



UNAIDS PROGRAMME COORDINATING BOARD

UNAIDS/PCB (36)/15.8
Issue date: 25 May 2015

THIRTY-SIXTH MEETING

Date: 30 June – 2 July 2015

Venue: Executive Board Room, WHO, Geneva

Agenda item 4.2

Financial reporting

**Financial report and audited financial statements
for the year ended 31 December 2014**

Additional documents for this item: Interim Financial Management Update for the period 1 January 2014 to 31 March 2015.
(UNAIDS/PCB(36)/15.9)

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 2014

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 financial report for the year ended 31 December 2014 is being submitted by the UNAIDS Secretariat for review to the Programme Coordinating Board (PCB), as per established procedures which require the Programme Coordinating 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 International Public Sector Accounting Standards (IPSAS) and in accordance with the WHO's Financial Regulations and Rules.
3. This is the third year that UNAIDS financial statements have been prepared based on IPSAS, which continues to provide greater transparency, increased accountability and a higher standard of financial reporting.
4. The implementation of IPSAS does not currently impact the preparation of UNAIDS budget, the Unified Budget, Results and Accountability Framework, 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 2014.

Approved budget and work plan

6. The 2012-2015 Unified Budget, Results and Accountability Framework is guided by the UNAIDS 2011-2015 *Strategy*, which was adopted by the Programme Coordinating Board in December 2010. It aims to support the achievement of UNAIDS' long-term vision of *zero new HIV infections, zero AIDS-related deaths, and zero discrimination*.
7. The 2012-2015 Unified Budget, Results and Accountability Framework has been developed to translate the UNAIDS Strategy into action, responding to recommendations of the Second Independent Evaluation and decisions of the Programme Coordinating Board to focus on areas and activities where the Joint Programme can make the most difference. The Unified Budget, Results and Accountability Framework contributes to the achievement of the following targets, which were laid out in the 2011 Political Declaration of the United Nations General Assembly¹:
 - Reduce sexual transmission
 - Prevent HIV among drug users
 - Eliminate new HIV infection among children
 - 15 million accessing treatment
 - Avoid TB deaths
 - Close resource gap
 - Eliminate gender inequalities
 - Eliminate stigma and discrimination
 - Eliminate travel restrictions
 - Strengthen HIV integration

¹ UN General Assembly Resolution 65/277, Political declaration on HIV and AIDS: Intensifying our efforts to eliminate HIV and AIDS. Resolution 65/277 was adopted at the sixty-fifth session of the UN General Assembly.

8. At its 28th meeting in June 2011, the Programme Coordinating Board approved the 2012-2015 Unified Budget, Results and Accountability Framework with a request to further strengthen the results, accountability and budget matrix. This was to be done through a consultative process with all constituencies and the outcomes of this process were presented to the Programme Coordinating Board at its 29th meeting. At its 32nd meeting in June 2013, the Programme Coordinating Board approved the core budget for 2014-2015 in the amount of US\$ 484.8 million (the same level as for the previous three biennia) and distribution of US\$ 310.2 million managed by Secretariat and US\$ 174.6 million to be allocated among eleven Cosponsors.

FINANCIAL PERFORMANCE AND HIGHLIGHTS

9. During the financial year ended 31 December 2014 total revenue was US\$ 277.6 million, and total expense for the same financial year amounted to US\$ 295.7 million. This means that expense exceeded income by US\$ 18.1 million. Table A below summarizes the Programme's overall financial highlights for the years 2014 and 2013.

Table A: Financial highlights – All funds (in US dollars)

	2014	2013
Revenue	277 645 967	285 221 655
Expense	295 725 197	295 195 415
Surplus/(deficit)	(18 079 230)	(9 973 760)

Revenue

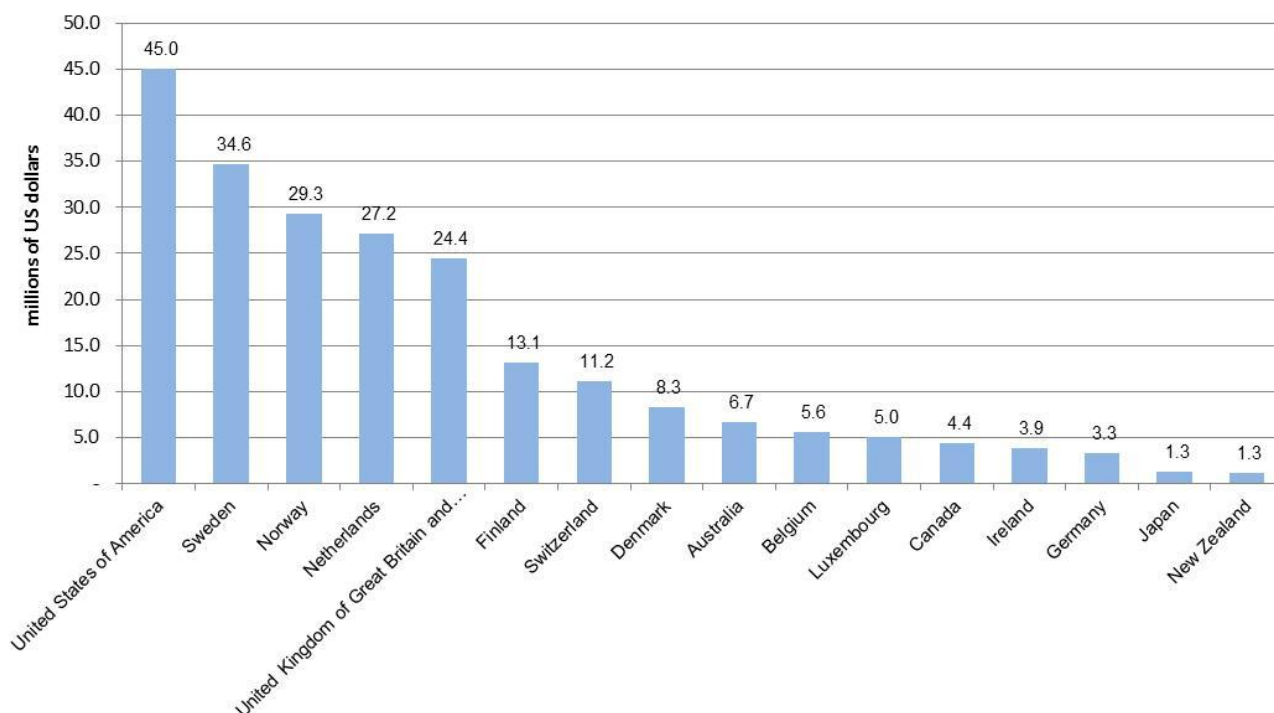
10. Total revenue for 2014 was US\$ 277.6 million, out of which US\$ 232.8 million was made available towards the Unified Budget, Results and Accountability Framework; US\$ 40.4 million in non-core funds was made available to UNAIDS to provide support to a number of global, regional and country activities that are designated for specific countries or purposes and the balance of US\$ 4.4 million related to financial revenue under the terminal payment account. Table B (below) provides details of revenue for 2014 and 2013.

Table B: Details of revenue – All funds (in US dollars)

Revenue	2014			Total 2013
	UBRAF Core Funds	Non-Core Funds	TOTAL	
Governments	228 077 813	31 965 346	260 043 159	270 751 614
Cosponsoring organizations	1 650 000	1 578 640	3 228 640	5 275 648
Others	619 763	6 887 120	7 506 883	4 314 462
Finance revenue	2 487 063	4 380 222	6 867 285	4 879 931
Total	232 834 639	44 811 328	277 645 967	285 221 655

11. As summarized in Table B, revenue totaling US\$ 232.8 million was made available towards the Unified Budget, Results and Accountability Framework. This represents 96% of the Secretariat resource mobilization target of US\$ 242.4 million for the year 2014, resulting in a shortfall of US\$ 9.6 million. Figure A (below) provides details of revenue received from the major donors towards the Unified Budget, Results and Accountability Framework for the year 2014.

Figure A: Details of revenue received from major donors towards the Unified Budget, Results and Accountability Framework for the year 2014 (in millions of US dollars)



Expense

12. Total expense for the year ended 31 December 2014 amounted to US\$ 295.7 million, of which US\$ 238.7 million related to expenses against the Unified Budget, Results and Accountability Framework for 2014-2015; US\$ 41.4 million represents net expenses under the non-core funds; US\$ 8.5 million related to prior period expense and US\$ 7.1 million represented finance costs. Table C (below) details expense by fund type for 2014 and 2013.

Table C: Details of expense – All funds (in US dollars)

Expense	2014			Total 2013
	UBRAF Core Funds	Non-Core Funds	TOTAL	
2014-2015	238 766 636	41 400 052	280 166 688	294 249 250
Prior period expense	5 097 072	3 368 908	8 465 980	-
Finance costs	902 650	6 189 879	7 092 529	946 165
Grand Total	244 766 358	50 958 839	295 725 197	295 195 415

13. In addition to the US\$ 238.7 million expense against the Unified Budget, Results and Accountability Framework for 2014-2015, a total of US\$ 7.9 million was encumbered during the same financial year; together, these amounts represent a financial implementation rate of almost 50.8% of the 2014-2015 biennium core budget.

14. Initiatives and measures put in place during 2013 to contain costs and increase cost-effectiveness and efficiency in the Secretariat continued throughout 2014. The result is a level of expenditure in 2014 that is consistent with that of 2013. This is reflected in Table D and Figure B (below), which also shows a reduction of costs under the main major expense categories with the exception of general operating expenses and equipment, furniture and vehicles (when compared to 2013).

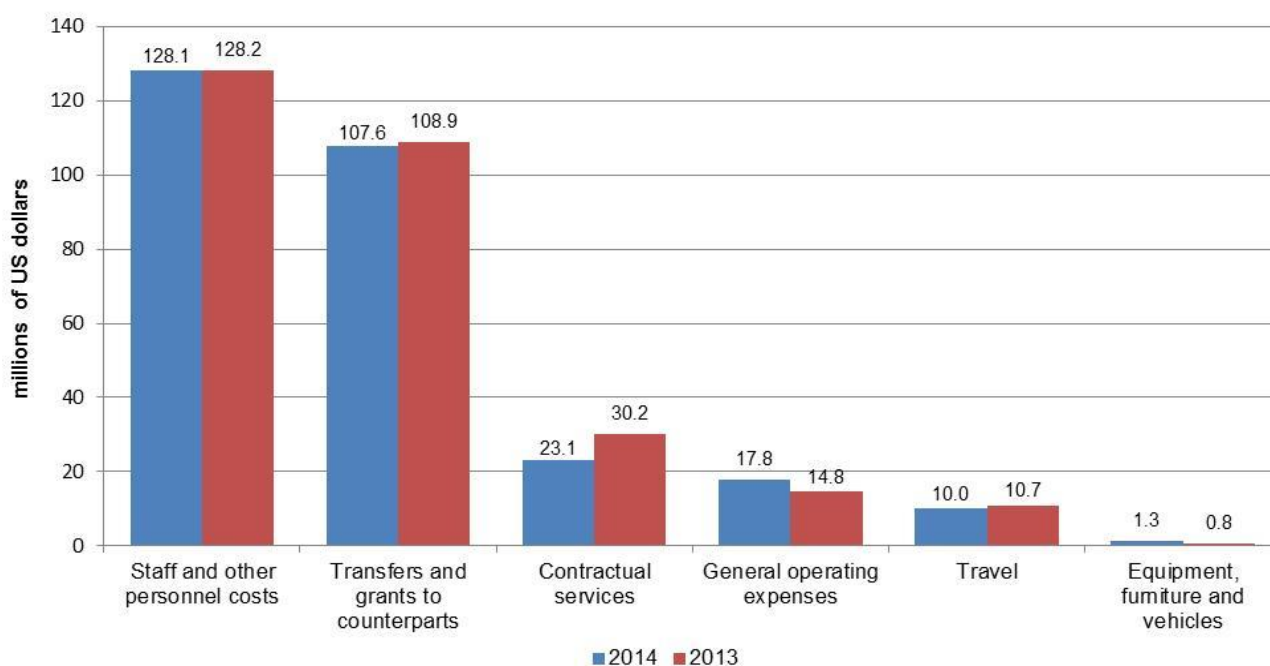
Table D: Details of expense by category (in US dollars)

Expense	2014	2013
Staff and other personnel costs ^{a/}	128 067 431	128 186 052
Transfers and grants to counterparts	107 590 338	108 866 756
Contractual services	23 145 568	30 178 154
General operating expenses	17 788 651	14 826 413
Travel	9 970 143	10 746 874
Equipment, furniture and vehicles	1 319 442	822 333
Depreciation	751 095	622 668
Finance costs ^{b/}	7 092 529	946 165
Total Expense	295 725 197	295 195 415

^{a/} Includes US\$ 5 million for 2014 and US\$ 6.9 million for 2013 related to expense against the Staff Health Insurance and Terminal Payment Fund due to movement in the actuarial liability.

^{b/} Includes US\$ 5.7 million of unrealized foreign exchange losses on revaluation of accounts receivables and Swiss loan adjustments.

Figure B: Details of expense by major category for year 2014 and 2013 (in millions of US dollars)



Fund Balance

15. As at 31 December 2014, the net fund balance of the Unified Budget, Results and Accountability Framework stood at US\$ 120.9 million or 24.9% of the biennial budget². This is within the approved level of 35% (or US\$ 170 million) of the biennial budget as approved by the Programme Coordinating Board in June 2010. It also represents a reduction of US\$ 19.3 million when compared to the net fund balance of US\$ 140.2 million (or 28.9% of the biennial budget) as at 31 December 2013.
16. The reduction in the Unified Budget, Results and Accountability Framework fund balance is due to the lower income received during 2014, the high implementation rate during 2014, the partial funding of staff-related liabilities and the annual replenishment of the building renovation fund. All these factors resulted in a net fund balance of US\$ 120.9 million.
17. It should be noted that the Unified Budget, Results and Accountability Framework fund balance available at the start of each year is the Joint Programme's working capital. This enables the Joint Programme to operate without interruption, including allocating funding to Cosponsors. Accordingly, the fund balance is monitored to ensure it is maintained at a level that guarantees the continued smooth implementation of the Joint Programme. Details of the fund balance are included in the Interim Financial Management Update for the 2014-2015 biennium (document number UNAIDS/PCB(36)/15.9) which is also presented to the 36th Programme Coordinating Board meeting.

² In addition to the expense of US\$ 238.7 million in 2014 under the 2014-2015 Unified Budget, Results and Accountability Framework, US\$ 7.9 million was encumbered during 2014 (representing firm commitments of goods and services to be delivered in 2015). As a result, the net fund balance as at 31 December 2014 under the Unified Budget, Results and Accountability Framework to cover 2015 Unified Budget, Results and Accountability Framework activities was US\$ 120.9 million (US\$ 128.8 million less US\$ 7.9 million reserved for 2014 encumbrances).

PART II

FINANCIAL STATEMENTS, SCHEDULES AND NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2014

This section of the financial report presents the overall financial position of UNAIDS as of and for the year ended 31 December 2014. 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 2014.

Certification of Financial Statements

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



Joel Rehnstrom
Director, Planning, Finance
and Accountability



Michel Sidibé
Executive Director
UNAIDS

6 March 2015



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


LETTER OF TRANSMITTAL

9 April 2015

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 2014.

Yours sincerely,


Heidi L. Mendoza
Officer in Charge, Commission on Audit
Republic of the Philippines
External Auditor

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

Opinion of the External Auditor



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

INDEPENDENT AUDITOR'S REPORT

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

Report on the financial statements

We have audited the accompanying financial statements of the UNAIDS, which comprise the Statement of Financial Position as at 31 December 2014, and the Statement of Financial Performance, Statement of Changes in Net Assets/Equity, Statement of Cash Flow, Comparison of Budget and Actual Amounts for the year then ended and the Notes to the Financial Statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards (IPSAS). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing issued by the International Auditing and Assurance Standards Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

A handwritten signature in black ink, appearing to be 'JR'.

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.


Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the UNAIDS as at 31 December 2014, and its financial performance, changes in net assets/equity, cash flow, and the comparison of budget and actual amounts, in accordance with IPSAS.

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.


Heidi L. Mendoza
Officer in Charge, Commission on Audit
Republic of the Philippines
External Auditor

Quezon City, Philippines
9 April 2015

Statement I

Statement of Financial Position

All sources of funds as at 31 December 2014

(in US dollars)

	Note	31 December 2014	31 December 2013
ASSETS			
Current assets			
Cash and cash equivalents held by WHO	4.1	184 895 736	211 161 391
Accounts receivable - current	4.2	97 242 455	118 587 784
Staff receivables	4.3	1 967 341	1 961 037
Prepayments	4.4	10 051 146	452 326
Other current receivables	4.5	33 010	-
Total current assets		294 189 688	332 162 538
Non-current assets			
Accounts receivable - non-current	4.2	335 197	18 251 381
Property, plant and equipment	4.6	22 903 905	23 160 816
Total non-current assets		23 239 102	41 412 197
TOTAL ASSETS		317 428 790	373 574 735
LIABILITIES			
Current liabilities			
Accounts payable	4.7	3 994 676	5 399 741
Staff payable	4.8	278 708	332 622
Accrued staff benefits - current	4.9	9 566 053	10 271 417
Deferred revenue - current	4.10	27 968 109	49 547 743
Other current liabilities	4.11	17 127	27 810
Total current liabilities		41 824 673	65 579 333
Non-current liabilities			
Accrued staff benefits - non-current	4.9	59 263 331	56 897 191
Deferred revenue - non-current	4.10	335 197	18 251 381
Long-term borrowings	4.12	21 671 229	20 433 240
Total non-current liabilities		81 269 757	95 581 812
TOTAL LIABILITIES		123 094 430	161 161 145
NET ASSETS/EQUITY			
Net assets/reserves			
Operating Reserve Fund	4.15	35 000 000	35 000 000
Equity in capital assets	4.16	5 417 124	4 811 248
Common Fund		(9 696 226)	(3 256 744)
Non-restricted funds		128 822 473	148 344 192
Restricted funds		53 087 609	52 517 295
Building Renovation Fund	4.17	3 460 000	3 030 000
Staff Benefits		(21 023 786)	(28 628 962)
Non-payroll staff entitlements Fund		(732 834)	596 561
TOTAL NET ASSETS/EQUITY		194 334 360	212 413 590
TOTAL LIABILITIES AND NET ASSETS/EQUITY		317 428 790	373 574 735

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 2014
(in US dollars)

	<u>Notes</u>	<u>31 December 2014</u>	<u>31 December 2013</u>
Revenue			
Voluntary contributions	5.2		
Governments		260 043 159	270 751 614
Cosponsoring organizations		3 228 640	5 275 648
Others		7 506 883	4 314 462
Financial revenue	5.3	<u>6 867 285</u>	<u>4 879 931</u>
Total revenue		<u>277 645 967</u>	<u>285 221 655</u>
Expense			
	5.4		
Staff and other personnel costs		128 067 431	128 186 052
Transfers and grants to counterparts		107 590 338	108 866 756
Contractual services		23 145 568	30 178 154
General operating expenses		17 788 651	14 826 413
Travel		9 970 143	10 746 874
Equipment, vehicles and furniture		1 319 442	822 333
Depreciation		751 095	622 668
Finance costs		<u>7 092 529</u>	<u>946 165</u>
Total expense		<u>295 725 197</u>	<u>295 195 415</u>
Total (deficit) for the year		<u>(18 079 230)</u>	<u>(9 973 760)</u>

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 2014
(in US dollars)

	Notes	31 December 2014	2014 Movements	2014 Transfers	31 December 2013
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		958 854	605 876		352 978
Total Equity in capital assets		5 417 124	605 876	-	4 811 248
Common Fund					
Depreciation on property, plant and equipment		(4 007 839)	(751 095)		(3 256 744)
Revaluation reserve		(5 688 387)	(5 688 387)		-
Total Common Fund		(9 696 226)	(6 439 482)	-	(3 256 744)
Non-restricted funds					
UBRAF Core unrestricted		128 822 473	(11 931 719)	(7 590 000)	148 344 192
Restricted funds					
UBRAF Supplementary restricted		38 439 087	3 295 878		35 143 209
Extra-budgetary funds		14 648 522	(2 725 564)		17 374 086
Total Restricted		53 087 609	570 314	-	52 517 295
Other Funds					
Building Renovation Fund	4.17	3 460 000		430 000	3 030 000
Staff Benefits Fund					
Terminal Payments		2 603 957	4 851 688	749 629	(2 997 360)
Staff Health Insurance		(23 009 300)	(4 326 010)	6 230 965	(24 914 255)
Special Fund for Compensation		(618 443)	(80 502)	179 406	(717 347)
Total Staff Benefits Fund		(21 023 786)	445 176	7 160 000	(28 628 962)
Non-payroll staff entitlements Fund		(732 834)	(1 329 395)		596 561
Net assets/equity		194 334 360	(18 079 230)	-	212 413 590

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 2014
(in US dollars)

	2014	2013
Cash flows from operating activities		
Surplus/(deficit) for the year	(18 079 230)	(9 973 760)
Depreciation	751 095	622 668
(Increase)/decrease in accounts receivables - current	21 345 329	(41 229 523)
(Increase)/decrease in accounts receivables - non-current	17 916 184	(10 690 770)
(Increase)/decrease in staff receivables	(6 304)	(278 077)
(Increase)/decrease in prepayments	(9 598 820)	20 023 144
(Increase)/decrease in other current receivables	(33 010)	-
Increase/(decrease) in accounts payables	(1 405 065)	2 996 633
Increase/(decrease) in staff payables	(53 914)	(86 411)
Increase/(decrease) in accrued staff benefits - current	(705 364)	227 113
Increase/(decrease) in deferred revenue - current	(21 579 634)	30 736 280
Increase/(decrease) in deferred revenue - non-current	(17 916 184)	10 690 770
Increase/(decrease) in accrued staff benefits - non-current	2 366 140	4 813 788
Increase/(decrease) in other current liabilities	(10 683)	(207 802)
<i>Net cash flow from operating activities</i>	<u>(27 009 460)</u>	<u>7 644 053</u>
Cash flows from investing activities		
(Increase)/decrease in purchase of property, plant and equipment	<u>(494 184)</u>	<u>(416 398)</u>
<i>Net cash flow from investing activities</i>	<u>(494 184)</u>	<u>(416 398)</u>
Cash flows from financing activities		
Increase/(decrease) in long-term borrowings	<u>1 237 989</u>	<u>(738 834)</u>
<i>Net cash flow from financing activities</i>	<u>1 237 989</u>	<u>(738 834)</u>
Net Increase/(decrease) in cash and cash equivalents	<u>(26 265 655)</u>	<u>6 488 821</u>
Cash and cash equivalents at beginning of year	<u>211 161 391</u>	<u>204 672 570</u>
Cash and cash equivalents at end of year	<u>184 895 736</u>	<u>211 161 391</u>

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

Statement V - A

Statement of Comparison of Budget and Actual Amount

2014-2015 Unified Budget, Results and Accountability Framework

for the period ended 31 December 2014

(in US dollars)

Strategic Directions and Functions	2014-2015 Approved allocations	Expense	Balance	Percentage implementation
	(a)	(b)	(c) = (a-b)	(d) = (b / a)
1 Revolutionize HIV prevention	79 102 000	39 551 000	39 551 000	50.0%
2 Catalyze the next phase of treatment, care and support	47 539 000	23 769 500	23 769 500	50.0%
3 Advance human rights and gender	37 885 000	18 942 500	18 942 500	50.0%
4 Leadership and advocacy	131 642 000	64 279 645	67 362 355	48.8%
5 Coordination, coherence and partnerships	105 118 000	49 803 395	55 314 605	47.4%
6 Mutual accountability	83 534 000	42 325 765	41 208 235	50.7%
Total	484 820 000	238 671 805 ^{a/}	246 148 195	49.2%

^{a/} In addition to the total expense of US\$ 238.7 million, a total of US\$ 7.9 million has been encumbered (representing firm commitment for goods and/or services which have not yet been delivered) resulting in budget implementation of 50.8%.

Basis differences

Capitalization of assets	(494 184)
Loan repayment	(605 876)

Total basis differences **(1 100 060)**

Timing differences

Expenses incurred in prior period against all funds	8 465 980
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Entity differences

Expenses under other funds	49 687 472
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Total expense as per the Statement of Financial Performance (Statement II)

295 725 197

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

Statement V - B

Statement of Comparison of Budget and Actual Amount

**2012-2013 Unified Budget, Results and Accountability Framework
for the period ended 31 December 2014**

(in US dollars)

Strategic Directions and Functions	2012-2013 Approved allocations	Expense 2012	Expense 2013	2014 Expense (being liquidation of 2012-2013 encumbrances)	Total Expense (e) = (b + c + d)	Balance (f) = (a - e)	Percentage implementation (g) = (e / a)
	(a)	(b)	(c)	(d)	(e) = (b + c + d)	(f) = (a - e)	(g) = (e / a)
1 Revolutionize HIV Prevention	82 225 700	41 112 850	41 112 850	-	82 225 700	-	100.0%
2 Catalyze the next phase of treatment, care and support	46 484 500	23 242 250	23 242 250	-	46 484 500	-	100.0%
3 Advance human rights and gender	26 297 300	13 148 650	13 148 650	-	26 297 300	-	100.0%
4 Leadership and advocacy	131 870 800	64 697 512	66 986 461	1 715 290	133 399 263	(1 528 463)	101.2%
5 Coordination, coherence and partnerships	104 738 200	41 796 295	60 268 444	980 758	103 045 497	1 692 703	98.4%
6 Mutual accountability	93 203 500	45 674 827	42 011 758	2 406 255	90 092 840	3 110 660	96.7%
Total	484 820 000	229 672 384	246 770 413	5 097 072	481 545 100	3 274 900	99.3%

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.³

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 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.

³ 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.

Functional currency and translation of foreign currencies

The functional and reporting currency of the Programme is United States dollar.

The foreign currency transactions are translated into the 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 Operational Rates of Exchange of the first day of the subsequent month. 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

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 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 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 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. As at 31 December 2014, 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 2012-2015 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 greater than US\$ 5 000 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 2014 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 lives 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. UNAIDS holds computer software, licenses and copyrights as intangible assets.

Intangible assets are amortized over their estimated useful lives using the straight-line method as follows:

Intangible Asset Classes	Estimated Useful Life (in years)
Software acquired externally	1 - 6
Software internally developed	1 - 6
Licences and rights	1 - 6
Copyrights	3 - 10

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 financial or operating lease.

3.8 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.

3.9 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

3.9 a. 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 valuation 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.

3.9 b. 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 were a defined contribution plan in line with the requirements of IPSAS 25. UNAIDS contributions to the plan during the financial period are recognized as expenses in the Statement of Financial Performance.

3.10 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.

3.11 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) is 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.

3.12 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.

3.13 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.

3.14 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.

3.15 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.

3.16 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.

3.17 Statement of Cash flow

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

3.18 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

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\$ 184 895 736 as at 31 December 2014.

	31 December 2014	31 December 2013
	(in US dollars)	(in US dollars)
Cash on hand and at bank (imprest accounts)	144 786	94 987
Cash held on behalf of UNAIDS by WHO	<u>184 750 950</u>	<u>211 066 404</u>
Total Cash and cash equivalents held by WHO	<u>184 895 736</u>	<u>211 161 391</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.

WHO's 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 WHO's 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, which are funds related to pending programme implementation, 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. 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.

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 minimised 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 2014 was 0.4 years for short-term investments and 5.8 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 prevailing Operational Rates of Exchange of the first day of the subsequent month. 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 2015 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 2014. As at 31 December 2014 the forward foreign currency exchange hedging contracts were CHF 17.3 million. Unrealized net loss on these contracts amounted to US\$ 1.4 million as at 31 December 2014 (US\$ 0.8 million net losses as at 31 December 2013). Realized gains or losses on these contracts will be recorded on maturity of the contracts and applied during 2015.

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 an on-going monthly basis the awards, 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 2014 the total forward foreign currency hedging contracts by currency for UNAIDS were as follows:

Currency forward sold	Sum of amount sold	Sum of amount bought	Net unrealized gain/(loss)
		(US dollars)	(US dollars)
Swiss Franc	10 000 000	10 153 831	15 955
Euro	5 400 000	5 292 855	40 282
Danish Kroner	45 000 000	7 385 660	12 600
Total		22 832 346	68 837

4.2 Accounts receivable

As at 31 December 2014, US\$ 97.6 million in contributions receivable was outstanding (US\$ 136.8 million as at 31 December 2013). A total of US\$ 71.2 million of this receivable is due to letters of credit outstanding with the Government of the United States of America; and US\$ 26.4 million represents receivables due in future financial periods (broken down between current and 2016). An allowance for doubtful debts has been established after review of all the outstanding receivables for US\$ 246 591.

	31 December 2014	31 December 2013
	(in US dollars)	(in US dollars)
Accounts receivable - current		
Unified Budget, Results and Accountability Framework	71 801 685	88 748 876
Supplementary Funds	22 739 835	23 567 643
Extra-budgetary Funds	2 947 526	6 470 450
Allowance for doubtful debt against Extra-budgetary Funds	(246 591)	(199 185)
Total Accounts receivable - current	97 242 455	118 587 784
Accounts receivable - non-current		
Unified Budget, Results and Accountability Framework	-	16 780 127
Supplementary Funds	335 197	1 471 254
Total Accounts receivable - non current	335 197	18 251 381
Total Accounts receivable	97 577 652	136 839 165

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 2014, US\$ 1.97 million in staff receivables was outstanding including salary advances, rental advances, travel advances and education grant advances. (US\$ 1.96 million as at 31 December 2013). The education grant advances represent the advances made to staff members for the scholastic year 2014-2015.

	31 December 2014	31 December 2013
	(in US dollars)	(in US dollars)
Staff receivables		
Salary advances	104 422	190 783
Rental advances	323 162	259 047
Education Grant advances	1 314 153	1 223 869
Travel advances	34 986	136 287
Expected Sick Leave Insurance Contribution	172 385	130 513
Other staff advances	18 233	20 538
Total Staff receivables	1 967 341	1 961 037

4.4 Prepayments

The total value of prepayments is US\$ 10.1 million (US\$ 0.5 million as at 31 December 2013). Out of this amount US\$ 9.5 million relates to advances paid to UNAIDS Cosponsors towards their share under the UNAIDS 2012-2015 Unified Budget, Results and Accountability Framework for the 2014-2015 biennium to enable smooth operations and continuation of activities from one year to the next. An amount of US\$ 0.4 million relates to advances made to UNDP to cover payments made on behalf of UNAIDS. The remaining US\$ 0.1 million represents payments to suppliers in advance of receipt of goods or services which will be charged to expense in 2015.

	31 December 2014	31 December 2013
	(in US dollars)	(in US dollars)
Prepayments		
Advances to UNDP	443 180	365 416
Advances to Cosponsors	9 500 000	-
Advances to Suppliers	107 966	86 910
Total Prepayments	10 051 146	452 326

4.5 Other current receivables

As at 31 December 2014, US\$ 33 010 in other receivables was outstanding including VAT and inter-agency receivables.

4.6 Property, plant and equipment (PP&E)

Building

The carrying value of the UNAIDS building at headquarters has been calculated at cost less depreciation. The building was constructed jointly with WHO and ownership is recognized at the 50%

value with WHO. The land upon which the building has been constructed was made available by the Swiss Government at no cost. The value of the land has therefore not been valued and disclosed in the financial statements. The estimated useful life of the building has been determined at 60 years and has been depreciated using the straight line method.

Plant and equipment

UNAIDS has capitalized all plant and equipment purchased in 2014 with a value of US\$ 5 000 or above. The assets value purchased during 2014 has been depreciated over the estimated useful life using the straight line method.

	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	383 122	267 910	141 785	26 417 560
Accumulated depreciation	(2 988 237)	(3 389)	(67 875)	(123 812)	(73 431)	(3 256 744)
Total carrying cost as at 31 December 2013	22 625 208	7 909	315 247	144 098	68 354	23 160 816
Movements 1 January to 31 December 2014						
Additions	-	-	362 935	26 966	104 282	494 184
Disposals						
Depreciation	(426 891)	(2 260)	(140 048)	(103 187)	(78 710)	(751 095)
Total - Property, Plant and Equipment	22 198 317	5 649	538 134	67 878	93 927	22 903 905

Intangible assets

The Programme has no intangible assets to report.

4.7 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 2014 was US\$ 4 million (US\$ 5.4 million as at 31 December 2013).

	31 December 2014	31 December 2013
	(in US dollars)	(in US dollars)
Accounts payable		
Payables to suppliers	1 306 047	3 263 333
Non-staff meeting participants payable	25 294	29 896
Accrual of goods and services	2 663 335	2 106 512
Total - Accounts Payable	3 994 676	5 399 741

4.8 Staff payable

The total balance for staff payable as at 31 December 2014 was US\$ 0.3 million (US\$ 0.3 million as at 31 December 2013). These amounts relate to salaries payable and other staff liabilities including Pension and Mutual Staff Contributions.

	31 December 2014	31 December 2013
	(in US dollars)	(in US dollars)
Staff payables		
Salaries payable	133 767	264 533
Other employee liabilities	144 941	68 089
Total - Staff payables	278 708	332 622

4.9 Accrued staff benefits

UNAIDS staff benefits liabilities are determined by professional actuaries. The actuarial studies commissioned by WHO determined various liabilities to be established to cover different staff benefits in accordance with IPSAS for WHO and the non-consolidated entities as at 31 December 2014. The professional actuarial studies were calculated based on personnel data and past payment experience. As per the actuarial studies as at 31 December 2014, the total liability for staff benefits stood at US\$ 116.8 million (out of which US\$ 68.8 million is reflected in our accounts).

	<u>31 December 2014</u> (in US dollars)	<u>31 December 2013</u> (in US dollars)
Accrued staff benefits - current		
Terminal Payments	9 560 045	10 265 692
Special fund for compensation	6 008	5 725
Total accrued staff benefits - current	9 566 053	10 271 417
Accrued staff benefits -non-current		
Terminal payments	10 211 114	12 244 882
After-service health insurance	48 142 216	43 816 206
Special fund for compensation	910 001	836 103
Total accrued staff benefits - non-current	59 263 331	56 897 191
Accrued staff benefits		
Terminal payments	19 771 159	22 510 574
After-service health insurance	48 142 216	43 816 206
Special fund for compensation	916 009	841 828
Total Accrued staff benefits	68 829 384	67 168 608

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 2014–2015.

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 2014 has estimated the total liability for terminal payments (excluding annual leave) to be US\$ 11.1 million (US\$ 13.6 million as at 31 December 2013). This calculation did not include cost of end of service grant and separation by mutual agreement. As per the actuarial study, a net reduction of US\$ 2.5 million has been recognized, by nature of expense in the Statement of Financial Performance.

The annual leave entitlements stood at US\$ 8.6 million as at 31 December 2014. The liability has reduced by US\$ 0.3 million from US\$ 8.9 million in 2013.

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. All gains and losses were recognized upon the adoption of IPSAS 25. Thereafter, gains and losses (unexpected changes in surplus or deficit) will be recognized over time via the corridor method. Under this method, amounts up to 10% of the defined benefit obligation (DBO) are not recognized, so as to allow gains and losses the reasonable possibility of offsetting one another over time. Gains and losses over 10% of the DBO are amortized over the average remaining service of active staff expected to receive the benefit.

The defined benefit obligations as at 31 December 2014 determined by professional actuaries based on personnel data and past payments experience provided by WHO stood at US\$ 96.1 million of which US\$ 48 million is funded resulting in net unfunded liability of US\$ 48.1 million which is reflected in the Statement of Financial Position. Further details on Staff Health Insurance can be found in the Staff Health Insurance Annual Report. As per the actuarial study, an additional accrual of US\$ 4.3 million has been 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\$ 48.1 million as at 31 December 2014, 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 2014 stood at US\$ 23 million. (i.e. US\$ 48.1 million as per actuarial study less the funding of US\$ 25.1 million).

No actuarial gain or loss was recognized in the financial statements as the gain or loss was less than 10% of the defined benefit obligation.

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. UNAIDS has recognized staff health insurance liabilities as a post-employment benefit. All gains and losses were recognized upon the adoption of IPSAS 25. Thereafter, gains and losses (unexpected changes in surplus or deficit) will be recognized over time via the corridor method. Under this method, amounts up to 10% of the defined benefit obligation are not recognized, so as to allow gains and losses the reasonable possibility of offsetting one another over time. Gains and losses over 10% of the defined benefit obligation are amortized over the average remaining service of active staff expected to receive each benefit. For accounting purposes, the plan is considered unfunded (the liability is not reduced by plan assets).

As per the actuarial study, an additional accrual of US\$ 0.01 million has been recognized by nature of expenses in the Statement of Financial Performance. The total liability stood at US\$ 0.9 million as at 31 December 2014.

Actuarial calculations

Staff Benefits as per Actuarial Valuation

IPSAS Disclosure tables as at 31 December 2014

	After Service Health Insurance	Terminal Payments excluding Accrued Annual Leave	Special Fund for Compensation	Terminal Payments for Accrued Annual Leave
	(in US dollars)	(in US dollars)	(in US dollars)	(in US dollars)
RECONCILIATION OF DEFINED BENEFIT OBLIGATIONS -141 (c)				
Defined Benefit Obligation at 31-Dec-2013	83 171 190	13 635 873	588 266	8 874 701
Service cost for 2014	9 933 574	1 501 971	80 997	
Interest cost for 2014	2 410 150	478 560	21 659	(251 826)
(Actual Gross Benefit Payments in 2014)	(188 472)	(590 924)	(6 321)	
(Actual After Service Administrative Expenses in 2014)	(14 507)			
Actual Contributions by After Service Participants in 2014	93 341			
Actuarial (Gain)/Loss	33 027 438	(3 877 196)	60 792	
Defined Benefit Obligation at 31-Dec-2014	128 432 714	11 148 284	745 393	8 622 875
RECONCILIATION OF ASSETS - 141 (e)				
Assets at 31-Dec-2013, for SHI Net of 470.1 Reserve	41 960 961			
(Actual Gross Benefit Payments for 2014)	(3 718 400)	(590 924)	(6 321)	
(Actual After Service Administrative Expenses in 2014)	(295 409)			
Actual Total SHI Participant Contributions in 2014	3 162 378			
Actual Organization Contributions during 2014	6 191 080	590 924	6 321	
(increase)/Decrease in 470.1 Reserve in 2014	(9 806)			
Expected return on Assets for 2014	2 578 233			
Asset Gain/(Loss)	(1 872 502)			
Assets at 31-Dec-2014, for SHI Net of 470.1 Reserve	47 996 535			
RECONCILIATION OF FUNDED STATUS - 141 (f)				
Defined Benefit Obligation (DBO)				
Inactive	11 390 002		163 173	
Active	117 042 712	11 148 284	582 220	
Total DBO	128 432 714	11 148 284	745 393	
Plan Assets				
(Gross Plan Assets)	(49 233 212)			
Offset for WHO 470.1 Reserve	1 236 677			
(Net Plan Assets)	(47 996 535)			
(Surplus)/Deficit	80 436 179	11 148 284	745 393	
Unrecognized Gain/(Loss)	(32 293 963)		170 616	
Unrecognized Prior Service Credit/(Cost)				
Net (Asset)/Liability Recognized in Statement of Financial Position	48 142 216	11 148 284	916 009	
Current (Asset)/Liability		937 170	6 008	
Non-current (Asset)/Liability	48 142 216	10 211 114	910 001	
Net (Asset)/Liability Recognized in Statement of Financial Position	48 142 216	11 148 284	916 009	
Annual Expense for 2014--141(g)				
Service cost	9 933 574	1 501 971	80 997	
Interest cost	2 410 150	478 560	21 659	
Expected return on assets	(2 578 233)			
Recognition of (Gain)/Loss		(3 877 196)	(22 154)	
Total Expense Recognized in Statement of Financial Performance	9 765 491	(1 896 665)	80 502	
Expected Accounting Contributions during 2015--141(q)				
Expected Organization Contributions during 2015		950 662	6 095	
Contributions by UNAIDS	4 234 487			
Contributions by participants	1 965 400			
Total Expected Contributions for 2015	6 199 887	950 662	6 095	

After-service health insurance medical sensitivity analysis

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 25. In addition, each actuarial assumption is required to be disclosed in absolute terms.

Medical Sensitivity Analysis - 141 (o)

2014 Service Cost plus Interest Cost

Current Medical Inflation Assumption Minus 1%	9 190 294
Current Medical Inflation Assumption	12 343 724
Current Medical Inflation Assumption Plus 1%	16 760 373

31 December 2014 Defined Benefit Obligation

Current Medical Inflation Assumption Minus 1%	96 868 527
Current Medical Inflation Assumption	128 432 714
Current Medical Inflation Assumption Plus 1%	172 414 501

Measurement Date

All plans	31 December 2014
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Discount rate

Terminal Payments (other than accrued leave) and Special Fund for Compensation	<p>2.9% (decrease from 3.7% in the prior valuation).</p> <p>Based on the combined projected benefit payments for both plans 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 2014</p> <p>The resulting discount rate is rounded to the nearest 0.1%.</p>
After Service Health Insurance	<p>Europe—1.6% (decrease from 2.9% in prior valuation).</p> <p>The Americas—4.1% (decrease from 4.9% in prior valuation).</p> <p>Other Countries—4.4% (decrease from 5.3% in prior valuation).</p> <p>For Europe, beginning with the 31 December 2010 valuation, WHO adopted a yield curve approach to reflect the pattern of expected cash flows from the European major office. The rate is a weighted average of the 1.31% rate from the SIX Swiss Exchange curve and the 2.21% rate from the iBoxx Euro Zone curve, with a two-thirds weight on the former. The resulting rate is rounded to the nearest 0.1%.</p> <p>For the Americas and Other Countries, the rates use the same methodology as for PAHO's valuation of the ASHI. Beginning with the 31 December 2012 valuation, PAHO adopted a yield curve approach using the Aon Hewitt AA Bond Universe Curve. The resulting rates for The Americas and Other Countries can differ due to different patterns of expected cash flows from those regions.</p>

Annual General Inflation

Terminal Payments (other than accrued leave) and Special Fund for Compensation	<p>2.2%. Based on inflation rates of 2.5% for United States and 1.1% for Switzerland with weights of 75% and 25%, respectively. The resulting inflation rate is rounded to the nearest 0.1%.</p> <p>The inflation rate for United States is based on the rate from the 31 December 2013 valuation of the United Nations Joint Staff Pension Fund (UNJSPF). The inflation rate for Switzerland is based on Aon Hewitt's Q4 2014 forecast of inflation over the next 10 years in Switzerland.</p>
After Service Health Insurance	<p>Europe—1.4% (decrease from 1.6% in prior valuation). The Americas and Other Countries—2.5%.</p> <p>Based on Aon Hewitt's Q4 2014 10-year forecast of global capital market assumptions. Rate for Europe is the average of rates for Switzerland (1.1%) and the rest of Europe (1.7%), rounded to the nearest 0.1%. Rate for The Americas and Other Countries is based on the 31 December 2013 valuation of the United Nations Joint Staff Pension Fund (UNJSPF).</p>

Annual Salary Scale

All Plans	<p>General inflation, plus 0.5% per year productivity growth, plus merit component. Merit and productivity increases are set equal to those from the 31 December 2013 valuation of the UNJSPF.</p>
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Changes in the assumption for Participation

Participation in Repatriation Grant, Repatriation Travel and Removal on Repatriation	<p>70% of participants meeting the eligibility criteria are assumed to elect benefits. (This is a decrease from the prior valuation's assumption that 100% of participants meeting the eligibility criteria elect benefits, reflecting a study of recent benefits payments experience)</p>
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Actuarial Method

Repatriation Travel and Removal on Repatriation	<p>Calculated using projected unit credit with service prorate, with an attribution period from the "entry on duty date" to separation.</p>
Repatriation Grant, Termination Indemnity, and Grant in Case of Death	<p>Calculated using the projected unit credit method with accrual rate proration.</p>
Accrued Leave	<p>The liability is set equal to the walk-away liability as if all staff separated immediately.</p>
Abolition of Post, End-of-Service Grant, and Separation by Mutual Agreement	<p>These benefits are considered termination benefits under IPSAS 25 and, therefore, excluded from the valuation.</p>
Special Fund for Compensation	<p>Calculated using projected unit credit, with an attribution period from the "entry on duty date" to separation.</p>
After- Service Health Insurance	<p>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.</p>

United Nations Joint Staff Pension Fund

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

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

The latest actuarial valuation was performed as of 31 December 2013. The valuation revealed an actuarial deficit of 0.72% (1.87% in the 2011 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as of 31 December 2013 was 24.42% of pensionable remuneration, compared to the actual contribution rate of 23.7%. The next actuarial valuation will be conducted as of 31 December 2015.

At 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.5% (130% in the 2011 valuation). The funded ratio was 91.2% (86.2% in the 2011 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 2013, 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 2014, contributions paid to UNJSPF amounted to US\$ 22.6 million (US\$ 21.7 million contributions in 2013). Expected contributions due in 2015 are US\$ 22.6 million.

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

4.10 Deferred revenue

As at 31 December 2014 deferred revenue amounted to US\$ 28.3 million (US\$ 67.8 million as at 31 December 2013). This represents multi-year pledges made in 2013 and 2014 for which the revenue recognition has been deferred to future financial periods. Out of this amount only US\$ 0.3 million represents non-current deferred revenue for 2016 and future financial periods.

	31 December 2014	31 December 2013
	(in US dollars)	(in US dollars)
Deferred revenue - current		
Unified Budget, Results and Accountability Framework	26 389 524	43 670 706
Supplementary Funds	1 578 585	3 244 617
Extra-budgetary Funds	-	2 632 420
Total Deferred revenue - current	<u>27 968 109</u>	<u>49 547 743</u>
Deferred revenue - non-current		
Unified Budget, Results and Accountability Framework	-	16 780 127
Supplementary Funds	335 197	1 471 254
Total Deferred revenue - non-current	<u>335 197</u>	<u>18 251 381</u>
Total - Deferred Revenue	<u>28 303 306</u>	<u>67 799 124</u>

4.11 Other current liabilities

The total balance for other current liabilities as at 31 December 2014 was US\$ 0.02 million (US\$ 0.03 million as at 31 December 2013). These amounts relate to various short-term liabilities.

4.12 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 loan repayable of US\$ 21.7 million has been amortized using the effective interest rate of 0.81% (Swiss Libor rate for 30 years).

4.13 Administrative waivers, amounts written off, ex-gratia payments and fraud

During the financial year ended 31 December 2014, there were no administrative waivers, amounts written off or ex-gratia payments. Furthermore, there were no cases of fraud reported during the same financial year 1 January to 31 December 2014.

4.14 Contingent liabilities and commitments and contingent assets

Contingent Liabilities

As at 31 December 2014, there were three outstanding personnel matters before the WHO Headquarters Board of Appeal and there was one outstanding personnel matter pending with the ILO Administrative Tribunal. The legal proceedings have not progressed sufficiently to determine the extent of any liability of the Programme with any degree of certainty. 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 2014
	(in US dollars)
Operating Leases	
Within one year	2 695 164
Later than one year but not later than five years	1 932 718
Later than five years	77 704
Total Operating Lease	4 705 586

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 2014, there were no material contingent assets to disclose.

4.15 Changes in net assets/equity

During the financial period ended 31 December 2014, the Programme had an overall deficit of US\$ 18.1 million, out of which US\$ 11.9 million related to Unified Budget, Results and Accountability Framework funds and US\$ 6.1 million to non-core funds which includes US\$ 5.7 million unrealized losses on exchange revaluation for 2014.

In line with the Programme Coordinating Board's approval to fund the remaining shortfall under the staff-related liabilities and the annual replenishment of the Building Renovation Fund, in 2014 the Executive Director authorized the transfer of a total of US\$ 7.6 million from the fund balance to partially fund the staff-related liabilities for US\$ 7.2 million and US\$ 0.43 million was authorized towards the Building Renovation Fund. The Programme Coordinating Board during its 34th meeting held from 1 to 3 July 2014 took note of the Executive Director's decisions.

The unfunded staff-related liabilities, stood at US\$ 21 million as at 31 December 2014 (US\$ 28.6 million as at 31 December 2013). The net reduction of US\$ 7.6 million was due to the transfer of US\$ 7.2 million from the fund balance as approved by the Programme Coordinating Board and a net decrease of US\$ 0.4 million due to the movements in the actuarial liabilities of ASHI and terminal payments.

The transfer of US\$ 7.6 million from the Unified Budget, Results and Accountability Framework fund balance, together with the 2014 deficit of US\$ 11.9 million, resulted in a fund balance of US\$ 128.8 million as at 31 December 2014 (US\$ 148.3 million as at 31 December 2013).

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\$ 270.8 million (US\$ 260.1 million from governments; US\$ 3.2 million from UNAIDS Cosponsors; and a net of US\$ 7.5 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\$ 2.6 million representing in-service contributions and US\$ 0.2 million as in-kind contributions. There has been no revenue received on account of exchange transactions.

	UBRAF Core Funds	Supplementary Funds	Extra budgetary Funds	Total
	(in US dollars)	(in US dollars)	(in US dollars)	(in US dollars)
Voluntary Contributions				
Governments	228 077 813	24 523 130	7 442 216	260 043 159
Cosponsors	1 650 000	856 225	722 415	3 228 640
Others	619 763	6 719 722	167 398	7 506 883
Total - Voluntary Contributions	230 347 576	32 099 077	8 332 029	270 778 682

5.3 Financial revenue

The total interest earnings were US\$ 1.5 million for the financial period ended 31 December 2014 and the net realized gains on hedging and exchange transactions were US\$ 1.4 million for the same period. The actuarial gains of US\$ 3.9 million have been recognized as financial revenue as per the actuarial study under the terminal payments. This has resulted in a total amount of US\$ 6.8 million as financial revenue as at 31 December 2014. Interest revenue is recognized as it accrues and is allocated by WHO.

	31 December 2014	31 December 2013
	(in US dollars)	(in US dollars)
Finance Revenue		
Interest	1 528 005	1 546 910
Realized foreign exchange gains on balance sheet hedging	1 439 930	-
Net unrealized foreign exchange gains on revaluation	-	1 679 063
Actuarial revaluation gains on Terminal Payments Funds	3 899 350	1 653 958
Total - Finance Revenue	6 867 285	4 879 931

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 2014.

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 2014 have been recognized and capitalized in accordance with IPSAS.

5.4.7 Depreciation

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

5.4.8 Finance costs

These include realized foreign exchange losses resulting from treatment of transactions in currencies as well as losses from realized losses on accounts receivable and payables and other management fees paid. It also includes actuarial interest cost related to valuation of Terminal Payments and Special Fund for Compensation.

Finance Costs	31 December 2014 (in US dollars)	31 December 2013 (in US dollars)
Bank charges and investment management fees	1 364	1 611
Net realized foreign exchange losses	902 559	531 741
Net unrealized foreign exchange losses on revaluation	5 688 387	-
Actuarial interest cost related to valuation of Terminal Payments Fund and Special Fund for Compensation	500 219	412 813
Total - Finance Costs	7 092 529	946 165

6. SEGMENT REPORTING

Schedule 1

Statement of Financial Performance by Segments

All sources of funds for the year ended 31 December 2014
(in US dollars)

	UBRAF Core Funds		Non-Core Funds							TOTAL	
	UBRAF Core Funds	UBRAF Supplementary Funds	Extra-budgetary Funds	Terminal Payments	Non-payroll Entitlements	Special Fund for Compensation	Staff Health Insurance	Common Fund	Eliminations	Sub-total non-core funds	Grand Total
Revenue											
Governments	228 077 813	24 523 130	7 442 216							31 965 346	260 043 159
Cosponsoring organizations	1 650 000	856 225	722 415							1 578 640	3 228 640
Others	619 763	6 719 722	167 398							6 887 120	7 506 883
Finance revenue	2 487 063	-	-	4 358 068		22 154				4 380 222	6 867 285
Total	232 834 639	32 099 077	8 332 029	4 358 068	-	22 154	-	-	-	44 811 328	277 645 967
Programme Support Costs			2 470 610						(2 470 610)	-	-
Payroll transfers to accrual funds				2 798 872	8 704 252				(11 503 124)	-	-
Total revenue	232 834 639	32 099 077	10 802 639	7 156 940	8 704 252	22 154	-	-	(13 973 734)	44 811 328	277 645 967
Expense											
Staff and other personnel costs	118 071 870	1 986 024	3 875 012	1 388 939	9 841 703	80 997	4 326 010		(11 503 124)	9 995 561	128 067 431
Transfers and grants to counterparts	92 073 742	9 870 149	5 646 447							15 516 596	107 590 338
Contractual services	9 760 885	11 445 054	1 755 263		184 366					13 384 683	23 145 568
General operating expenses	15 477 966	775 251	1 147 286	383 679	4 469					2 310 685	17 788 651
Travel	6 707 685	2 650 467	556 081	52 801	3 109					3 262 458	9 970 143
Equipment, vehicles and furniture	1 679 737	245 581						(605 876)		(360 295)	1 319 442
Programme Support Costs	91 823	1 830 673	548 114						(2 470 610)	(91 823)	-
Depreciation								751 095		751 095	751 095
Finance costs	902 650			479 833		21 659		5 688 387		6 189 879	7 092 529
Total expense	244 766 358	28 803 199	13 528 203	2 305 252	10 033 647	102 656	4 326 010	5 833 606	(13 973 734)	50 958 839	295 725 197
Total Surplus/(Deficit) by fund	(11 931 719)	3 295 878	(2 725 564)	4 851 688	(1 329 395)	(80 502)	(4 326 010)	(5 833 606)	-	(6 147 511)	(18 079 230)

Schedule 1 (A)

Reconciliation of total expense between 2012-2013 and 2014-2015 incurred in 2014

Expense	UBRAF Core Funds		Non-Core Funds							TOTAL	
	UBRAF Core Funds	UBRAF Supplementary Funds	Extra-budgetary Funds	Terminal Payments	Non-payroll Entitlements	Special Fund for Compensation	Staff Health Insurance	Common Fund	Eliminations	Sub-total non-core funds	Grand Total
2014-2015	238 766 636	26 721 863	12 191 625	1 794 277	10 113 795	80 997	4 326 010	145 219	(13 973 734)	41 400 052	280 166 688
2012-2013	5 097 072	2 081 336	1 336 578	31 142	(80 148)					3 368 908	8 465 980
Total	243 863 708	28 803 199	13 528 203	1 825 419	10 033 647	80 997	4 326 010	145 219	(13 973 734)	44 768 960	288 632 688
Finance costs	902 650			479 833		21 659		5 688 387		6 189 879	7 092 529
Grand Total	244 766 358	28 803 199	13 528 203	2 305 252	10 033 647	102 656	4 326 010	5 833 606	(13 973 734)	50 958 839	295 725 197

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. Commitments made in 2013 have been liquidated in 2014 which has contributed to the timing difference.

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

Entity differences - include expenses under non-core funds, which are financed from other sources and are not included in the 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 2014 are presented below.

Reconciliation of Budget Utilization (Statement V) with Statement of Cash Flow (Statement IV) as at 31 December 2014

	2014			
	Operating	Investing	Financing	Total
	(in US dollars)	(in US dollars)	(in US dollars)	(in US dollars)
Actual amount on budget implementation (Statement V)	238 671 805			238 671 805
Timing difference	8 465 980			8 465 980
Basis Difference		(494 184)	1 237 989	743 805
Presentation Difference	(112 673 326)			(112 673 326)
Entity Difference	49 687 472			49 687 472
Actual Amount in Statement of Cash Flow	184 151 931	(494 184)	1 237 989	184 895 736

8. RELATED PARTY AND SENIOR MANAGEMENT DISCLOSURE

Key management personnel of UNAIDS consists of all staff members graded at the D2 level and above as they have the authority and responsibility for planning, directing and controlling the activities of UNAIDS. The aggregate remuneration paid to key management personnel includes salaries, allowances, statutory travel and other entitlements paid in accordance with the Staff Rules and Regulations and applicable to all staff. Key management personnel are members of the UN Joint Service 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.

Key Management Personnel

(in US dollars)

Number of individuals	12
Compensation and post adjustment	2 801 987
Entitlements	240 433
Pension and Health Plans	710 158
Total remuneration 2014	3 752 578
Outstanding advances against entitlements	72 228
Outstanding loans (in addition to normal entitlements if any)	-

9. EVENTS AFTER THE REPORTING DATE

The Programme's reporting date is 31 December 2014. 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.

Schedule 2

**Unified Budget, Results and Accountability Framework - details of revenue
for the year ended 31 December 2014**

(in US dollars)

Voluntary contributions	Funds made available towards the year 2014 of the Unified Budget, Results and Accountability Framework
Governments	
Andorra	41 265
Australia	6 679 035
Belgium	5 619 413
Belgium - Flanders	1 111 111
Canada	4 362 657
China	300 000
Czech Republic	45 548
Denmark	8 291 874
Ethiopia	24 980
Finland	13 132 695
France	683 995
Germany	3 325 045
Ireland	3 943 850
Israel	72 500
Japan	1 319 285
Liechtenstein	27 716
Luxembourg	5 048 410
Monaco	192 140
Netherlands	27 210 884
New Zealand	1 251 742
Norway	29 332 886
Poland	92 839
Portugal	135 870
Russian Federation	500 000
Sweden	34 641 391
Switzerland	11 160 714
Thailand	100 000
United Kingdom of Great Britain and Northern Ireland	24 429 968
United States of America	45 000 000
Sub-total	228 077 813
Cosponsoring organizations	
World Bank	1 650 000
Sub-total	1 650 000
Other	
Miscellaneous	619 763
Sub-total	619 763
Total operating revenue	230 347 576
Financial revenue	
Interest	2 487 063
Sub-total	2 487 063
TOTAL	232 834 639

Schedule 3

**Supplementary funds - details of revenue
for the year ended 31 December 2014**
(US dollars)

Voluntary contributions	Funds made available towards Supplementary Specified funds 31 December 2014
Governments	
China	900 000
Germany	135 000
Japan	2 872 750
Korea	100 000
Luxembourg	1 383 126
Netherlands	381 812
Norway	20 207
Russian Federation	2 467 579
Sweden	4 394 267
United States of America (CDC)	500 064
United States of America (USAID)	11 368 325
Sub-total	24 523 130
Cosponsoring Organizations	
UNFPA	782 865
UNICEF	23 360
UN Women	50 000
Sub-total	856 225
Other	
African Society for Laboratory Medicine (ASLM)	80 000
Asian Development Bank	431 861
Bill and Melinda Gates Foundation	1 394 003
British Columbia Centre for Excellence in HIV/AIDS(BC-CFE)	80 790
Drosos Foundation	250 000
Ford Foundation	365 000
GIZ	21 614
HMB Foundation	8 677
Islamic Development Bank	200 000
Korean Women Against AIDS (KOWA)	50 000
M.A.C. AIDS Fund	589 396
MDTF Office	674 287
Organisation Internationale de la Francophonie (OIF)	13 400
Save the Children	19 852
The Sport Promoters (TSP) - Michael Ballack	27 137
UNCERF	96 100
UNAIDS USA	1 900 000
UNOPS	540 312
Miscellaneous / Refund to Donor	(22 707)
Sub-total	6 719 722
Total operating revenue	32 099 077
TOTAL	32 099 077

Schedule 4

**Extra-budgetary funds - details of revenue
for the year ended 31 December 2014
(US dollars)**

Voluntary contributions	Funds made available towards Extra-budgetary funds 31 December 2014		
	In Cash	In- Kind and In-service	Total
Governments			
Belgium		276 042	276 042
Finland		457 976	457 976
France		660 182	660 182
Germany		232 617	232 617
Luxembourg		25 463	25 463
Netherlands		295 105	295 105
Norway		133 681	133 681
Russian Federation	2 632 420		2 632 420
Sweden		41 667	41 667
United States of America (CDC)		516 434	516 434
United States of America (USAID)	2 000 000		2 000 000
Canton de Genève, Switzerland		170 629 ⁽¹⁾	170 629
Sub-total	4 632 420	2 809 796	7 442 216
Cosponsoring Organizations			
UNDP	76 792		76 792
WHO	645 623		645 623
Sub-total	722 415	-	722 415
Other			
UNWTO ST-EP Foundation	25 000		25 000
Miscellaneous	287 490		287 490
Allowance for non-recovery	(47 406)		(47 406)
Adjustments	(97 686)		(97 686)
Sub-total	167 398	-	167 398
Total operating revenue	5 522 233	2 809 796	8 332 029
TOTAL	5 522 233	2 809 796	8 332 029

⁽¹⁾ Represents the value of interest on the building loan from FIPOI

PART III

MANAGEMENT INFORMATION

I. Funds made available for the financial period ended 31 December 2014

During the period under review, revenue totalling US\$ 232.8 million was made available towards the Unified Budget, Results and Accountability Framework. Twenty nine governments contributed 98% of this amount, and the World Bank contributed 0.7% of this amount. The remaining 1.3% is made up of financial revenue (primarily interest earnings) received and apportioned during the reporting period as well as miscellaneous income, including funds received from public institutions and private contributors other than governments, miscellaneous donations and honoraria. Schedule 2 on page 46 provides the details of this revenue.

Furthermore, non-core resources amounting to US\$ 42.9 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 47 and 48.

II. Funds expended for the financial period ended 31 December 2014

The total expense for the financial period ended 31 December 2014 amounted to US\$ 295.7 million. Out of this, US\$ 238.7 million related to expenses against the Unified Budget, Results and Accountability Framework for 2014-2015; US\$ 41.4 million represented net expenses under the non-core funds; US\$ 8.5 million related to prior period expense and US\$ 7.1 million represented finance costs.

A. Unified Budget, Results and Accountability Framework

During the year ended 31 December 2014, a total amount of US\$ 238.8 was expended for the implementation of activities contained in the 2014–2015 Unified Budget, Results and Accountability Framework and were distributed as follows:

(a) US\$ 87.3 million was expended to Cosponsors;

(b) US\$ 151.5 million was expended for the Secretariat.

In addition to the above expended amount, US\$ 7.9 million was encumbered during the same financial year which together represents a financial implementation rate of 50.8% (summarized in Table 1 below).

Table 1: 2014-2015 UBRAF approved allocations, expense, and encumbrance for the year ended 31 December 2014 (in US dollars)

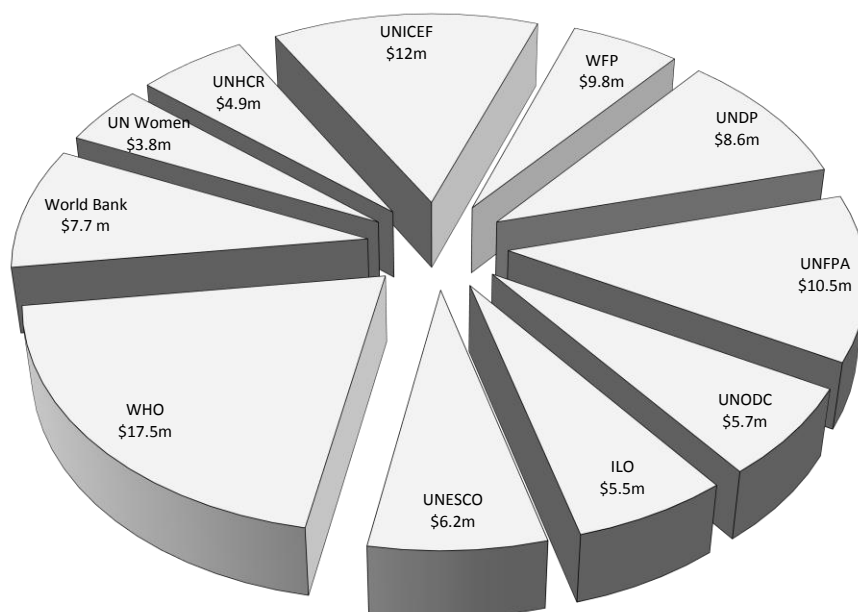
Strategic Directions and Functions	2014-2015 Approved allocations	Expense	Encumbrance ^{a/}	Total	Balance	Percentage implementation
	(a)	(b)	(c)	(d) = (b + c)	(e) = (a-d)	(f) = (d / a)
1 Revolutionize HIV prevention	79 102 000	39 551 000	-	39 551 000	39 551 000	50.0%
2 Catalyze the next phase of treatment, care and support	47 539 000	23 769 500	-	23 769 500	23 769 500	50.0%
3 Advance human rights and gender	37 885 000	18 942 500	-	18 942 500	18 942 500	50.0%
4 Leadership and advocacy	131 642 000	64 279 645	3 710 032	67 989 677	63 652 323	51.6%
5 Coordination, coherence and partnerships	105 118 000	49 803 395	1 861 565	51 664 960	53 453 040	49.1%
6 Mutual accountability	83 534 000	42 325 765	2 279 761	44 605 526	38 928 474	53.4%
Total	484 820 000	238 671 805	7 851 358	246 523 163	238 296 837	50.8%

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

i) Funds transferred to Cosponsors

As at 31 December 2014, financial transfers made to Cosponsors amounted to US\$ 87.3 million. These transfers represent 50% of the Cosponsors' share under the Unified Budget, Results and Accountability Framework for 2014-2015. Information on the amounts of funds transferred to individual Cosponsors is provided in Figure 1.

Figure 1: Cosponsors' share of funds transferred as of 31 December 2014



ii) Expense incurred against the Secretariat budget

UNAIDS Secretariat expense amounted to US\$ 151.4 million during the year ended 31 December 2014. In addition to the above expenditure a total of US\$ 7.9 million had been encumbered during the financial period which together represents a financial implementation rate of 51.3%. Further details on the funds expended and encumbered by the Secretariat broken down by strategic functions are shown in Table 2.

Table 2: Secretariat approved allocations, expense, and encumbrance for the year ended 31 December 2014 (in US dollars)

Strategic Functions	2014-2015 Approved allocations	Expense	Encumbrance ^{a/}	Total	Balance	Percentage implementation
	(a)	(b)	(c)	(d) = (b + c)	(e) = (a-d)	(f) = (d / a)
4 Leadership and advocacy	128 480 000	62 698 645	3 710 032	66 408 677	62 071 323	51.7%
5 Coordination, coherence and partnerships	99 020 000	46 749 376	1 861 565	48 610 941	50 409 059	49.1%
6 Mutual accountability	82 720 000	41 998 533	2 279 761	44 278 294	38 441 706	53.5%
Total	310 220 000	151 446 553	7 851 358	159 297 911	150 922 089	51.3%

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

B. Expense incurred against the non-core funds

During the year ended 31 December 2014, a total amount of US\$ 41.8 million was expended against non-core funds (US\$ 28.3 million was expended against supplemental funds and US\$ 13.5 million was expended against extra-budgetary funds). In addition to the above, US\$ 5.2 million and US\$ 1.6 million was encumbered against supplemental and extra-budgetary funds, respectively as indicated in Table 3 and Table 4 on pages 52 and 53.

C. Country and regional expense against all sources of funds

As recommended by the Programme Coordinating Board at its 22nd meeting held in Chiang Mai, Thailand from 23-25 April 2008, the report in Table 5 on pages 54 to 56 presents a breakdown of expense and encumbrances by country and region for both the Unified Budget, Results and Accountability Framework and non-core funds. Country and regional expense amounted to US\$ 107.3 million for the financial period ended 31 December 2014. In addition to the above expense, a total of US\$ 10.1 million was encumbered during the same period which together totalled US\$ 117.4 million for the financial period ended 31 December 2014.

Table 3

Supplementary funds
Funds available, expense and encumbrance summary by source of revenue
for the year ended 31 December 2014
(in US dollars)

Source of revenue	2013 carry-over	Funds made available in 2014	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							
Australia	4 484 527		4 484 527	2 832 426	638 206	3 470 632	77.4%
China		900 000	900 000				0.0%
Germany		135 000	135 000	56 445	6 452	62 897	46.6%
Japan		2 872 750	2 872 750	1 284 641	212 911	1 497 552	52.1%
Korea		100 000	100 000	5 780	7 847	13 627	13.6%
Luxembourg	1 174 881	1 383 126	2 558 007	929 806	215 025	1 144 831	44.8%
Netherlands		381 812	381 812	319 222	57 887	377 109	98.8%
Norway	33 168	20 207	53 375	29 860	3 308	33 168	62.1%
Russian Federation	3 460 923	2 467 579	5 928 502	3 546 541	291 791	3 838 333	64.7%
Sweden	4 911 547	4 394 267	9 305 814	3 932 109	247 504	4 179 614	44.9%
Switzerland	159 966		159 966	135 242		135 242	84.5%
United States of America (CDC)	1 071 138	500 064	1 571 202	543 469	7 887	551 356	35.1%
United States of America (USAID)	13 988 556	11 368 325	25 356 881	8 879 806	2 010 399	10 890 205	42.9%
African Society for Laboratory Medicine (ASLM)		80 000	80 000	80 000		80 000	100.0%
Asian Development Bank		431 861	431 861	309 748	73 858	383 606	88.8%
Bill & Melinda Gates Foundation	689 831	1 394 003	2 083 834	678 606	146 953	825 560	39.6%
British Columbia Centre for Excellence in HIV/AIDS(BC-CFE)		80 790	80 790	56 930		56 930	70.5%
Drosos Foundation	68 676	250 000	318 676	176 772	105 330	282 102	88.5%
European Commission	284 644	(22 707)	261 937	224 934	448	225 382	86.0%
Ford Foundation	187 184	365 000	552 184	331 221	142 759	473 981	85.8%
GIZ		21 614	21 614				0.0%
HMB Foundation		8 677	8 677	8 677		8 677	100.0%
Islamic Development Bank		200 000	200 000				0.0%
Korean Green Foundation	47 434		47 434	47 434		47 434	100.0%
Korean Women against AIDS		50 000	50 000				0.0%
MDTF Office	1 159 489	674 287	1 833 776	873 883	319 804	1 193 687	65.1%
M.A.C. AIDS Fund	20 000	589 396	609 396	199 019		199 019	32.7%
Organization of Petroleum Exporting Countries	347 663		347 663	246 420	20 976	267 396	76.9%
Organisation Internationale de la Francophonie (OIF)		13 400	13 400	13 400		13 400	100.0%
Save the Children		19 852	19 852	19 098	750	19 848	100.0%
The Sport Promoters (TSP) - Michael Ballack		27 137	27 137	27 121		27 121	99.9%
UNCERF	593 737	96 100	689 837	219 747	70 205	289 952	42.0%
UNDP	96 676		96 676	79 506	2 229	81 734	84.5%
UNICEF	49 669	23 360	73 029	36 154	11 116	47 270	64.7%
UNFPA	1 223 429	782 865	2 006 294	480 284	215 973	696 258	34.7%
UNAIDS USA		1 900 000	1 900 000	1 699 656	182 887	1 882 543	99.1%
UNOPS	891 055	540 312	1 431 367	434 606	201 458	636 064	44.4%
UN WOMEN		50 000	50 000	48 316		48 316	96.6%
Interest and other	199 016		199 016	16 318	21 680	37 998	19.1%
Total	35 143 209	32 099 077	67 242 286	28 803 199	5 215 644	34 018 843	50.6%

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

Table 4

Extra-budgetary funds
Funds available, expense and encumbrance summary by source of revenue
for the year ended 31 December 2014
(in US dollars)

Source of revenue	2013 carry-over	Funds made available in 2014	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							
Australia	1 049 008		1 049 008	648 710		648 710	61.8%
Belgium	178 368	276 042	454 410	275 056		275 056	60.5%
Canada	7 249		7 249	5 329		5 329	73.5%
Finland	3 947	457 976	461 923	457 976		457 976	99.1%
France		660 182	660 182	659 994		659 994	100.0%
Germany (including GIZ)	215 688	232 617	448 305	229 704		229 704	51.2%
Ireland	946 299		946 299	897 441		897 441	94.8%
Luxembourg	25 525	25 463	50 988	23 647		23 647	46.4%
Netherlands	397 377	295 105	692 482	317 189		317 189	45.8%
Norway	294 945	133 681	428 626	133 681		133 681	31.2%
Russian Federation	2 822 877	2 632 420	5 455 297	4 130 721	1 230 103	5 360 824	98.3%
Sweden		41 667	41 667	41 667		41 667	100.0%
Switzerland		170 629	170 629	170 629		170 629	100.0%
United States of America (CDC)	394 446	516 434	910 880	516 434		516 434	56.7%
United States of America (USAID)	346 644	2 000 000	2 346 644	353 757	1 473	355 230	15.1%
European Commission	370 734		370 734	166 974		166 974	45.0%
MDTF Office	989 450		989 450	33 411		33 411	3.4%
UNDP	88 762	76 792	165 554	3 082		3 082	1.9%
UNWTO ST-EP Foundation		25 000	25 000				0.0%
WHO	799 011	645 623	1 444 634	209 565	82 873	292 438	20.2%
Miscellaneous	296 586	142 398	438 984	7 850		7 850	1.8%
Interest and other	8 147 169		8 147 169	4 245 386	281 247	4 526 633	55.6%
Programme support costs (PSC)		2 470 610 ^{b/}	2 470 610				
Total	17 374 086	10 802 639	28 176 725	13 528 203	1 595 695	15 123 898	53.7%

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

^{b/} PSC received for Non-core funds for 2014

Table 5

Country and Regional expense and encumbrance against all sources of funds
for the financial year ended 31 December 2014
(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	4 002 760	423 250	4 426 010	3 164 387	1 360 376	4 524 763	7 167 147	1 783 626	8 950 772
	Bangladesh	524 017	9 015	533 032	110 298	40 739	151 037	634 314	49 755	684 069
	Cambodia	724 746	70 840	795 586	93 646		93 646	818 393	70 840	889 233
	China	1 209 574	140 084	1 349 658	360 698	78 134	438 832	1 570 272	218 218	1 788 491
	Fiji	614 252	25 979	640 232	145 527	7 349	152 877	759 779	33 329	793 108
	India	1 370 694	39 881	1 410 575	745 230	139 436	884 666	2 115 924	179 317	2 295 241
	Indonesia	950 345	22 324	972 669	145 356	86 317	231 673	1 095 701	108 641	1 204 342
	Lao People's Democratic Republic	18 752	9 352	28 104				18 752	9 352	28 104
	Malaysia	13 941	685	14 626				13 941		14 626
	Mongolia	8 031	19	8 050	31 709	4 251	35 960	39 739	4 271	44 010
	Myanmar	990 096	64 620	1 054 716	833 429	316 876	1 150 306	1 823 525	381 497	2 205 022
	Nepal	630 723	63 800	694 523				630 723	63 800	694 523
	Pakistan	639 030	15 595	654 625	187 217	60 330	247 547	826 247	75 924	902 171
	Papua New Guinea	1 048 614	14 370	1 062 984	179 769	1 395	181 164	1 228 382	15 765	1 244 148
	Philippines	425 096	19 688	444 784	86 026	27 933	113 959	511 121	47 621	558 743
	Sri Lanka	84 376	12 248	96 624	32 526		32 526	116 902	12 248	129 149
	Thailand	833 068	31 222	864 290				833 068	31 222	864 290
Viet Nam	822 491	18 356	840 847	952 479	169 966	1 122 445	1 774 970	188 322	1 963 292	
Total Asia and Pacific		14 910 605	981 329	15 891 934	7 068 296	2 293 103	9 361 399	21 978 901	3 274 432	25 253 333
Caribbean	Regional Support Team, Caribbean	2 134 405	263 211	2 397 616	79 029	22 701	101 730	2 213 434	285 912	2 499 346
	Bahamas	5 982	334	6 316				5 982	334	6 316
	Barbados	19 471	910	20 381				19 471	910	20 381
	Belize	2 093	6 278	8 370				2 093	6 278	8 370
	Cuba	5 604		5 604				5 604		5 604
	Dominican Republic	418 671	11 195	429 866	15 122	1 125	16,247	433 793	12 320	446 113
	Guyana	565 824	14 776	580 600				565 824	14 776	580 600
	Haiti	1 059 743	45 526	1 105 269				1 059 743	45 526	1 105 269
	Jamaica	528 061	9 915	537 976	3 746		3 746	531 807	9 915	541 722
	Suriname	10 000		10 000				10 000		10 000
	Trinidad and Tobago	12 036	229	12 265				12 036	229	12 265
Total Caribbean		4 761 890	352 374	5 114 264	97 897	23 826	121 722	4 859 787	376 199	5 235 986
East and South Africa	Regional Support Team, East and South Africa	4 386 577	123 020	4 509 597	5 730 163	1 411 096	7 141 259	10 116 740	1 534 117	11 650 856
	Angola	742 971	6 784	749 755				742 971	6 784	749 755
	Botswana	943 451	39 019	982 470	43 441	13 801	57 242	986 892	52 820	1 039 712
	Eritrea	68 416	7 048	75 464				68 416	7 048	75 464
	Ethiopia	1 263 160	49 651	1 312 811	306 861	93 808	400 670	1 570 021	143 459	1 713 480
	Kenya	1 673 134	94 360	1 767 494	391 675	21 550	413 225	2 064 809	115 910	2 180 720
	Lesotho	576 581	34 098	610 679	1 137		1 137	577 718	34 098	611 816
	Madagascar (covering Seychelles, Comores, Mauritius)	578 974	12 254	591 228				578 974	12 254	591 228
	Malawi	884 090	29 073	913 163	42 306	9 560	51 866	926 396	38 634	965 029
	Mozambique	1 132 948	65 533	1 198 480	10 000	9 000	19 000	1 142 948	74 533	1 217 480
	Namibia	749 267	12 144	761 410	22 070		22 070	771 337	12 144	783 481
	Rwanda	846 308	51 902	898 210	396 793		396 793	1 243 101	51 902	1 295 003
	South Africa	2 015 768	77 016	2 092 784	3 047		3 047	2 018 815	77 016	2 095 831
	South Sudan	1 407 774	27 124	1 434 899	240 097		240 097	1 647 871	27 124	1 674 995
	Swaziland	1 123 173	14 356	1 137 529	8 648		8 648	1 131 821	14 356	1 146 177
	Tanzania, United Republic of	1 372 817	47 824	1 420 640	240 352	81 365	321 716	1 613 168	129 189	1 742 357
	Uganda	1 013 710	36 894	1 050 605	396 821	117 721	514 541	1 410 531	154 615	1 565 146
	Zambia	1 288 364	131 624	1 419 988				1 288 364	131 624	1 419 988
	Zimbabwe	1 478 263	45 015	1 523 278	44 568	20 000	64 568	1 522 831	65 015	1 587 846
Total East and South Africa		23 545 744	904 740	24 450 484	7 877 979	1 777 901	9 655 880	31 423 723	2 682 641	34 106 364

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

Table 5 continued

Region	Countries	Unified Budget, Results and Accountability Framework			Non-core Funds			Total		
		Expense	Encumbrance ^{af}	Total	Expense	Encumbrance ^{af}	Total	Expense	Encumbrance ^{af}	Total
Europe	Regional Support Team, Europe	3 379 096	80 582	3 459 679	7 602 183	1 750 866	9 353 048	10 981 279	1 831 448	12 812 727
	Armenia				19 619		19 619	19 619		19 619
	Belarus	93 299	5 987	99 286				93 299	5 987	99 286
	Kazakhstan	595 217	11 860	607 078				595 217	11 860	607 078
	Kyrgyzstan	70 130	9 348	79 478	8 002		8 002	78 132	9 348	87 480
	Moldova, Republic of	75 794	513	76 307				75 794	513	76 307
	Tajikistan	70 183	7 421	77 604	5 314		5 314	75 497	7 421	82 917
	Ukraine	950 116	64 695	1 014 811				950 116	64 695	1 014 811
	Uzbekistan	492 603	69 260	561 863				492 603	69 260	561 863
Total Europe		5 726 217	249 667	5 975 884	7 635 117	1 750 866	9 385 983	13 361 334	2 000 533	15 361 867
Latin America	Regional Support Team, Latin America	2 610 670	69 321	2 679 991	127 901	46 676	174 576	2 738 570	115 997	2 854 567
	Argentina	785 262	18 346	803 608				785 262	18 346	803 608
	Bolivia	5 250	7 182	12 432	2 250		2 250	7 500	7 182	14 682
	Brazil	681 165	16 485	697 650				681 165	16 485	697 650
	Chile	13 159	1 637	14 796				13 159	1 637	14 796
	Colombia	193 054	11 148	204 202	4 750	5 480	10 230	197 804	16 627	214 431
	Costa Rica	4 951	300	5 251	13 337		13 337	18 288		18 588
	Ecuador	12 577	2 118	14 695				12 577	2 118	14 695
	El Salvador	120 708	7 358	128 066				120 708	7 358	128 066
	Guatemala	1 078 847	23 641	1 102 489	2 000		2 000	1 080 847	23 641	1 104 489
	Honduras	630 262	1 554	631 816	24 078		24 078	654 339	1 554	655 894
	Mexico	14 800		14 800				14 800		14 800
	Nicaragua	6 858	566	7 423	8 265	1 728	9 994	15 123	2 294	17 417
	Panama	10 914	3 031	13 945	3 750		3 750	14 664	3 031	17 695
	Paraguay	8 939	297	9 236	8 145		8 145	17 084	297	17 381
	Peru	784 513	8 924	793 437	27 000	17 352	44 352	811 512	26 276	837 789
	Uruguay	13 084	85	13 169				13 084		13 169
Venezuela	250 462	13 475	263 938				250 462	13 475	263 938	
Total Latin America		7 225 473	185 468	7 410 942	221 475	71 236	292 711	7 446 949	256 704	7 703 653
Middle East & North Africa	Regional Support Team, Middle East and North Africa	1 912 390	135 182	2 047 572	288 485	189 991	478 476	2 200 875	325 173	2 526 047
	Algeria	187 299	13 456	200 756	7 279	7 279	14 559	194 579	20 736	215 314
	Djibouti	435 112	29 441	464 552	36 973	67 588	104 561	472 085	97 028	569 113
	Egypt	127 263	10 859	138 122	168 888	106 649	275 536	296 151	117 507	413 658
	Iran	331 760	11 517	343 277				331 760	11 517	343 277
	Morocco	495 188	51 736	546 924	6 014		6 014	501 202	51 736	552 938
	Somalia	311 547	64 942	376 490	123 853	890	124 743	435 401	65 832	501 233
	Sudan	625 278	111 768	737 046	19 045	400	19 445	644 323	112 168	756 491
	Tunisia	61 907	878	62 785	5 446	7 806	13 252	67 352	8 684	76 036
	Yemen	148 948	6 901	155 849	298 339	57 887	356 226	447 287	64 787	512 075
Total Middle East and North Africa		4 636 693	436 679	5 073 372	954 322	438 489	1 392 811	5 591 015	875 168	6 466 183

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

Table 5 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
West and Central Africa	Regional Support Team, West and Central Africa	4 269 693	82 016	4 351 709	2 726 602	31 506	2 758 109	6 996 295	113 522	7 109 818
	Benin	378 553	11 857	390 410	13 692		13 692	392 245	11 857	404 102
	Burkina Faso	613 955	26 575	640 530	3 405		3 405	617 360	26 575	643 935
	Burundi	515 451	9 995	525 446	152 224		152 224	667 674	9 995	677 669
	Cameroon	1 023 143	20 483	1 043 627	110 067	13 790	123 857	1 133 210	34 273	1 167 483
	Central African Republic	877 940	30 952	908 892	5 402	7 847	13 249	883 342	38 799	922 141
	Chad	652 003	19 915	671 918	317 479	5 689	323 167	969 482	25 604	995 085
	Congo	688 413	6 806	695 219	25 000		25 000	713 413	6 806	720 219
	Côte d'Ivoire	697 442	51 552	748 994	7 539	18 945	26 484	704 981	70 497	775 478
	Democratic Republic of Congo	1 889 092	35 277	1 924 370	5 600		5 600	1 894 692	35 277	1 929 970
	Gabon	518 499	12 163	530 661	9 085		9 085	527 584	12 163	539 747
	Gambia	57 607	3 030	60 637				57 607	3 030	60 637
	Ghana	584 958	20 495	605 452	85 823	9 073	94 896	670 781	29 567	700 348
	Guinea	506 591	9 284	515 874				506 591	9 284	515 874
	Guinea-Bissau				88 945	6 648	95 592	88 945	6 648	95 592
	Liberia	714 412	27 537	741 950	131 392	23 802	155 193	845 804	51 339	897 143
	Mali	544 863	7 753	552 616	99 139	14 856	113 995	644 002	22 609	666 611
	Mauritania	175 333	1 388	176 720				175 333	1 388	176 720
	Niger	373 370	10 522	383 892				373 370	10 522	383 892
	Nigeria	2 231 877	10 034	2 241 911	33 716		33 716	2 265 592	10 034	2 275 627
Senegal	119 445	2 692	122 137	364 661	2 365	367 026	484 106	5 057	489 163	
Sierra Leone	695 148	33 056	728 205				695 148	33 056	728 205	
Togo	388 446	28 253	416 699				388 446	28 253	416 699	
Total West & Central Africa		18 516 233	461 636	18 977 868	4 179 770	134 520	4 314 290	22 696 003	596 155	23 292 158
Grand Total		79 322 855	3 571 893	82 894 748	28 034 856	6 489 940	34 524 797	107 357 711	10 061 833	117 419 545

^{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

For the Financial Year Ended
31 December 2014

**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 2014**

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ACRONYMS

UNAIDS	Joint United Nations Programme on HIV/AIDS
WHO	World Health Organization
IPSAS	International Public Sector Accounting Standards
DFC	Direct Financial Cooperation
UNEG	United Nations Evaluation Group
PCB	Programme Coordinating Board
ORF	Operating Reserve Fund
ASHI	After Service Health Insurance
UBRAF	Unified Budget, Results and Accountability Framework

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 third long-form report to the Programme Coordinating Board (PCB) by the Chairperson of the Commission on Audit of the Republic of the Philippines who was elected in May 2011 by the Sixty-fourth World Health Assembly as the External Auditor of the World Health Organization (WHO) for the financial periods 2012-2015. The terms of reference are contained in the engagement letter signed between the Chairperson and the Director-General of the WHO in March 2012. We have detailed in this Long-form Report the financial and governance matters that we believe should be brought to the attention of the Programme Coordinating Board of UNAIDS. We have recommended to Management seven value-adding measures to improve the financial management and governance in UNAIDS.

Overall Result of the Audit

3. 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.

4. Our audit of the financial statements revealed findings requiring modifications and enhancements which were accordingly done by Management. After effecting the modifications, no material weaknesses or errors were further noted that affect the accuracy, completeness and validity of the financial statements as a whole. Accordingly, we issued an unqualified audit opinion on the Organization's financial statements for the financial year ended 31 December 2014. 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 ending 31 December 2014, 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 International Public Sector Accounting Standards (IPSAS).

5. We have identified three areas where governance over UNAIDS's resources could be better enhanced. UNAIDS could improve on the policies and practices on advance payments to cosponsors, programme management particularly the development of a UNEG-structured evaluation policy, and the need for strengthening noted in the implementation of reporting mechanisms.

Summary of Recommendations

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

Recommendation No. 1

Revisit existing policies and guidelines on programme agreements and arrangements with Cosponsors, including the grant of advance payments, under certain or special circumstances. Specifically, enhancements should be made on existing guidelines, by way of more specific Guidance Notes applicable exclusively to these agreements and arrangements with Cosponsors, harmonizing them with internal rules and regulations obtaining in the respective Cosponsoring organizations.

Recommendation No. 2

Revise or enhance certain provisions in the standard format Letter of Agreements. UNAIDS, in agreement with the Cosponsors, may find it necessary not to include in the Letter of Agreements, provisions and conditions which are not implementable, or those which are deemed unnecessary. This could be done hand in hand, or in consultation with the Cosponsoring organizations, with careful consideration of their own rules and practices.

Recommendation No. 3

Where existing rules and practices are already found adequate, UNAIDS should ensure their strict and meticulous observance thereof, to include allowing only advance payments after having duly considered all prevailing circumstances and only in extreme cases.

Recommendation No. 4

Consider initiating and proposing a structured evaluation policy with clearly-defined evaluation guidelines aligned with the UNEG Standards and which ideally include the following:

- i. responsibilities of evaluators, programme managers and senior management as well as evaluators' competencies, to define accountability and ensure operational efficiency;
- ii. explicit provision on who decides the type of evaluations to be undertaken, office/personnel responsible and users of the evaluation reports;
- iii. identification of an independent office responsible for the preparation and submission of the progress report on the implementation of evaluation plans and recommendations; and explicit statement of the disclosure policy and mechanism for evaluation reports, and the reporting and dissemination of lessons learned; and
- iv. concrete plans to be prepared for all major activities/outputs, defining the necessary information that would assist monitoring and assessment of the status of implementation of each activity/output.

Recommendation No. 5

Enhance existing guidelines on Contracts and Agreements, assess where weaknesses are evident, and determine where the difficulties are present, ensuring faithful and complete compliance with reportorial requirements.

Recommendation No. 6

Consider revisiting and if possible, doing away with guidelines and practices that may be dispensed with, and strengthening those that are essential to contract monitoring and evaluation.

Recommendation No. 7

Impose more strictly a rigid observance of the reporting requirements on the part of managers/persons responsible for contract management.

Implementation of External Auditor's Recommendations in Prior Year

7. We reviewed the action taken on the audit recommendations provided in the 2013 External Auditor's Report, and we noted that all of the 10 recommendations, or 100%, were fully implemented. We commend Management for their immediate action/s which improved the financial management and governance in the areas covered by our examination.

A. MANDATE, SCOPE AND METHODOLOGY

Mandate

8. The Chairperson of the Commission on Audit of the Republic of the Philippines was appointed by the Sixty-fourth World Health Assembly as the External Auditor of the World Health Organization and the non-consolidated entities for the financial periods 2012-2015.

Scope and Objectives

9. An audit is an independent examination of the evidence supporting the amounts and disclosures in the financial statements. Our audit included an assessment of UNAIDS's compliance with 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 2014, 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 2014 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.

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

Methodology and Auditor's Responsibilities

11. We conducted our audit in accordance with the International Standards on Auditing. These standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatements. An audit includes examining evidence supporting the amounts and disclosures in the financial statements on a test basis. An audit also includes assessing the accounting principles used and the significant estimates made by Management as well as evaluating the overall presentation of the financial statements.

12. 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.

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

14. 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 following:

- a. Prepayments to Cosponsors;
- b. Programme Management -Evaluation; and
- c. Reporting Mechanism for Programmes/Activities.

15. Further, the objective of the audit is 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.

16. For the financial year 2014, the audit was performed at the Headquarters of the UNAIDS in Geneva, Switzerland. This is the third (3rd) year of implementation of IPSAS in UNAIDS, and the audit resources were focused primarily on the review of its implementation to enable Management to sustain the sufficient ground already gained in the preparation of IPSAS-compliant financial statements.

17. 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

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

1. FINANCIAL MATTERS

1.1 Audit of Financial Statements

19. In the audit of UNAIDS for the financial year 2014, a number of recommendations were made to improve the presentation and disclosure requirements in compliance with IPSAS. We issued an unmodified opinion on the financial statements. As such, we concluded that the financial statements present fairly, in all material respects, the financial position of UNAIDS for the financial year ending 31 December 2014, the results of its financial performance, the changes in net

assets/equity, the cash flows, and the comparison of budget and actual amounts in accordance with IPSAS. Management agreed with our recommendations and acted on or committed to act on them accordingly. We recognized the commitment and professionalism of UNAIDS Management and Finance staff to sustain the preparation of IPSAS-compliant financial statements.

1.2 Overall Financial Performance

20. The audited financial statements of UNAIDS reflect a deficit of US\$ 18.08 million for the year, as shown in the Statement of Financial Performance (Statement II). This is almost double that of the previous year's total deficit of US\$ 9.97 million. The deficit could be attributed to: decreased Voluntary contributions, especially from Governments (10.71 million) and Cosponsoring organizations (2.05 million); increased Finance costs (6.15 million), particularly Net unrealized foreign exchange losses on revaluation (5.69 million); and increased General operating expenses (2.96 million).

21. On the other hand, net assets/equity, as reflected in the Statement of Changes in Net Assets/Equity (Statement III), showed a decrease from US\$ 212.41 million for the year ended 31 December 2013 to US\$ 194.33 million for the year ended 31 December 2014. Considering the reported 81% increase in deficit and the 8.5% decrease in net assets/equity, we enjoin Management to intensify its efforts to improve UNAIDS's financial performance in the ensuing years.

22. Specifically, total revenue for 2014 was US\$ 277.65 million broken down as follows: US\$ 260.04 million from governments, US\$ 3.23 million from cosponsoring organizations, US\$ 7.51 million from other sources, and the balance of US\$ 6.87 million from financial revenue. On the other hand, the total expenses for the same financial period amounted to US\$ 295.72 million which consisted of the following: US\$ 128.07 million for salaries and other personnel costs, US\$ 107.59 million for transfers and grants to counterparts, US\$ 23.14 million for contractual services, US\$ 17.79 million for general operating expenses, US\$ 9.97 million for travel, US\$ 1.32 million for equipment, vehicles and furniture, US\$ 0.75 million for depreciation, and the remaining US\$ 7.09

million for finance costs. As earlier stated, the overall “deficit” (i.e., revenue less expenses) in 2014 that was carried forward to 2015 was US\$ 18.08 million.

23. Of the US\$ 484.82 million 2014-2015 approved allocations, expenditures of US\$ 238.67 million under the 2014 Unified Budget, Results and Accountability Framework (UBRAF) was incurred, representing 49.2% budget implementation for the first year of the biennium. Reported expenses do not include US\$ 7.9 million already encumbered, representing firm commitment for goods and/or services which have not yet been delivered. The balance remaining of the approved UBRAF as at 31 December 2014 amounted to US\$ 246.15 million.

24. An Operating Reserve Fund (ORF) was established by the PCB in June 1996, which stood at US\$ 35 million for the year ended 31 December 2014. This fund can be used to finance the implementation of the UBRAF while awaiting the receipt of core contributions. The rules and procedures guiding the use of the ORF by the Executive Director were decided by the PCB at its Sixth Meeting held in Geneva in May 1998. With ORF, the continued operation of UNAIDS is relatively secure.

25. Comparatively, total current assets amounted to US\$ 294.19 million while total current liabilities reached US\$ 41.82 million, thus, registering a comfortable liquidity ratio of 7.03. Cash and cash equivalents at the beginning of the year registered at US\$ 211.16 million, but decreased to US\$ 184.90 million at the end of the year after accounting for a net decrease from operating, investing and financing activities of US\$ 26.26 million. While the reported cash and cash equivalents balance at year end is still quite comfortable, and continuity of operations of UNAIDS over the years is rather certain, it may have to strengthen its financial performance in the coming years and ensure the infusion of additional funds into its system.

1.3 Financing Dialogue

26. Given the important role that UNAIDS plays in the fight against AIDS, the need for a stable financing scheme could not be overemphasized. While we noted that

UNAIDS financial situation is currently healthy, there is no denying that it is faced with notable vulnerabilities that must be taken into account and addressed. To showcase the relevance of the AIDS response and Joint Programme, particularly for the post 2015 period, there is a need to seek support for continued, adequate and predictable funding of UNAIDS, and broaden UNAIDS donor base, yet in the process demonstrate efficiency, transparency and accountability in the management of funds. The year 2015, when the UNAIDS Overall Strategy of "Getting to Zero" ends, is a critical milestone in efforts towards ending AIDS by 2030.

27. We commend Management and the Programme Coordinating Board for the holding of a Financing Dialogue on 12 November 2014 with its partners to emphasize that the focus in the fight against AIDS should include attention to enhancing overall funding, particularly core resources, improving the predictability and quality of resources and ensuring full cost recovery. It was in this forum where the multi-sectorality of UNAIDS work, particularly in ensuring the meaningful participation of all stakeholders, remained critical, thus, the need to ensure that no one is left behind. It was emphasized in the dialogue that through the principle of shared responsibility and global solidarity, that complacency must be avoided, and that a shared direction for the many resource providers must be promoted, including effective and sustained mobilization of resources and stronger political engagement. Simply put, all stakeholders, with UNAIDS at the centre, should rally together and work collectively to deliver results.

28. We also noted that participating stakeholders were urged to consider the Financing Dialogue as a first step to the development of a broader discussion on financial accountability, the review of distribution of core and non-core funds, and the analysis of expenditure. They welcomed the reporting on financing of the UBRAF and asked that the Joint Programme continue to make them aware of the financing situation including gaps, where necessary. Participants reiterated the need for ensuring sustainable and predictable funding of UNAIDS core resources and for an expansion of the donor base (with a focus on middle-income countries) to ensure that the UBRAF remains stable and UNAIDS is able to deliver on its goals. In closing the Dialogue, the

Chair underlined that participants had given a significant vote of confidence in UNAIDS leadership on AIDS and that several key messages had been heard, notable among which is that there is broad support for continued discussion on the resourcing of AIDS and the Joint Programme through a multi-stakeholder process.

29. We recognize the effort of Management in concluding a Financing Dialogue which will help ensure the sustainability and predictability of UNAIDS funding. Hence, the global fight against HIV/AIDS will be pursued.

1.4 After Service Health Insurance

28. The defined benefit obligations of UNAIDS for After Service Health Insurance (ASHI) as at 31 December 2014 stood at US\$ 96.1 million, of which US\$ 48 million is funded, resulting in net unfunded liability of US\$ 48.1 million. These were determined by professional actuaries based on personnel data and past experience on payments as provided by WHO.

29. During its 30th Meeting held from 5 to 7 June 2012, the PCB authorized and approved the initial funding of US\$ 20 million from the UBRAF fund balance to partially cover the unfunded staff-related liabilities over a period of five years. A total of US\$ 25.1 million has so far been attributed towards funding the ASHI liability. Therefore, the net unfunded SHI as at 31 December 2014 stood at US\$ 23 million. In line with the above decision and subject to the availability of funds, UNAIDS staff liabilities (i.e., ASHI, terminal payments including annual leave) will be fully funded only by the end of 2017.

2. GOVERNANCE MATTERS

30. We have identified three (3) areas where governance over UNAIDS's resources could be better enhanced. These are along the areas of the grant of advance payments to cosponsors and partners, the evaluation policy, and the reporting mechanisms with regards to programme management.

2.1 Advance Payments to Cosponsors and Partners

31. UNAIDS could consider revisiting its existing policies and guidelines on programme agreements and arrangements with Cosponsors, particularly the grant of advance payments, under certain or special circumstances.

32. For budget implementation purposes, any expense should be relevant only for the portion of allocation for the year in which it falls. It is, however, UNAIDS policy that advance payments to Cosponsors may be provided when required and justified, under certain conditions. In 2014, the total value of the prepayments to two Cosponsors in the total amount of US\$ 9.5 million primarily relates to an advance towards their share of 2015 allocation. Accordingly, both prepayment requests were approved after receiving confirmation and justification from the respective organizations that these advances are necessary to ensure continuity and smooth implementation of their activities in 2015 as detailed in their justifications.

33. Advance payments, being outside of specific budget periods and unscheduled as they are, could unnecessarily burden UNAIDS funding strategies and plans, and could result in unduly compromising its funding position at any given time. This could, in a way, jeopardize control mechanisms put in place precisely to avert the occurrence of risks that will arise from programme implementation.

34. In the standard format Letter of Agreements used for the advance payments made, certain oversight and control mechanisms were put in place, among which were conditions which should be met prior or subsequent to payments, such as the results of the mid-term review and the annual performance review, coupled with a benchmark of a 45% financial implementation rate as at year-end. This is not to mention the condition on demonstrated improvements in efficiency and effectiveness in implementation and commitment. Further requirement was emphasized on submission of interim financial and performance reports as conditions precedent to payments.

35. The observance of all of the conditions and stipulations enumerated in the Letters of Agreement, envisioned to properly and equitably spread and allocate limited funds, could be unnecessarily set aside, should the granting of advance payments become the norm rather than the exception, and if practices are not checked earlier on. Efforts towards proper timing, and the allocation and sharing of programme budget, could be ignored, particularly if stringent measures are not adopted to ensure that expenses incurred are relevant only to the portion of allocation for the year in which they fall.

36. Policies and practices may be strengthened by harmonizing them with internal rules and regulations obtaining in the respective Cosponsoring organizations. It could include possible revision or enhancement of certain provisions in the standard format Letter of Agreements to align with existing cosponsor polices and rules.

Recommendation No. 1

Revisit existing policies and guidelines on programme agreements and arrangements with Cosponsors, including the grant of advance payments, under certain or special circumstances. Specifically, enhancements should be made on existing guidelines, by way of more specific Guidance Notes applicable exclusively to these agreements and arrangements with Cosponsors, harmonizing them with internal rules and regulations obtaining in the respective Cosponsoring organizations.

Recommendation No. 2

Revise or enhance certain provisions in the standard format Letter of Agreements. UNAIDS, in agreement with the Cosponsors, may find it necessary not to include in the Letter of Agreements, provisions and conditions which are not implementable, or those which are deemed unnecessary. This could be done hand in hand, or in consultation with the Cosponsoring organizations, with careful consideration of their own rules and practices.

Recommendation No. 3

Where existing rules and practices are already found adequate, UNAIDS should ensure the strict and meticulous observance thereof, to include allowing only advance payments after having duly considered all prevailing circumstances and only in extreme cases.

2.2 Programme Management – Evaluation Policy

37. Performance monitoring and evaluation are central elements of UNAIDS governance and management functions and the UNAIDS Board periodically and consistently reviews progress in this direction, to enable the Board to consider programmatic and financial accountability in a comprehensive and holistic way.

38. Two different offices within the UNAIDS Secretariat, namely the Strategic Information and Evaluation Department and the Programme Planning and Performance Measurement Division, which are under the Planning, Finance and Accountability Department, are responsible for ongoing monitoring, in-depth assessments and analyses of the AIDS epidemic and response (impact and outcome levels) and data collection, analysis, synthesis and reporting to the Board on UNAIDS results (output and input levels), respectively. The Strategic Information and Evaluation Department is under the Deputy Executive Director for Programme, while the Planning, Finance and Accountability Department is under the Deputy Executive Director for Management and Governance.

39. The UBRAF provides the main mechanism for the ongoing evaluation efforts of the Joint Programme. Through the years, numerous monitoring and evaluation activities of various forms and extent were undertaken. These monitoring and evaluation activities provide a comprehensive picture of UNAIDS contributions and accountability.

40. The development of the next UBRAF for 2016-2021 has started in which UNAIDS monitoring and evaluation approach will be refined further. This will include enhancement of external and independent validation, participation in performance reviews as well as coverage, quality and access to evaluations. Multi-stakeholder consultations will be held in April and July 2015 to inform the development of UNAIDS next Strategy and UBRAF.

41. UNAIDS deserves commendation for its evident efforts towards making monitoring and evaluation central to its governance and management functions, not to mention its continuing efforts in enhancing and refining further what it has already implemented.

42. To further improve its monitoring and evaluation activities, it could consider initiating and proposing an evaluation policy that is truly structured, with clearly-defined evaluation guidelines aligned with the UNEG Standards. Ideally, it should include responsibilities of evaluators, programme managers and senior management as well as evaluators' competencies, to define accountability and ensure operational efficiency. The policy needs to include an explicit provision on who decides the type of evaluations to be undertaken, the office/personnel responsible and the users of the evaluation reports, as well as the identification of an independent office responsible for the preparation and submission of the progress report on the implementation of evaluation plans and recommendations. The policy should also include an explicit statement of its disclosure policy and mechanism for evaluation reports, the reporting and dissemination of lessons learned, its concrete plans to be prepared for all major activities/outputs, defining the necessary information that would assist monitoring and assessment of the status of implementation of each activity/output.

Recommendation No. 4

Consider initiating and proposing a structured evaluation policy with clearly-defined evaluation guidelines aligned with the UNEG Standards and which ideally include the following:

- i. responsibilities of evaluators, programme managers and senior management as well as evaluators' competencies, to define accountability and ensure operational efficiency;**
- ii. explicit provision on who decides the type of evaluations to be undertaken, office/personnel responsible and users of the evaluation reports;**
- iii. identification of an independent office responsible for the preparation and submission of the progress report on the implementation of evaluation plans and recommendations; and explicit statement of the disclosure policy and mechanism for evaluation reports, and the reporting and dissemination of lessons learned; and**
- iv. concrete plans to be prepared for all major activities/outputs, defining the necessary information that would assist monitoring and assessment of the status of implementation of each activity/output.**

2.3 Programme Management – Reporting Mechanism

43. Existing reporting and related systems of UNAIDS on project implementation vis-a-vis the financial accounts “Transfers and grants to counterparts” and “Contractual services” as appearing in the Statement of Financial Performance are characterized by certain aspects which were deemed to be needing a few enhancements and simplification. The introduction of these enhancements may ensure value for money towards more efficiently and effectively achieving desired results.

44. In the management of UNAIDS programmes, it was noted that at certain points and instances of the reporting system, controls were already put in place and were found to be sufficient and adequate. However, these were not necessarily observed and complied with during the actual project implementation.

45. From a number of transactions subjected to review, the deficiencies noted were telling signs that controls over the reporting system were either not appropriate or implementable in design or structure, or were simply disregarded or overlooked altogether. Technical or Financial Reports were notably not submitted or made available, and in few instances, while the Financial Reports appeared to have been uploaded into the system in compliance with reporting requirements, these were found empty or blank.

46. In one instance, while it was indicated in the contract agreement that there would be no cost extension, the same agreement was amended twice with corresponding increases in cost. In another case, a signed Agreement was not attached to support the contract, while in another one, other reporting conditions/requirements as indicated in the agreement were not met.

47. UNAIDS needs to enhance its existing guidelines and practices on Contracts and Agreements, assess where weaknesses are evident, and determine where the difficulties are present, thereby ensuring the faithful and complete compliance with reportorial requirements. It may consider revisiting and, if at all, doing away with those that may be dispensed with, and strengthening those that are essential to contract monitoring and evaluation. Management may also need to impose more strictly a rigid observance of the reporting requirements on the part of managers/persons responsible for contract management.

Recommendation No. 5

Enhance existing guidelines on Contracts and Agreements, assess where weaknesses are evident, and determine where the difficulties are present, ensuring faithful and complete compliance with reportorial requirements.

Recommendation No. 6

Consider revisiting and if possible, doing away with guidelines and practices that may be dispensed with, and strengthening those that are essential to contract monitoring and evaluation.

Recommendation No. 7

Impose more strictly a rigid observance of the reporting requirements on the part of managers/persons responsible for contract management.

C. DISCLOSURES BY MANAGEMENT

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

48. During the period 1 January 2014 to 31 December 2014, UNAIDS reported no administrative waivers, amounts written off or ex-gratia payments. Furthermore, there were no cases of fraud reported during the financial period 1 January 2014 to 31 December 2014. These facts are emphasized in Note 4.13 of the Notes to the Financial Statements.

D. IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS

49. We validated the implementation of External Audit Recommendations contained in the 2013 audit report. We noted that Management implemented all of the 10 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

50. 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 the Risk Management, Financial Services and Compliance, and the members of their team.

51. 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**

**7 April 2015
Quezon City, Philippines**

Annex A

Implementation of External Audit Recommendations in Prior Year

No.	Recommendation	External Auditor's Validation
1	<p>Enhance its existing guidelines on DFC contract monitoring and closure, and devise a mechanism that would afford both contracting parties to honour their respective obligations with emphasis on the essence of accountability, and the importance of preserving scarce resources.</p>	<p>Implemented. UNAIDS further enhanced and finalized the chapter on Direct Financial Contributions (Annex I) in its Procurement Manual. A report has been developed to facilitate the process of monitoring non-commercial contracts, including the status of outstanding financial and technical reports and payments due. This report has been made available in the UNAIDS Intranet to allow easy access to staff throughout the Organization. Updated versions of this report will be disseminated on a quarterly basis to allow for regular follow-up action.</p>
2	<p>Improve the capability of managers/persons responsible for contract management by orienting/reorienting them on the importance of seeing these contracts through all phases of contract implementation most especially contract completion and closure, where successful implementation of any contract is measured.</p>	<p>Implemented. Training materials and training sessions are being enhanced. A number of training sessions have been delivered through webinars and during operational reviews of country offices as well as through daily interaction with staff responsible for contract management.</p>
3	<p>Implement even more vigorously the current Guides and Standards with regard to DFC contracts, and revisit some provisions that may no longer be in keeping with the times.</p>	<p>Implemented. Quality compliance checklists have been amended to ensure that mandatory reports for previous contracts have been submitted and that financial reporting formats are strictly followed to ensure uniformity and transparency.</p>

<p>4</p>	<p>Institute an internal mechanism to regularly monitor compliance with DFC provisions by the partners.</p>	<p>Implemented. A Guidance Note has been issued which includes a step-by-step process for staff to follow in order to assure the affective monitoring and closure of contracts.</p>
<p>5</p>	<p>Formulate an Overall Procurement Strategy and Framework to help meet the Organization's objectives, goals, targets and priorities. It must define and integrate procurement processes at all levels of the Organization into one overall plan at the headquarters level in order to harmonize procurement patterns and practices throughout the Organization, all for improving the efficiency and the economies of scale to serve the best interest of the Organization.</p>	<p>Implemented. Steps towards formulating an overall procurement strategy and framework have been taken in order to harmonize procurement practices throughout the Organization and to improve efficiency and economies of scale. A trend analysis of procurement in UNAIDS has been undertaken in order to identify current patterns and practices across the Organization. Subsequently, a guidance note was disseminated to all UNAIDS staff informing them of the implementation of a single consolidated procurement plan for UNAIDS: Detailed instructions and requisition plan templates have been issued on the UNAIDS Intranet and staff had been requested to complete and return their requisition plans to Financial Services, Risk Management & Compliance (FRC) for analysis and subsequent consolidation into a single procurement plan.</p>
<p>6</p>	<p>As a matter of priority, finalize and formally adopt UNAIDS's proposed Procurement Manual that encompasses and codifies all relevant and applicable procurement guidelines, to be observed and applied by all across the Organization.</p>	<p>Implemented. Chapters on Direct Financial Contributions and the use of Long Term Agreements have been strengthened and included in the Procurement Manual which had been disseminated throughout the Organization at the beginning of 2015.</p>

7	Provide timely, proper and adequate training to all staff that are actually performing procurement functions.	<p>Implemented.</p> <p>Training and briefings of staff are conducted on a regular basis. Webinars and training sessions will be further developed and expanded to include the major changes/new processes which come into force with the introduction of the Procurement Manual.</p>
8	Undertake a thorough study on and evaluation of the use of LTAs, and in the process, draft an LTA-specific procurement policy and strategy including the appropriate monitoring and examination standards	<p>Implemented.</p> <p>A thorough study and evaluation on the use of Long Term Agreements in UNAIDS has been undertaken. In addition, reports have been developed to allow the monitoring and evaluation of their use.</p>
9	Enhance the provisions pertaining to LTAs in the proposed Procurement Manual, and facilitate its review and finalization with the end view of making LTA procurements efficient, effective, responsive and transparent	<p>Implemented.</p> <p>The relevant UNAIDS Intranet page has been enhanced to include additional information such as a named focal point and the overall value of Long Term Agreements. In addition, the chapter on the process of establishing Long Term Agreements has been strengthened and has been included in the Procurement Manual.</p>
10	Include in its Risk Management Framework measures that would help identify risks associated with LTAs, and come up with measures that would address or mitigate the residual risks.	<p>Implemented.</p> <p>A risk assessment on the use of Long Term Agreements was conducted and the appropriate mitigation measures have been identified. These will eventually be incorporated in the Risk Management Framework.</p>