



UNAIDS PROGRAMME COORDINATING BOARD

UNAIDS/PCB (36)/15.9
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THIRTY-SIXTH MEETING

Date: 30 June – 2 July 2015

Venue: Executive Board Room, WHO, Geneva

Agenda item 4.2

Financial reporting

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

Additional documents for this item: Financial report and audited financial statements for the year ended 31 December 2014 (Document: UNAIDS/PCB(36)/15.8).

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

- i. *take note* of the interim financial management update for the 2014–2015 biennium for the period 1 January 2014 to 31 March 2015, including the partial funding of staff-related liabilities and the replenishment of the Building Renovation Fund;
- ii. *encourage* donor governments to release their contributions towards the 2012–2015 Unified Budget, Results and Accountability Framework as soon as possible;
- iii. *approve* a minimum level for the Unified Budget, Results and Accountability Framework net fund balance equivalent to 22% of UNAIDS biennial budget and;
- iv. *encourage* donor governments to make multi-year contributions in 2015 towards the 2016-2021 Unified Budget, Results and Accountability Framework.

Cost implications of decisions: None

Table of contents

Part I:	Introduction	3
Part II:	The Unified Budget, Results and Accountability Framework for the 2014–2015 biennium	3
Part III:	Funds expended and encumbered under the 2014–2015 Unified Budget, Results and Accountability Framework	5
Part IV:	Staff-related liabilities	7
Part V:	Building renovation fund	8
Part VI:	Fund balance	8
Part VII:	Report of the Internal Auditor for 2014	11

I. INTRODUCTION

1. This document presents interim financial management information on the 2014–2015 biennium for the period 1 January 2014 to 31 March 2015. The presentation at the 36th meeting of the Programme Coordinating Board will include financial information up to 31 May 2015. The audited financial statements of UNAIDS up to the end of 2011 covered two consecutive calendar years, beginning with an even-numbered year. Since the adoption of the International Public Sector Accounting Standards (IPSAS) in 2012, however, annual audited financial statements have been prepared at the end of 2012, 2013 and 2014 and statements for subsequent years will continue to be prepared annually.
2. The accounts and operations of UNAIDS are subject to continuous examination and review by both internal and external auditors of WHO, which provides some administrative services in support of the Programme as per Economic and Social Council of the United Nations (ECOSOC) resolution 1994/24, and Article XI of the Memorandum of Understanding among Cosponsors establishing UNAIDS.

II. THE UNIFIED BUDGET, RESULTS AND ACCOUNTABILITY FRAMEWORK FOR THE 2014–2015 BIENNIUM

Approved Budget and Workplan

3. At its 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 that was endorsed by the Programme Coordinating Board at its 29th meeting. At its 32nd meeting, the Programme Coordinating Board also approved a core budget of US\$ 484.8 million for 2014–2015 (the same level as for the previous three biennia), and distribution of US\$ 310.2 million managed by the Secretariat and US\$ 174.6 million to be allocated among the Cosponsors.

Funds made available for the 2014–2015 biennium

4. During the year ended 31 December 2014 revenue totaling US\$ 232.8 million was made available towards the Unified Budget, Results and Accountability Framework. In addition to the above, US\$ 66.7 million was made available during the period 1 January 2015 to 31 March 2015 which together represents total revenue of US\$ 299.5 million for the period under review. The remaining 1% 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. *Table 1* provides the details of revenue attributed towards the 2014–2015 Unified Budget, Results and Accountability Framework during the period 1 January 2014 to 31 March 2015.

Table 1

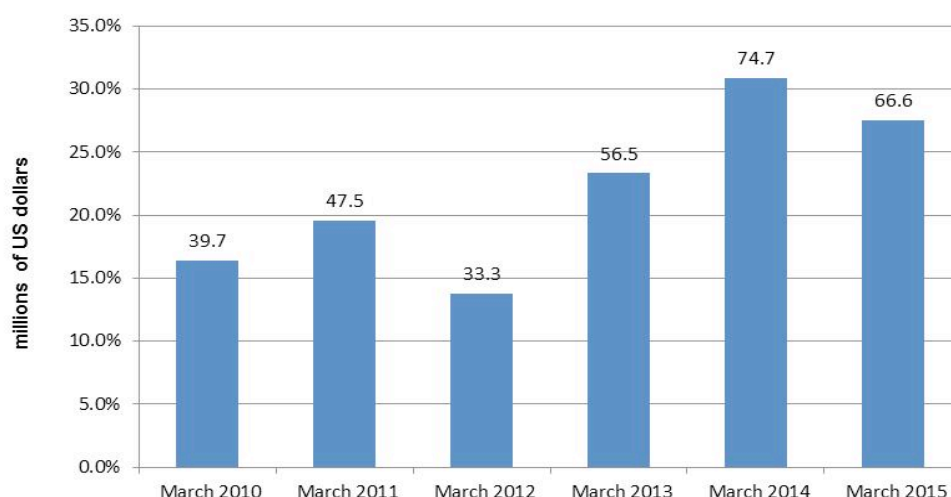
**Unified Budget, Results and Accountability Framework - details of revenue
for the period 1 January 2014 to 31 March 2015 (in US dollars)**

Voluntary contributions	Funds made available towards the 2014-2015 Unified Budget, Results and Accountability Framework		
	2014	2015	Total
Governments			
Andorra	41 265		41 265
Australia	6 679 035	5 703 422	12 382 457
Belgium	5 619 413	5 619 413	11 238 826
Belgium - Flanders	1 111 111		1 111 111
Canada	4 362 657	3 891 113	8 253 770
China	300 000		300 000
Czech Republic	45 548		45 548
Denmark	8 291 874	8 291 874	16 583 748
Ethiopia	24 980		24 980
Finland	13 132 695		13 132 695
France	683 995	334 467	1 018 462
Germany	3 325 045	1 317 523	4 642 568
Ireland	3 943 850		3 943 850
Israel	72 500		72 500
Japan	1 319 285	628 670	1 947 955
Liechtenstein	27 716	24 900	52 616
Luxembourg	5 048 410	4 178 092	9 226 502
Monaco	192 140		192 140
Netherlands	27 210 884	22 675 737	49 886 621
New Zealand	1 251 742	1 090 884	2 342 626
Norway	29 332 886		29 332 886
Poland	92 839		92 839
Portugal	135 870		135 870
Russian Federation	500 000		500 000
Sweden	34 641 391		34 641 391
Switzerland	11 160 714	11 160 714	22 321 428
Thailand	100 000	94 587	194 587
United Kingdom of Great Britain and Northern Ireland	24 429 968		24 429 968
United States of America	45 000 000		45 000 000
Sub-total	228 077 813	65 011 396	293 089 209
Cosponsoring organizations			
World Bank	1 650 000	1 650 000	3 300 000
Sub-total	1 650 000	1 650 000	3 300 000
Other			
Miscellaneous	619 763		619 763
Sub-total	619 763	0	619 763
Total operating revenue	230 347 576	66 661 396	297 008 972
Financial revenue			
Interest	2 487 063		2 487 063
Sub-total	2 487 063	0	2 487 063
TOTAL	232 834 639	66 661 396	299 496 035

5. *Figure 1* compares the funds made available by 31 March of each year towards the Unified Budget and Workplan (UBW) for 2010–2011, and the Unified Budget, Results and Accountability Framework for 2012–2013 and 2014–2015. The funds listed were made available by 31 March of each year of the biennium. A total amount of US\$ 66.6 million has been made available for 2015 (of the 2014–2015 Unified Budget, Results and Accountability Framework) representing 27.5% of the annual budget, which is less than what was made available at the same time in 2014 (i.e. US\$ 74.7 million or 30.8%). However, it compares favorably to what was made available prior to 2014. This highlights the need for donors who have already made commitments to pay the outstanding amounts, and for those donors who have not yet done so to pledge and pay their contributions to UNAIDS for 2015 in full.

Figure 1

Revenue made available as at 31 March of each year towards the UBW/Unified Budget, Results and Accountability Framework from 2010 to 2015



III. FUNDS EXPENDED AND ENCUMBERED UNDER THE 2014–2015 UNIFIED BUDGET, RESULTS AND ACCOUNTABILITY FRAMEWORK

6. During 2014 a total of US\$ 246.5 million was expended and encumbered against the budget of US\$ 484.8 million approved for the 2014–2015 Unified Budget, Results and Accountability Framework. In addition to the above amount, US\$ 72.3 million was expended and encumbered (including transfers to Cosponsors) during the period 1 January 2015 to 31 March 2015, which together represent a total amount of US\$ 318.8 million, which corresponds to a financial implementation rate of 65.8%. The total expense and encumbrance for the implementation of the AIDS activities contained in the Unified Budget, Results and Accountability Framework were distributed as follows: US\$ 122.5 million was transferred to Cosponsors; and US\$ 187.2 million was expended and US\$ 9.1 million encumbered for activities at global, regional and country levels and staff costs.
7. *Table 2* provides details on the 2014–2015 Unified Budget, Results and Accountability Framework approved allocations, expense and encumbrance, broken down by the strategic directions and functions for the period 1 January 2014 to 31 March 2015.

Table 2
2014–2015 Unified Budget, Results and Accountability Framework approved allocations, expense and encumbrances for the period 1 January 2014 to 31 March 2015
(in US dollars)

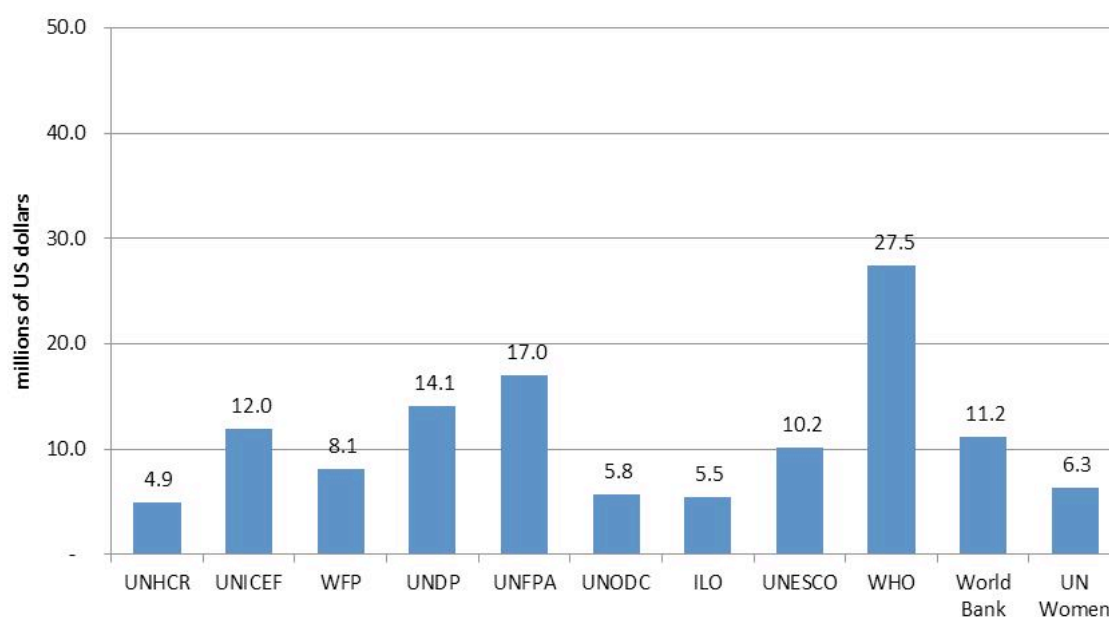
Strategic Directions and Functions	2014-2015 Approved allocations	Expense	Encumbrance ^{a/}	Total	Balance	Percentage implementation
	(a)	(b)	(c)	(d) = (b + c)	(e) = (a-d)	(f) = (d / a)
1 Revolutionize HIV prevention	79 102 000	54 369 400	-	54 369 400	24 732 600	68.7%
2 Catalyze the next phase of treatment, care and support	47 539 000	32 894 468	-	32 894 468	14 644 532	69.2%
3 Advance human rights and gender	37 885 000	27 529 700	-	27 529 700	10 355 300	72.7%
4 Leadership and advocacy	131 642 000	82 313 812	4 802 046	87 115 858	44 526 142	66.2%
5 Coordination, coherence and partnerships	105 118 000	62 709 416	2 084 393	64 793 809	40 324 191	61.6%
6 Mutual accountability	83 534 000	49 910 594	2 225 913	52 136 507	31 397 493	62.4%
Total	484 820 000	309 727 390	9 112 352	318 839 742	165 980 258	65.8%

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

i) Funds transferred to Cosponsors

8. A total of US\$ 87.3 million was transferred to the Cosponsors during the beginning of 2014. In addition, US\$ 35.2 million was transferred in 2015 against the Cosponsors' budget representing a total amount of US\$ 122.5 or 70% of the Cosponsors' share under the 2014–2015 Unified Budget, Results and Accountability Framework. *Figure 2* provides information on the proportion of funds transferred to each individual Cosponsor.

Figure 2
Cosponsors' share of funds transferred as at 31 March 2015



ii) Funds expended and encumbered against the Secretariat budget

9. During 2014 a total of US\$ 159.3 million was expended and encumbered against the Secretariat biennium budget of US\$ 310.2 million. In addition, US\$ 37 million was expended and encumbered during the period 1 January 2015 to 31 March 2015 which together represent a total amount of US\$ 196.3 million or a 63.3% financial implementation rate of the Secretariat portion of the 2014–2015 Unified Budget, Results and Accountability Framework.
10. *Table 3* provides details on the Secretariat portion of the 2014–2015 Unified Budget, Results and Accountability Framework approved allocations, expense and encumbrance, broken down by the three strategic functions for the period 1 January 2014 to 31 March 2015.

Table 3
2014–2015 Unified Budget, Results and Accountability Framework approved allocations, expense and encumbrances for the period 1 January 2014 to 31 March 2015 (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)
Leadership and advocacy	128 480 000	79 816 062	4 802 046	84 618 108	43 861 892	65.9%
Coordination, coherence and partnerships	99 020 000	58 133 916	2 084 393	60 218 309	38 801 691	60.8%
Mutual accountability	82 720 000	49 289 744	2 225 913	51 515 657	31 204 343	62.3%
Total	310 220 000	187 239 722	9 112 352	196 352 074	113 867 926	63.3%

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

IV. STAFF-RELATED LIABILITIES

11. UNAIDS staff-related liabilities are determined by professional actuaries. As per the actuarial studies as at 31 December 2014, the total staff-related liabilities amounted to US\$ 116.8 million (US\$ 109.2 million as at 31 December 2013). Of this amount, US\$ 95.8 million is funded; the remaining balance of US\$ 21 million was unfunded (as detailed in *Table 4* below).

Table 4
Staff-related liabilities as at 31 December 2014 (in millions of US dollars)

	Actuarial requirement end 2014	Accrued end 2014					Under provision
		Funded	Appropriation from UBRAF in 2012	Appropriation from UBRAF in 2013	Appropriation from UBRAF in 2014	Total Accrued	
After Service Health Insurance (ASHI)	96.1	48.0	13.9	5.0	6.2	73.1	(23.0)
Annual leave	8.6	4.4	2.2	0.4	0.5	7.5	(1.1)
Terminal payments	11.2	9.8	3.9	0.8	0.3	14.8	3.6
Special account for compensation	0.9	-	0.0	0.2	0.2	0.4	(0.5)
Total	116.8	62.2	20.0	6.4	7.2	95.8	(21.0)

12. At its 30th meeting (held in June 2012), the Programme Coordinating Board endorsed the Executive Director's recommendation to fully fund the organizational staff-related liabilities from the fund balance. It also approved the funding of an initial amount of US\$ 20 million, with the shortfall to be covered from the fund balance over a period of five years or less, subject to availability of funds.
13. In line with the Programme Coordinating Board's approval to fund the remaining shortfall under the staff-related liabilities, in 2014, the Executive Director authorized the transfer of a total of US\$ 7.2 million from the fund balance to partially fund the staff-related liabilities. The Programme Coordinating Board took note of the Executive Director's decision during its 34th meeting (held in July 2014).
14. As of 31 December 2014, the fund balance is within the level approved by the Programme Coordinating Board, and it is in line with the Programme Coordinating Board's approval to fund the remaining shortfall under the staff-related liabilities. Having considered this, the Executive Director has decided to put aside the funding in 2015 of US\$ 7 million from the fund balance for this purpose. This corresponds to 33% of the unfunded staff-related liabilities as at 31 December 2014.

V. BUILDING RENOVATION FUND

15. At its 30th meeting in June 2012, the Programme Coordinating Board endorsed the Executive Director's recommendation to establish a Building Renovation Fund. It also approved the annual replenishment of the fund for an amount equivalent to the accumulated depreciation of the UNAIDS building (or such other amount as might be determined by the Programme Coordinating Board).
16. In line with the Programme Coordinating Board's approval that the Fund be replenished on an annual basis out of the fund balance for the accumulated depreciations of the UNAIDS building, the Executive Director has decided to put aside the funding in 2015 of US\$ 0.43 million from the Unified Budget, Results and Accountability Framework fund balance for this purpose.

VI. FUND BALANCE

17. The nature of UNAIDS as a voluntary funded programme requires a fund balance which serves as a working capital to initiate and implement activities pending receipt of firm pledges/contributions. To ensure continuity of activities from one year to the next including allocating funding to Cosponsors, a sufficient fund balance at the end of each year is necessary to ensure the smooth start up and implementation of the Unified Budget, Results and Accountability Framework in the following year/biennium.
18. At its 26th meeting held in Geneva from 22-24 June 2010, the Programme Coordinating Board approved a maximum level for UNAIDS working capital equivalent to 35% of the UNAIDS biennial budget. The decision to set the maximum level at 35% was based on the following key factors:
 - a) The nature and timing of donor contributions;
 - b) The role of UNAIDS Secretariat in funding Cosponsors' workplans; and
 - c) The payment of salaries and other costs in the Secretariat Budget
19. At its 34th meeting in July 2014, the Programme Coordinating Board requested the Secretariat to conduct an analysis to determine the appropriate lower-limit threshold for the net fund balance and to report back to the Programme Coordinating Board at its 36th meeting.
20. As at 31 December 2014, the net fund balance of the Unified Budget, Results and Accountability Framework stood at US\$ 120.9 million or 25% of the biennial budget¹. This is within the approved level of 35% (or US\$ 170 million) of the biennial budget as approved by the Programme Coordinating Board

¹ 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).

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 29% of the biennial budget) as at 31 December 2013.

21. 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 of these factors resulted in a net fund balance of US\$ 120.9 million.
22. The rationale for having a sufficient fund balance at the beginning of each year, as presented to the Programme Coordinating Board during its 26th meeting in June 2010, has not changed and remains valid. However, the key factors which determine the amount of funds required by UNAIDS to ensure operational sustainability have evolved over the recent years.
23. Whilst the nature and timing of donor contributions largely remains the same, UNAIDS has experienced a reduction in the number of multi-year funding commitments received. As at 31 December 2014, only US\$ 28 million representing multi-year pledges were made in 2013 and 2014 for the financial period 2015 (compared to US\$ 49.5 million as at 31 December 2013). In addition many donors continue to make their pledges during the latter part of the first quarter and only pay their contributions in the second, third or fourth quarter of the year which necessitates a sufficient fund balance at the beginning of each year to ensure continuity in implementation of the Unified Budget, Results and Accountability Framework.
24. Furthermore, funds to implement the core activities of the part of the Unified Budget, Results and Accountability Framework allocated to the Cosponsors continue to be mobilized by the UNAIDS Secretariat. The majority of Cosponsors require the actual transfer of cash before being in a position to start/continue their activities according to their financial rules. Therefore, upfront payments from the UNAIDS fund balance at the beginning of the year enable the Cosponsors to meet this requirement and continue operations without interruption.
25. Within the UNAIDS Secretariat, the number of months for which staff salaries need to be encumbered at the beginning of each year is six months which is the minimum required to function smoothly and to avoid interruptions to staff contracts. In addition, at least six months funding must be available at the beginning of each year to meet operational costs and programme activities.
26. A number of other factors also influence the funding available to UNAIDS, such as a slight decrease in contributions from the donor community to UNAIDS; currency fluctuations and uncertainties in the financial market which require that some provisions be built in over and above what current expenditures reflect.
27. Based on the above analysis, the basis for setting the minimum level of the net fund balance for future biennia takes into account the need to (i) transfer at least six months of the Cosponsors' budget allocations at the beginning of each year, followed by further transfers during the year; and (ii) fund UNAIDS Secretariat staff salaries, activities and running costs for the first six months of the year.
28. Based on the current 2014-2015 Unified Budget, Results and Accountability Framework this would correspond to US\$ 127 million broken down as follows: US\$ 44 million to be transferred to the eleven Cosponsors to enable the start-up of their activities; US\$ 58 million is required to fund UNAIDS Secretariat staff salaries for six months, and US\$ 25 million is needed to cover UNAIDS Secretariat activities and running costs for the first six months of the year. However, when taking into consideration the multi-year pledges, and contributions made during the beginning of each year (approximately US\$ 20 million), the net fund balance required at the start of each year would be approximately US\$ 107 million.
29. A prudent approach would be to maintain the minimum net fund balance at a level which corresponds to 22% (i.e. US\$ 107 million) of the UNAIDS biennial budget in order to ensure efficient operations and continuity of activities.

30. The Programme Coordinating Board is requested to take note of the information contained in the Interim Financial Management Update for the 2014-2015 biennium for the period 1 January 2014 to 31 March 2015 and to encourage donor governments and others to release their contributions towards the 2014-2015 Unified Budget, Results and Accountability Framework as soon as possible.
31. Furthermore, the Programme Coordinating Board is requested to approve a minimum level for the net fund balance (proposed to be equivalent to 22% of the UNAIDS biennial budget). The Programme Coordinating Board is also requested to encourage donor governments to make multi-year contributions in 2015 towards the 2016-2021 Unified Budget, Results and Accountability Framework; and to ensure that the level of the fund balance does not fall below the approved minimum level in order to avoid interruptions in operations and to ensure smooth implementation of the Unified Budget, Results and Accountability Framework.

VII.



May 2015

Report of the Internal Auditor for 2014

1. The Office of Internal Oversight Services (IOS) of the World Health Organization transmits herewith its report for the year 2014 for the information of the Programme Coordinating Board (PCB) of the Joint United Nations Programme on HIV/AIDS (UNAIDS).

OBJECTIVE AND SCOPE

2. IOS provides an independent and objective assurance and advisory activity, which is designed to add value to and improve the operations of UNAIDS. Work is conducted in accordance with the International Professional Practices Framework promulgated by the Institute of Internal Auditors. The standards provided by the Institute have been adopted for use throughout the United Nations system and provide independent, authoritative guidance designed to ensure an effective oversight function. Using a systematic and disciplined approach, IOS helps UNAIDS accomplish its objectives by evaluating and improving the effectiveness of processes for risk management, control and governance. IOS is authorized full, free and prompt access to all records, property, personnel, operations and functions within UNAIDS which, in its opinion, are relevant to the subject matter under review. No limitation was placed on the scope of the work of IOS during 2014.
3. The scope of work was to evaluate whether the framework of processes for risk management, control and governance, as designed and implemented by UNAIDS management, was adequate and functioning in a manner so as to fulfill specific purposes. These were to assess that: (a) significant financial, managerial and operating information was accurate, reliable and timely; (b) staff actions complied with UNAIDS and WHO regulations, rules, policies, standards and procedures; and (c) resources were acquired economically, used efficiently, and protected adequately.

OVERSIGHT FRAMEWORK

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

METHODOLOGY

5. IOS views risk as the possibility of an event occurring that will influence the achievement of objectives. In order to ensure that its available audit resources are focused on the areas of highest risk, IOS uses a risk assessment model. This model supports professional judgments made in the prioritization of the annual plan of work. The model has three basic components: (i) the audit universe drawn from the Enterprise Resource Planning (ERP) database (WHO Global Management System (GSM) database);

(ii) a set of weighted risk parameters which are applied consistently to obtain a relative risk ranking of entities in the audit universe; and (iii) a further screening against specific risk factors. The process incorporates both subjective and objective measures -such as financial exposure, recent changes in staff or systems, and the internal control environment -which determines the relative risk of the auditable areas.

6. The results of the updated audit risk assessment had been discussed with UNAIDS management and a programme of work had been drawn up for the year 2014.
7. The main issues from the reports issued in 2014 are summarized hereafter.

AUDITS

Headquarters and cross cutting

8. **Imprest and petty cash** (Audit Report No. 14/945). The overall conclusion, based on the audit work performed, is that the controls in place for the processing of imprest and petty cash are generally adequately designed and found to be operating satisfactorily to mitigate key risks and ensure accurate and timely payment, though there are some weaknesses that should be addressed.
9. The following is a summary of control weaknesses identified requiring improvement:
 - The monitoring of imprest ceilings, as well as transactions, should be conducted in a more systematic manner and documented accordingly in order to avoid payments that are beyond the recommended thresholds.
 - The preparation of imprest reconciliations should be done on a regular and timely basis and include all items for the reporting period.
 - Adjustments to existing policies and templates and forms are needed to meet the actual needs of the petty cash holders.
 - Controls require strengthening to identify payments that should not be officially reimbursed by the Organization.
 - A clearer segregation of duties is required in the handling of cash and other conflicting tasks such as recording of transactions, involvement in procurement activities and maintenance of inventory records.

Regional Support Teams

10. **Regional Support Team for Latin America** (Audit Report No.14/968). The audit found that, the overall effectiveness of risk management and control processes in the administration and finance areas was partially satisfactory and requires some improvement. Control weaknesses requiring improvement include the following:
 - Integrity of managerial information: (i); supporting documentation for travel was not consistently uploaded; (ii) lack of a systematic review of supporting documentation for Programme Funding Agreement activities.
 - Compliance with UNAIDS regulations: (i) procurement procedures were not always adhered to as selection criteria were not applied in a consistent manner or explanations provided were insufficient for sole suppliers as well as supporting budgets did not contain the detail required; (ii) recruitment procedures were not consistently followed; and (iii) there was a lack of an established process for supplier prequalification.
 - Safeguarding of assets and efficiency in the use of resources: (i) fixed asset records were not updated in a timely manner and (ii) improvement opportunities were identified in the area of use of assets of the RST and travel management.

Country Offices

11. Until 1 January 2012, the United Nations Development Programme (UNDP) provided all administrative and support services to the majority of UCOs. As such, all local financial and human resource activities were administered in accordance with UNDP rules and regulations. Under the single audit principle, IOS relied on the UNDP internal auditors who were fully responsible for the verification of the controls and checks put in place locally by UNDP for UNAIDS funds. As a mitigating measure, evidence was obtained through interviews (of both UNAIDS and UNDP staff) and was limited to documentation provided by UCOs. Since 1 January 2012, all UCOs use the ERP system provided by WHO. However, UNDP administrative and support services are still in use to process payments on behalf of UNAIDS in a few Latin America and Caribbean countries. This is either due to no local WHO support, or the fact that the WHO Global Service Centre cannot effect payments via standard electronic methods due to local monetary controls.
12. **Country Office in Ukraine** (Audit Report No. 14/942). For the UCO Ukraine, a desk review was performed as a pilot project for UNAIDS country offices. Overall effectiveness of risk management and control processes in the administration and finance areas was found to be partially satisfactory and requires some improvement. Control weaknesses requiring improvement include the following:
- the integrity of managerial information: (i) transactions were not recorded in a timely manner in ERP; and (ii) petty cash returns were not recorded and submitted in a timely manner.
 - compliance with UNAIDS regulations: (i) procurement procedures were not always adhered to as selection criteria were not applied in a consistent manner; (ii) budgets for procurement activities were not fully justified; and (iii) ERP workflow was not in line with the approved Delegation of Authority (DOA).
 - efficiency in the use of resources: Improvement opportunities were identified in the area of obtaining the recommended three reference checks for recruitments.
13. **Country Office in Viet Nam** (Audit Report No. 14/948). The audit found that, the overall effectiveness of risk management and control processes in the administration and finance areas was partially satisfactory and requires some improvement. Control weaknesses requiring improvement include the following:
- Integrity of managerial information: (i) transactions were not recorded in a timely manner in ERP; and (ii) lack of a central monitoring system of Direct Financial Cooperation activities.
 - Compliance with UNAIDS regulations: (i) procurement procedures were not always adhered to as selection criteria were not applied in a consistent manner; (ii) excessive reliance on offline approval workflows and (iii) lack of an established process for supplier prequalification.
 - Safeguarding of assets: Monitoring and adjustment of GOUNH (Green One United Nations House) costs is required since they have increased significantly since the first cost estimate.
 - Efficiency in the use of resources: (i) some employed individuals are not granted appropriate access rights to ERP in order to perform their tasks; and (ii) improvement opportunities were identified in the area of avoidance of duplication of work.
14. **Country Office in Nigeria** (Audit Report No. 14/971). IOS acknowledged that the UCO is facing a significant challenge since Nigeria is one of the key countries for the fight against HIV. A significant number of staff have been recruited in 2013 and 2014 and the strategy of the country work has changed with having a local presence in states with a high burden. The audit found that, the overall effectiveness of risk management and control processes in the administration and finance areas was partially satisfactory and requires some improvement. Control weaknesses requiring improvement include:
- Integrity of managerial information: (i) there was a lack of a central monitoring system of awards and vehicle related costs.
 - Compliance with UNAIDS regulations: (i) required supporting documentation was not uploaded in RMS and (ii) there was a lack of an established process for supplier prequalification.
 - Safeguarding of assets: (i) the current premises were not safe and a MOSS compliance assessment needs to be updated and (ii) fixed assets register requires to be updated and obsolete

items to be removed accordingly.

- Efficiency in the use of resources: improvement opportunities were identified in (i) the segregation of duties; (ii) provision of training in ERP to staff in relevant areas of their work; (iii) the approval workflow in order to reduce the time to process transactions; and (iv) handover procedures so that relevant information is provided in relation to on-going operations.

Investigations

No investigations were carried out in 2014.

FOLLOW-UP AND IMPLEMENTATION

15. IOS monitors the implementation of all its recommendations to ensure either that action has been taken effectively by management or that senior management has accepted the risk of not taking action. Reporting on and monitoring of each individual audit recommendation is performed with the assistance of a recommendation-tracking database maintained by IOS. Audit recommendations are categorized by risk category and significance.

58% of the recommendations contained in previous reports, including those outstanding since 2011 pertaining to recruitment and procurement at UNAIDS, have been satisfactorily addressed and closed, while implementation for 40% is currently on-going or in progress. In addition, IOS is tracking actions taken for 110 recommendations which require a progress update by the end of June 2015.

MAIN OPERATIONAL RISKS AND OPPORTUNITIES FACING UNAIDS

16. There are systematic issues that apply to a number of UCO and RST operations which need to be addressed: A memo has been issued to Senior Management to draw the attention to the fact that UCD handover procedures require improvement and UCOs require formal guidance in this area. It has also been noted in previous audits that RSTs cannot fully support UCOs since significant capacity is required to respond to the multitude of information and other requests from HQ.
17. It has been noted during the audits of field offices that supporting documentation for Programme Funding Agreements and Direct Financial Cooperation is frequently inadequate or lacks quality. It is therefore planned to conduct a cross cutting audit in 2015 to address these issues.
18. As, UNAIDS rolls out Google Cloud, there is a potential risk regarding the complete and accurate transfer of data and impact on business continuity, in terms of usage of previous applications (Microsoft Office products) versus new applications (Google Apps for Work), is ensured.
19. A major challenge facing any entity with a decentralized control environment is the issue of delegated accountability. UNAIDS has implemented mitigating factors such as internal controls and checks at HQ and the RSTs, as well as the iTrack tool in order to strengthen compliance with UNAIDS financial rules and regulations. However, the effectiveness of these processes must be strictly monitored. IOS is currently undertaking an audit of the quality control check which includes the iTrack tool and will report the findings in 2015.

ACTION BY THE PROGRAMME COORDINATING BOARD

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

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