 386		188 386	143 373	23 742	167 115	88.7%
MDTF Office	1 802 222	224 943	2 027 165	1 338 479	115 798	1 454 277	71.7%
M.A.C. AIDS Fund	499 610	250 000	749 610			0	0.0%
OFID	726 916	300 000	1 026 916	466 346	175 983	642 329	62.5%
Support for International Change UK		14 916	14 916	14 842		14 842	99.5%
UNDP	67 086	282 628	349 714	165 105	10 919	176 024	50.3%
UNHCR	30 498		30 498	21 074		21 074	69.1%
UNICEF	185 327	28 643	213 970	167 376	16 164	183 540	85.8%
UNFPA	405 816	166 457	572 273	380 521	4 622	385 143	67.3%
UNAIDS USA	35 722		35 722			0	0.0%
UNOHCHR	16 000		16 000			0	0.0%
UNOPS	481 643	726 526	1 208 169	905 121	47 457	952 578	78.8%
WFP	24 800	498 000	522 800	18 502	6 111	24 613	4.7%
Interest and other	649 306	(2 980)	646 326	574 105	63 460	637 565	98.6%
Total	28 643 153	37 191 095	65 834 248	28 541 139	4 639 960	33 181 099	50.4%

^{a/} 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 2017
(in US dollars)

Source of revenue	2016 carry-over	Funds made available in 2017	Total available funds	Expense	Encumbrance ^{a/}	Total	Percentage implementation
	(a)	(b)	(c) = (a+b)	(d)	(e)	(f) = (d + e)	(g) = (f / c)
<i>Voluntary contributions and other revenue</i>							
Belgium	179 354	198 582	377 936	198 582		198 582	52.5%
Finland		132 629	132 629	132 629		132 629	100.0%
France		579 011	579 011	579 011		579 011	100.0%
Germany	218 601	350 960	569 561	350 960		350 960	61.6%
Italy		175 644	175 644	175 644		175 644	100.0%
Japan	300 000		300 000			-	0.0%
Luxembourg	27 341	302 870	330 211	302 870		302 870	91.7%
Netherlands	379 910	452 871	832 781	452 871		452 871	54.4%
Norway	294 945		294 945			-	0.0%
Russian Federation		1 500 000	1 500 000	1 400 603		1 400 603	93.4%
Sweden	14	304 640	304 654	304 640		304 640	100.0%
Switzerland		505 842	505 842	505 842		505 842	100.0%
Canton de Genève, Switzerland		78 046	78 046	78 046		78 046	100.0%
United States of America (CDC)	99 341	307 691	407 032	307 691		307 691	75.6%
United States of America (USAID)	3 424 927	10 000 000	13 424 927	10 209 999		10 209 999	76.1%
European Commission	203 761		203 761			-	0.0%
MDTF Office	22 385		22 385	17 906		17 906	80.0%
UNDP	150 617		150 617	10 706		10,706	7.1%
UNWTO ST-EP Foundation	25 000		25 000			-	0.0%
WHO	528 927		528 927			-	0.0%
Interest and other	10 992 620	(66 492)	10 926 128	1 026 834	147 226	1 174 060	10.7%
Total	16 847 743	14 822 294	31 670 037	16 054 834	147 226	15 948 370	50.4%

^{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 2017**
(in US dollar)

Region	Countries	Unified Budget, Results and Accountability Framework			Non-core Funds			Total		
		Expense	Encumbrance ^{a/}	Total	Expense	Encumbrance ^{a/}	Total	Expense	Encumbrance ^{a/}	Total
Asia and Pacific	Regional Support Team, Asia and Pacific	3 142 891	109 731	3 252 623	213 861	436 800	650 660	3 356 752	546 531	3 903 283
	Bangladesh	181 992	9 649	191 641	27 246		27 246	209 238	9 649	218 887
	Bhutan	1 000	513	1 513				1 000	513	1 513
	Cambodia	668 291	4 369	672 660	21 627		21 627	689 918	4 369	694 287
	China	1 144 913	9 836	1 154 749				1 144 913	9 836	1 154 749
	Fiji	260 566	10 613	271 179	17 344	2 277	19 621	277 909	12 891	290 800
	India	1 102 368	60 653	1 163 021	477 924	22 598	500 522	1 580 291	83 252	1 663 543
	Indonesia	679 274	17 596	696 870	175 595	21 496	197 091	854 869	39 092	893 961
	Lao People's Democratic Republic	72 538	4 256	76 794				72 538	4 256	76 794
	Malaysia	13 030		13 030				13 030		13 030
	Mongolia	1 221		1 221				1 221		1 221
	Myanmar	830 329	19 258	849 587	4 237 380	565 197	4 802 578	5 067 709	584 455	5 652 164
	Nepal	418 038	12 579	430 617				418 038	12 579	430 617
	Pakistan	687 579	8 122	695 701	153 976	9 116	163 092	841 554	17 239	858 793
	Papua New Guinea	800 292	37 419	837 711				800 292	37 419	837 711
	Philippines	225 094	14 767	239 862				225 094	14 767	239 862
	Sri Lanka	7 030		7 030				7 030		7 030
	Thailand	451 662	19 437	471 099	52 889	12 500	65 389	504 551	31 937	536 488
Viet Nam	651 785	5 156	656 941	342 917	7 828	350 745	994 702	12 984	1 007 686	
Total Asia and Pacific		11 339 892	343 956	11 683 848	5 720 758	1 077 813	6 798 571	17 060 650	1 421 769	18 482 419
East and South Africa	Regional Support Team, East and South Africa	2 940 291	124 005	3 064 296	5 617 208	2 163 151	7 780 360	8 557 499	2 287 156	10 844 656
	Angola	1 313 112	5 203	1 318 315				1 313 112	5 203	1 318 315
	Botswana	616 388	88 152	704 540	220 880		220 880	837 267	88 152	925 420
	Eritrea	51 318	4 901	56 218				51 318	4 901	56 218
	Ethiopia	851 519	30 514	882 032	53 698	249	53 947	905 216	30 763	935 979
	Kenya	1 501 724	61 328	1 563 052	191 491		191 491	1 693 215	61 328	1 754 543
	Lesotho	633 099	10 261	643 361				633 099	10 261	643 361
	Madagascar (covering Seychelles, Comores, Mauritius)	295 658	32 196	327 855				295 658	32 196	327 855
	Malawi	881 557	12 222	893 779	264 745		264 745	1 146 302	12 222	1 158 524
	Mozambique	1 079 766	9 026	1 088 792	170 606		170 606	1 250 372	9 026	1 259 398
	Namibia	611 411	10 441	621 852	49 879		49 879	661 290	10 441	671 731
	Rwanda	467 561	14 813	482 373	162 041		162 041	629 602	14 813	644 415
	South Africa	1 644 961	7 143	1 652 104	613 403	6 855	620 258	2 258 364	13 997	2 272 361
	South Sudan	698 064	6 248	704 312				698 064	6 248	704 312
	Swaziland	687 858	19 611	707 469				687 858	19 611	707 469
	Tanzania, United Republic of	1 516 377	7 562	1 523 939	136 617	11 237	147 854	1 652 994	18 799	1 671 793
	Uganda	972 442	18 612	991 053	574 300	106 992	681 291	1 546 741	125 604	1 672 345
	Zambia	1 010 079	4 533	1 014 612	776 816	18 963	795 779	1 786 895	23 496	1 810 392
Zimbabwe	1 056 512	38 425	1 094 937	167 797	4 338	172 135	1 224 308	42 764	1 267 072	
Total East and South Africa		18 829 696	505 195	19 334 891	8 999 480	2 311 786	11 311 266	27 829 176	2 816 980	30 646 157
Europe	Regional Support Team, Europe	2 722 614	29 149	2 751 764	4 232 040	204 788	4 436 828	6 954 654	233 938	7 188 592
	Armenia				50 143		50 143	50 143		50 143
	Belarus	2 108		2 108	90 440		90 440	92 548		92 548
	Kazakhstan	648 186	8 498	656 683				648 186	8 498	656 683
	Kyrgyzstan	10 551	168	10 720	78 289	792	79 081	88 840	960	89 800
	Moldova, Republic of	62 124		62 124	79 201	3 341	82 543	141 326	3 341	144 667
	Tajikistan	12 144		12 144	64 222	1 706	65 927	76 366	1 706	78 071
	Ukraine	892 569	6 066	898 635				892 569	6 066	898 635
	Uzbekistan	66 348	6 143	72 492				66 348	6 143	72 492
Total Europe		4 416 645	50 024	4 466 669	4 594 334	210 628	4 804 962	9 010 979	260 652	9 271 631

^{a/} 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 ^{a/}	Total	Expense	Encumbrance ^{a/}	Total	Expense	Encumbrance ^{a/}	Total
Latin America and Caribbean	Regional Support Team, Latin America and Caribbean	2 506 422	49 253	2 555 676	23 305	13 396	36 700	2 529 727	62 649	2 592 376
	Argentina	618 425	14 263	632 688	7 160		7 160	625 585	14 263	639 848
	Bolivia	3 417	153	3 570				3 417	153	3 570
	Brazil	693 592	3 473	697 065	148 498	10 919	159 417	842 089	14 393	856 482
	Chile	1 482		1 482				1 482		1 482
	Colombia	75 366	646	76 012				75 366	646	76 012
	Costa Rica	1 155	45	1 200				1 155	45	1 200
	Dominican Republic	358 307	15 284	373 591	135 878	8 763	144 640	494 185	24 046	518 231
	Ecuador	2 200		2 200				2 200		2 200
	El Salvador	120 942	461	121 403				120 942	461	121 403
	Guatemala	746 292	13 153	759 445	33 585	9 305	42 890	779 877	22 458	802 335
	Guyana	529 726	11 627	541 353	9 000		9 000	538 726	11 627	550 353
	Haiti	1 086 154	26 998	1 113 152	27 000	2 400	29 400	1 113 154	29 398	1 142 552
	Honduras	245 943	23 450	269 392				245 943	23 450	269 392
	Jamaica	938 622	31 225	969 847	10 438	2 500	12 938	949 060	33 725	982 785
	Nicaragua	2 237		2 237				2 237		2 237
	Paraguay	2 157	11	2 167				2 157	11	2 167
	Peru	572 501	1 450	573 951				572 501	1 450	573 951
Uruguay	1 368	11	1 378				1 368	11	1 378	
Venezuela	119 931	2 276	122 207				119 931	2 276	122 207	
Total Latin America and Caribbean		8 626 238	193 780	8 820 017	394 862	47 283	442 145	9 021 100	241 062	9 262 162
Middle East & North Africa	Regional Support Team, Middle East and North Africa	1 029 319	33 277	1 062 596	176 936	44 596	221 533	1 206 255	77 873	1 284 129
	Algeria	166 495	12 583	179 078				166 495	12 583	179 078
	Djibouti	321 063	6 357	327 419	172 072	49 078	221 150	493 134	55 435	548 569
	Egypt	86 517	15 241	101 758	147 575	53 440	201 015	234 092	68 682	302 774
	Iran	365 572	7 616	373 188				365 572	7 616	373 188
	Morocco	491 115	3 148	494 263	89 437	3 633	93 070	580 552	6 781	587 333
	Somalia	104 708	2 445	107 153	18 503		18 503	123 210	2 445	125 656
	Sudan	296 242	8 154	304 396	77 179	80 744	157 924	373 421	88 898	462 319
	Tunisia	55 188	130	55 318	35 704	21 673	57 377	90 892	21 803	112 695
	Total Middle East and North Africa		2 916 218	88 952	3 005 169	717 407	253 165	970 572	3 633 625	342 117
West and Central Africa	Regional Support Team, West and Central Africa	3 110 248	46 531	3 156 779	2 381 003		2 381 003	5 491 251	46 531	5 537 782
	Benin	450 769	2 075	452 845	20 482	1 613	22 094	471 251	3 688	474 939
	Burkina Faso	458 313	6 813	465 126				458 313	6 813	465 126
	Burundi	424 435	4 275	428 710	1 649		1 649	426 083	4 275	430 358
	Cameroon	783 871	14 219	798 090	58 727		58 727	842 598	14 219	856 817
	Central African Republic	696 200	4 804	701 004				696 200	4 804	701 004
	Chad	547 517	33 652	581 169				547 517	33 652	581 169
	Congo	533 007	6 436	539 443				533 007	6 436	539 443
	Côte d'Ivoire	829 835	7 487	837 322	154 557	25 887	180 444	984 392	33 373	1 017 765
	Democratic Republic of Congo	1 416 269	14 730	1 430 999	78 890	2 723	81 613	1 495 159	17 453	1 512 612
	Equatorial Guinea	226 319	1 688	228 007				226 319	1 688	228 007
	Gabon	452 469	8 214	460 683				452 469	8 214	460 683
	Gambia	75 079	9 033	84 112				75 079	9 033	84 112
	Ghana	712 826	10 676	723 501				712 826	10 676	723 501
	Guinea	351 961	86	352 048				351 961	86	352 048
	Guinea-Bissau	6 439	615	7 054	10 485	22 198	32 683	16 924	22 813	39 737
	Liberia	427 735	17 364	445 099	22 541		22 541	450 276	17 364	467 639
	Mali	650 209	16 811	667 020				650 209	16 811	667 020
	Mauritania	136 011	3 805	139 816				136 011	3 805	139 816
Niger	361 508	13 453	374 961	21 074		21 074	382 583	13 453	396 036	
Nigeria	2 224 725	19 805	2 244 530	5 513	485	5 998	2 230 238	20 291	2 250 528	
Senegal	116 156		116 156				116 156		116 156	
Sierra Leone	545 726	824	546 550	162 867		162 867	708 593	824	709 417	
Togo	441 353	11 936	453 288				441 353	11 936	453 288	
Total West & Central Africa		15 978 977	255 332	16 234 310	2 917 788	52 905	2 970 693	18 896 765	308 237	19 205 003
Grand Total		62 107 666	1 437 239	63 544 905	23 344 630	3 953 579	27 298 209	85 452 296	5 390 818	90 843 113

^{a/} 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
(UNAIDS)**

**For the Financial Year Ended
31 December 2017**

**REPORT OF THE EXTERNAL AUDITOR
TO THE PROGRAMME COORDINATING BOARD
ON THE FINANCIAL OPERATIONS OF THE
JOINT UNITED NATIONS PROGRAMME ON HIV/AIDS (UNAIDS)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

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ACRONYMS

ASHI	After Service Health Insurance
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DFC	Direct Financial Contribution
ERP	Enterprise Resource Planning
FACE	Funding Authorization and Certification of Expenditure
HACT	Harmonized Approach to Cash Transfer
ICF	Internal Control Framework
IPSAS	International Public Sector Accounting Standards
JIU	United Nations Joint Inspection Unit
MDG	Millennium Development Goal
MDTF	Multi-Donor Trust Fund Agreements
OIS	Office of Internal Oversight
ORF	Operating Reserve Fund
PCB	Programme Coordinating Board
PFA	Planning, Finance and Accountability Department
RBM	Results-Based Management
RST	Regional Support Team
SDG	Sustainable Development Goal
SIC	Statement on Internal Control
UBRAF	Unified Budget, Results and Accountability Framework
UCO	UNAIDS Country Office
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.

2. This is the second 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 Report the financial and governance matters that we believe should be brought to the attention of the PCB of UNAIDS. We have recommended to Management eight 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 six years, since the adoption of the International Public Sector Accounting Standards (IPSAS) in 2012. For 2017, we issued an unmodified audit opinion on the Organization's financial statements for the financial year ended 31 December 2017. 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 2017, 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 four areas where mechanisms over UNAIDS's governance could be better improved. UNAIDS could effectively assess its Internal Control Framework (ICF) by integrating identified internal control principles into its existing self-assessment checklist. UNAIDS could also enhance and reinforce its policies over Travel, Consultancy Service and Direct Financial Contributions (DFC).

7. We likewise laud Management for undertaking proactive steps in its resource mobilization strategy to address the shortfall in funding for the core Unified Budget, Results and Accountability Framework (UBRAF).

Summary of recommendations

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

- a. **Enhance policies and procedures applied to DFC Contract agreements by considering the modification of zero-payment values to final deliverables in the template; and the restatement of the Procurement Manual provision authorizing final payment of 10% only upon submission of the final deliverable;**
- b. **Institute measures to determine whether the country partners are HACT-compliant upon inception of the agreement in order to set expectations on the required deliverables and reports that need to be submitted;**
- c. **Integrate into the quarterly and semi-annual travel plans, the information on particular staff members with delinquent travel advances, in order to provide additional input to supervisory evaluation and decision-making;**
- d. **Strengthen policy on Travel Exceptions by determining the process in the approval chain where lapses can occur and ensure that all travels with deviations from the UNAIDS Travel Policy should undergo processing through travel exceptions for statistical and monitoring purposes;**
- e. **Further enhance policies and procedures in the Procurement Manual in order to align with the exceptions noted, inasmuch as there is a necessity in considering the justifiable conditions in areas where consultants are frequently hired;**
- f. **Enforce the requirement for completing performance evaluation reports by the responsible Officers on completed contracts to ensure that the required needs and standards of work were achieved satisfactorily;**
- g. **Enhance existing ICF self-assessment checklist by integrating the internal control principles under the UNAIDS Internal Control Framework, particularly for Principles 4, 5, 11 and 17; and**
- h. **Develop review, feedback and collaboration mechanism on the Self-Assessment activity to ensure that instructions for its completion have been received and applied appropriately, and that the responses given are relevant to the processes and procedures being assessed to support the UNAIDS ICF and the planned issuance of the Statement of Internal Control.**

Implementation of external auditor's recommendations in prior year

9. We reviewed the action taken on the audit recommendations provided in the 2016 External Auditor's Report, and we noted that all of the three 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

10. The Chairperson of the Commission on Audit of the Republic of the Philippines was appointed by the Sixty-eighth WHA as the External Auditor of the WHO and its non-consolidated entities for the financial periods 2016-2019.

Scope and objectives

11. Our audit included an assessment of UNAIDS's compliance with WHO Financial Regulations and legislative authority. The primary objectives of the audit were to provide an independent opinion on whether:

- a. the financial statements presented fairly the financial position of UNAIDS as at 31 December 2017, 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 2017 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.

12. Moreover, 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

13. 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.

14. 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.

15. The auditor's responsibility is to express an opinion on the financial statements based on an audit. An audit which is performed to obtain reasonable assurance as to whether the financial statements are free from material misstatement including those caused by fraud or error.

16. We also carried out a review of UNAIDS operations with regard to Financial Regulation 14.3 which required 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 the entity's operations. We focused on

the (a) ICF Self-Assessment Checklist; (b) Travel Management; (c) Consultancy Services; and (d) DFC.

17. 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.

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 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. Audit of financial statements

20. In the audit of UNAIDS for the financial year 2017, we issued an unqualified 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 2017, 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.

2. Overall financial performance

21. The audited financial statements of UNAIDS reflect a total surplus of US\$7.73 million for the year, as shown in the Statement of Financial Performance (Statement II). This is a 196.17% increase from that of the previous year's total surplus of US\$2.61 million. The continual increase in surplus (US\$5.12 million) could be attributed to the sustained increase in total revenue (US\$3.35 million) and the accompanying decrease in total expense (US\$1.77 million).

22. Comparatively, total current assets amounted to US\$258.55 million while total current liabilities reached US\$41.94 million; thus, registering a liquidity ratio of 6.16. Cash and cash equivalents at the beginning of the year amounted to US\$153.69 million, but decreased to US\$145.53 million at the end of the year after accounting for a net decrease of US\$8.16 million or 5.31% from operating, investing and financing activities. UNAIDS, thus, needs to reinforce its financial performance in the coming year to ensure the continued inflow of additional funds into the Joint Programme.

23. On the other hand, net assets/equity as reflected in the Statement of Changes in Net Assets/Equity (Statement III) show a decrease of US\$9.60 million or 6.93% from US\$138.46 million for the year ended 31 December 2016 to US\$128.86 million for the year ended 31

December 2017. Considering the reported 196.17% increase in total surplus and said 6.93% decrease in net assets/equity, we laud Management's persistent effort to improve UNAIDS's financial performance in the ensuing years.

24. 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 2017. This fund can be used to finance the implementation of the UBRAF while awaiting the receipt of core contributions. With the ORF, the continued operation of UNAIDS is relatively secure.

3. Strategic Resource Mobilization

25. When the UNAIDS 2016-2021 Strategy to Fast-Track was adopted, multi-stakeholder support was very strong and the gaps and obstacles that awaited action were clear. Yet this strong forward momentum was put at risk when a number of factors, such as the very low growth in overseas development assistance, the refugee crisis in 2015, and the end of timeframe for MDGs - also in 2015 – which removed the central axis for attracting funding for the HIV response, resulted in several major donors reducing their contribution to the Joint Programme.

26. With less than 75% of the core UBRAF of US\$242 million raised in 2016, and in response to the disconnect between high ambitions and expectations vested in the HIV response and the inadequate financing of the organization that guides both the global response and that of the UN system, UNAIDS refined its path towards renewal. Indeed, given the rapidly changing global context and informed of the findings of the Global Review Panel on the UNAIDS operating model, the Joint Programme is refining its approach to ending AIDS and reinforcing its role as a pioneer in broader UN reform.

27. Specifically, the Strategic Resource Mobilization Plan 2018-2021 calls for *scaling-up the solicitation of funds from the private sector*. To develop this plan, significant research related to best practice, donor trends and possible funding streams was undertaken. Based on this research, and with the input of Cosponsors, a list of priority actions has been developed (UNAIDS/PCB (41)/17.21 Rev1 Page 17/28 issued 8 December 2017), which includes the development of a detailed business plan with market assessments, partnering with and establishing national fundraising legal entities in at least four countries by 2020, and developing/maintaining a calendar of events and milestones for fundraising purposes.

28. Accomplishments to date include a Strategic Direction and Action Plan for engaging with business, a UNAIDS Guide for Business, guidance on establishing national fundraising entities, a digital fundraising engagement strategy, and a preliminary database of high net-worth individuals. Collaboration with the Communications and Global Advocacy Department has been strengthened to address issues related to UNAIDS messaging, branding and outreach that have a direct impact on fundraising from the private sector. Additionally, the development of a UNAIDS 'Investment Book' that showcases specific donor investment opportunities in line with the SDGs and the UNAIDS five-year strategy, a country-level toolkit for working with business as well as an update of the UNAIDS Secretariat Guidelines on Resource Mobilization and Resource Management are underway.

4. After Service Health Insurance (ASHI)

29. The defined benefit obligations of UNAIDS for ASHI as at 31 December 2017 stood at US\$143.7 million, of which US\$66.7 million is funded, resulting in net unfunded liability of US\$77 million. These were determined by professional actuaries based on personnel data and past experience on payments as provided by WHO.

30. In accordance with IPSAS 39 (Employee Benefits), the actuarial loss of US\$17 million was transferred directly to net assets/equity in 2017 and an additional accrual of US\$7.6 million was charged to staff costs in the Statement of Financial Performance.

31. It should be noted that whilst the ASHI actuarial study reflects an unfunded liability of US\$77 million as at 31 December 2017, following the PCB decision at its 30th 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 funding the ASHI liability. Therefore, the unfunded ASHI liability as at 31 December 2017 stood at US\$51.9 million (i.e. US\$77 million as per actuarial study less the funding of US\$25.1 million).

5. Direct financial cooperation (DFC)

32. The final deliverable of a DFC in UNAIDS is an acceptable technical report and financial certification which will be due within three months of completion of the activity. Final payment is made only on receipt of a financial statement formally certified by the head of the institution or the appointed responsible financial officer duly signed and stamped.

Modify zero-payment values and final payment only upon submission of final deliverable

33. The DFC payment should at least be 10% of the value of the agreement and made upon satisfactory completion of the work, receipt and acceptance of the output/final report and financial certification by UNAIDS.

34. The Ageing Report of Outstanding Deliverables and Encumbrances for Non-commercial Contracts as at 31 December 2017 showed outstanding deliverables and encumbrances for DFCs ranging from the ageing bucket of 1-90 days to over 456 days. Based on this report, validation of selected samples was done in the Enterprise Resource Planning (ERP), and the results of the validation showed that full payments for seven purchase orders pertaining to DFC agreements amounting to US\$446,594.00 were made prior to the receipt of the acceptable final deliverable which, in most instances, was the DFC Report.

35. We acknowledge that the practice is authorized as the Procurement Manual itself allows the final payment - and upon compliance review and approval by Finance in Geneva of the transaction flow that was triggered by the receipting of the final deliverable in the ERP Purchase Registration by origination offices.

36. We observed, however, that this situation somewhat builds the existence of long outstanding deliverables. Thus, (a) a financial statement is not always the final deliverable as a DFC Report is more frequently considered as the last and final deliverable; (b) the assignment of zero-payment values to the last and final deliverable predisposes the party responsible for its submission or compliance. Taking into account human nature and its

propensity for inherent risks, compliance may be taken for granted and influenced by the lack of expected returns or gains; and (c) the practice promotes confusion not only on the part of the responsible officer who grants the final payment but also on the complying party. Having received the final payment because of the submission of the financial statement, it may be assumed by both parties that all main responsibilities under the DFC agreement had already been complied with notwithstanding that, in some instances, DFC reports still need to be submitted within three months.

37. We recommended that UNAIDS enhance its policies and procedures applied to DFC Contract agreements by considering the modification of zero-payment values to final deliverables in the template; and restatement of the Procurement Manual provision authorizing final payment of 10% only upon submission of the final deliverable.

Determine country HACT-Compliant status upon inception of contract

38. The Procurement Manual provides guidelines for Harmonized Approach to Cash Transfer (HACT) and non-HACT countries. In the former wherein the HACT has been adopted, the financial certification required is the Funding Authorization and Certification of Expenditure (FACE) form which is an integral part of the DFC agreement and is used as a key tool for budgeting and reporting against planned activities and expenditures. For non-HACT countries, the model formats for technical and financial reports are used.

39. In our review of UNAIDS policies for DFC, we observed that there were *no written guidelines* which require the determination of whether a country is HACT-compliant or not at the *beginning of the contract agreement*. We were informed that what is practiced are *informal procedures* which are undocumented such as asking the partner governments whether they are HACT-compliant or not and requiring proof of validation only during the project implementation for purposes of evaluating the submitted deliverables.

40. The absence of written guidelines which can aid UNAIDS staff in determining the HACT compliance status of a country partner upon inception of the contract agreement poses a risk that an effective and efficient full assessment of deliverables and required reports may not be assured. As it is, information about a country partner's HACT compliance status at an early stage of the agreement serves to set the expectation on what particular deliverables or reports need to be submitted to close the responsibilities under the DFC agreement. This kind of information should be independently and separately determined by UNAIDS and should not be based solely on data given by the partner government.

41. We recommended that UNAIDS institute measures to determine whether the country partners are HACT-compliant upon inception of the agreement in order to set expectations on the required deliverables and reports that need to be submitted.

6. Consultancy services

42. As provided in the UNAIDS Procurement Manual, a consultant is an individual who is a specialist or recognized authority in a specific field, who is engaged under a contract in a technical, advisory or consultative capacity because he or she has special skills or knowledge not normally possessed by staff members. The consultant performs functions for which there

is no continuing need in UNAIDS and contract duration should not exceed a continuous period of two years.

Enhance alignment of Procurement Manual provisions for rehired consultants

43. The validation results from the review of the consultancy services transaction via the ERP of the selected samples for CY 2017 provided to us by Management – all from UCO Vietnam – revealed that the five individuals were hired for a continuous period of more than three years as at 31 December 2017. We further noted that the nature of the services they provide – as administrative and mobility support/assistants in particular programmes – do not fall within the purview of the definition embodied in the UNAIDS Procurement Manual. They were issued contracts, not for the performance of a specific, time-limited piece of work in a technical advisory or consultative capacity, but for administrative support - a staff member duty. The constant hiring of these individuals for an extended period of time and for the same nature and purpose is a manifestation that the services rendered by them are vital to the operations and accomplishments of the programmes of the organization and thus, a continuing need in UNAIDS.

44. Management informed us that for these situations, consultant contracts were granted beyond the two-year maximum period in order to deliver on specific non-core funded (such as Multi-Donor Trust Fund Agreements (MDTF), which are received in tranches) activities of the programmes, especially in the country offices.

45. We recommended that UNAIDS further enhance policies and procedures in the Procurement Manual in order to align with the exceptions noted, inasmuch as there is a necessity in considering the justifiable conditions in areas where consultants are frequently hired.

Enforce Performance Evaluation prior to grant of new consultant contracts

46. The Procurement Manual on Vendor Performance Evaluation requires a thorough evaluation of any issue with suppliers such as timeliness, quality of goods or services, compliance with contract terms and warranty provisions. Suppliers who are non-compliant and have unsatisfactory performance reports should be reported immediately by email to the Procurement Coordinator for documentation and sharing with other offices.

47. We observed that no performance evaluation was provided in the system for the samples selected and we noted that the incessant re-hiring of consultants without requiring performance evaluation and justification for completed work poses a risk that the procurement principles of best value for money may not be achieved. Best value for money ensures that the procurement process selects the offer that is most responsive to meet the requirements of the end-user.

48. Subsequently, internal control mechanisms such as the evaluation report or justification letter should be instituted prior to the grant of another consultant contract for the same person and purpose, if services are essential to the delivery of UNAIDS programmes and achievement of results.

49. **We recommended that UNAIDS enforce the requirement for completing performance evaluation reports by the responsible Officers on completed contracts to ensure that the required needs and standards of work were achieved satisfactorily.**

7. Travel management

Information on delinquent travel advances integrated into travel plans

50. The UNAIDS robust travel policy not only seeks to achieve efficiency gains and cost savings in its travel expenditures, but also to harmonize its travel activities with the requirements of the organization.

51. We sampled travel statistics from 35 instances of travel claim delinquencies for both duty and statutory travel. Validation of these samples from the ERP resulted to the selection of 16 instances out of the 35 which showed five staff members who each had two to five delinquent travels in their names. The travel advances were flagged as 'Delinquent' and the recovery process was already initiated in the system.

52. While the risk of recovery over these travel delinquencies had been greatly reduced because of the improvement in the facility over travel in the ERP and brisk monitoring done by UNAIDS, we nevertheless noted other factors that may provide an opportunity for that risk of non-recovery to occur.

53. Firstly, for most of the delinquent travels, the actual initial recovery period by UNAIDS is beyond its reasonably expected time of recovery of *60/90 days* plus days certain until the staff members' salary is deducted for the delinquent amount. As it is, the longer the period it takes to recover the delinquency and restore the funding to the workplan which paid for the travel, the lesser will be the assurance that it will be recovered at all. Next, the accumulation of these due amounts against a single staff member's salary creates an impact on the eventuality that the particular staff may no longer have enough of a salary buffer to cushion the deductions for the delinquent travels. In both instances, the achievement of efficiency gains and cost savings in its travel expenditures, while aiming to pursue organizational goals, may be compromised.

54. These occurrences bring into fore the value of effective planning for UNAIDS travel activities. As noted during validation, both the semi-annual and quarterly travel plans provide a utility for a supervisor to comment on the reasonableness and necessity of the travel arrangements by the particular staff member. In pursuit of sustainability of over-all workplan activities, the information on pending delinquent travels by staff members should be considered in the supervisor's whole evaluation and exercise of discretion.

55. **We recommended that UNAIDS integrate into the quarterly and semi-annual travel plans, the information on particular staff members with delinquent travel advances, in order to provide additional input to supervisory evaluation and decision-making.**

Processing of Travel Exceptions for Statistical and Monitoring purposes

56. Similarly, the Travel Exceptions – travels which are in excess of 21 days per quarter and where a specific situation justifies staff undertaking a high volume of travel, a waiver

may be requested from the Director of the Planning, Finance and Accountability Department (PFA). Again, exceptions should be approved by the Regional Support Team (RST) Director, the Liaison Office Director or the Department Director, and submitted for processing to travel exceptions. Regardless of whether or not exceptional approval was obtained for a specific travel of over 21 days, the same should undergo processing through travel exceptions for statistical and monitoring purposes.

57. We recommended that UNAIDS strengthen policy on Travel Exceptions by determining the process in the approval chain where lapses can occur and ensure that all travels with deviations from the UNAIDS Travel Policy should undergo processing through travel exceptions for statistical and monitoring purposes.

8. Internal Control Framework (ICF) - Self-Assessment Checklist

58. Aiming to provide assurance on internal control in line with the establishment of its own ICF which is separate and distinct from the WHO, the Secretariat developed mechanisms to assess its overall effectiveness. It also planned to issue a Statement on Internal Control (SIC) which is a public accountability document that describes the effectiveness of internal controls in an organisation and is signed by the Executive Director.

Integration of ICF Principles into Self-Assessment Checklist

59. One of the mechanisms is the Manager's Self-Assessment Process, a checklist that should be completed annually by all managers with delegated financial and administrative authorities. The checklist itself is a tool for all heads of offices and HQ Departments to assess the level of compliance with identified UNAIDS internal control activities. It is a critical exercise whose outcome determines whether the Executive Director is in a position to publish an SIC that accompanies the annual financial statements which is reported to the PCB. This accountability document also offers further assurance to donors and other stakeholders on the level of accountability at UNAIDS.

60. For full assessment, the five components and 17 principles of the COSO Framework, upon which the UNAIDS ICF is largely based, must be fully covered in the checklist. Our review confirmed that the five components of internal control are entrenched in the said checklist. However, it was noted that in Part 1 - Overall Self-Assessment of the checklist, there were no control questions and activities provided that relates to several of the UNAIDS ICF principles, namely: (a) Principle 4 (Human Resources Management); (b) Principle 5 (Accountability); (c) Principle 11 (Technology Use); and (d) Principle 17 (Reporting Deficiencies).

61. Under COSO, it is worth reiterating that all components and principles which constitute the criteria could assist Management in assessing whether the internal controls are present, functioning and operating together within the Organization. Assessment of the effectiveness of internal control through a self-assessment checklist that has incomplete aspects (lacking control questions and activities) may not be reflective of the overall current situation; thereby, posing a risk that Management may put faith in the comprehensiveness of the checklist in evaluating adequate internal control activities, when in reality, the same is incomplete.

62. We recommended that UNAIDS enhance existing ICF self-assessment checklist by integrating the internal control principles under the UNAIDS Internal Control Framework, particularly for Principles 4, 5, 11 and 17.

Feedback, Review and Collaboration Mechanisms

63. Evaluation of answers and scoring descriptions given by randomly sampled three country offices and one regional support team with completed checklists confirmed that a strong *feedback mechanism* in the UNAIDS HQ should be in place to provide sufficient support especially when the need arises (e.g. *questions not fully answered, answers not fully responsive or comments/questions and other issues raised by a budget centre*).

64. A *review mechanism* is also a valuable way for a budget centre to improve the quality of their submissions in the self-assessment checklist as it helps fuel continuous improvement. The purpose of the review is not to apportion blame but to identify areas for improvement; pinpoint errors made in the conduct of the assessment and its timely correction, thereby increasing the reliability of the results of the assessment exercise.

65. In terms of *collaboration*, we recognize that the processes comprising the *organization's* ICF and the impending issuance of the SIC should include the participation and full commitment of key personnel from all levels of the organization.

66. Through interviews with focal personnel, we noted that Management itself anticipates to evaluate the initial results of the checklist to determine which areas they need to strengthen or improve on.

67. We recommended that UNAIDS develop review, feedback and collaboration mechanism on the Self-Assessment activity to ensure that instructions for its completion have been received and applied appropriately, and that the responses given are relevant to the processes and procedures being assessed to support the UNAIDS Internal Control Framework and the planned issuance of Statement of Internal Control.

C. DISCLOSURES BY MANAGEMENT

Administrative waivers, write-offs, ex-gratia payments, and cases of fraud

68. During the period 1 January 2017 to 31 December 2017, UNAIDS reported no administrative waivers, amounts written off or ex-gratia payments. However, there was one case of suspected fraud that had been reported to the WHO Office of Internal Oversight (OIS). These facts are emphasized in Note 8 of the Notes to the Financial Statements.

D. IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS

69. We validated the implementation of External Audit Recommendations contained in the 2016 audit report. We noted that Management implemented all of the three 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

70. 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.

71. 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 2018
Quezon City, Philippines

Annex A

Implementation of External Audit Recommendations in Prior Year

No.	Recommendation	External Auditor's Validation
1	<p>Accountability Framework Finalize a structured Management Accountability Framework in the context of the Joint Programme's operations and objectives to further enhance accountability and transparency.</p>	<p>Implemented. In line with the External Auditor's recommendation, UNAIDS had developed and finalized a Management Accountability Framework that is designed to complement the UBRAF and the organization's results-based management approach which underline UNAIDS's commitment to a culture of accountability and transparency. It also took into consideration the key elements and recommendations for an overall robust framework that have been made by the United Nations Joint Inspection Unit (JIU).</p>
2	<p>Internal Control Framework 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.</p>	<p>Implemented. In accordance with the External Auditor's recommendation, UNAIDS had finalized its Internal Control Framework and its supporting tool, i.e. the Self-Assessment Checklist. As already advised, the ICF had been developed based on the COSO model of internal control which sets out five inter-related components on internal control and the principles that are required in order to have an integrated and effective internal control system. It also incorporated the Three Lines of Defense (3LoDs) concept of the Institute of Internal Auditors.</p>
3	<p>Succession Strategy Report to the PCB the plan and policy to mainstream its succession strategy, with particular emphasis on:</p> <p>a. Forecasting vacancies and identifying the appropriate timeline for the selection of potential next-in line successor/s; and</p> <p>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.</p>	<p>Implemented. UNAIDS had provided a report on "Workforce and succession planning" as part of the Human Resources Update to the June PCB (40)/17.11 issued on 2 June 2017. The update refers to the succession planning process, which is embedded in the Human Resources Strategy as well as UNAIDS policies on recruitment, mobility and staff development.</p>