



UNAIDS PROGRAMME COORDINATING BOARD

UNAIDS/PCB (38)/16.8
Issue date: 30 May 2016

THIRTY-EIGHTH MEETING

Date: 28 - 30 June 2016

Venue: Executive Board Room, WHO, Geneva

Agenda item 4.2

Financial reporting

**Financial report and audited financial statements
for the year ended 31 December 2015**

Additional documents for this item: Interim Financial Management Update for the period 1 January 2016 to 31 March 2016. (UNAIDS/PCB(38)/16.9)

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 2015

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 2015 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 fourth 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 2015.

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
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

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.

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 2015 total revenue was US\$ 225.9 million, and total expense for the same financial year amounted to US\$ 293.9 million. This means that expense exceeded income by US\$ 68 million. Table A below summarizes the Programme's overall financial highlights for the years 2015 and 2014.

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

	2015	2014
Revenue	225 906 603	277 645 967
Expense	293 936 807	295 725 197
Surplus/(deficit)	(68 030 204)	(18 079 230)

Revenue

10. Total revenue for 2015 was US\$ 225.9 million, out of which US\$ 200.9 million was made available towards the Unified Budget, Results and Accountability Framework and US\$ 25 million in non-core funds out of which US\$ 23.3 million was made available to UNAIDS to provide support to a number of global, regional and country activities that are designated for specific countries or purposes and the balance of US\$ 1.7 million represented unrealized exchange gains. Table B (below) provides details of revenue for 2015 and 2014.

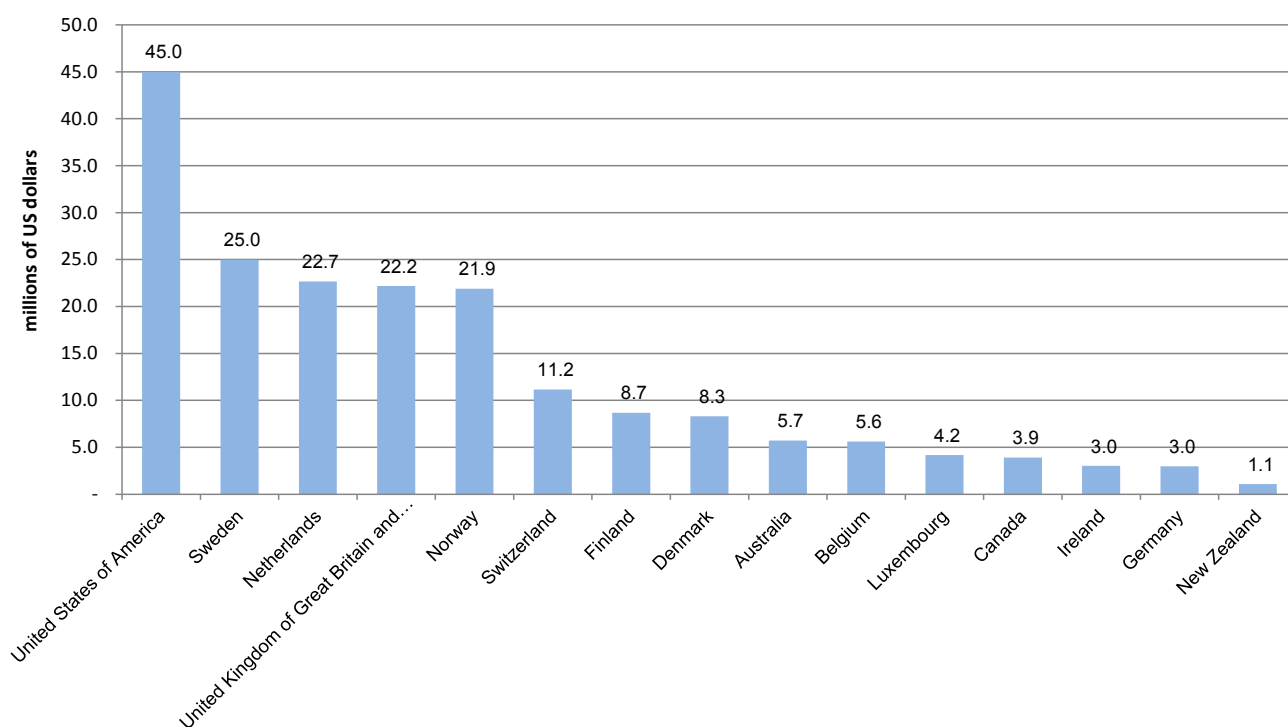
Table B: Details of revenue – All funds (in US dollars)

Revenue	2015			Total 2014
	UBRAF Core Funds	Non-Core Funds	TOTAL	
Governments	194 600 098	16 234 792	210 834 890	260 043 159
Cosponsoring organizations	1 650 000	1 020 135	2 670 135	3 228 640
Others	104 272	5 774 943	5 879 215	7 506 883
Finance revenue	4 551 683	1 970 680	6 522 363	6 867 285
Grand Total	200 906 053	25 000 550	225 906 603	277 645 967

11. As summarized in Table B, revenue totaling US\$ 200.9 million was made available towards the Unified Budget, Results and Accountability Framework. This represents 82.9% of the Secretariat resource mobilization target of US\$ 242.4 million for the year 2015, (compared to US\$ 232.8 million or 96% in 2014), resulting in a shortfall of US\$ 41.5 million against Programme Coordinating Board

approved budget. Figure A (below) provides details of revenue received from the major donors towards the Unified Budget, Results and Accountability Framework for the year 2015.

Figure A: Details of revenue received from major donors towards the Unified Budget, Results and Accountability Framework for the year 2015 (in millions of US dollars)



Expense

12. Total expense for the year ended 31 December 2015 amounted to US\$ 293.9 million, of which US\$ 239.2 million related to expenses against the Unified Budget, Results and Accountability Framework for 2014-2015; US\$ 49.8 million represents net expenses under the non-core funds and US\$ 4.9 million represented finance costs. Table C (below) details expense by fund type for 2015 and 2014.

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

Expense	2015	2014
UBRAF core funds	239 147 733	238 766 636
Non-core funds	49 854 111	41 400 052
Prior period expense	-	8 465 980
Finance costs	4 934 963	7 092 529
Total Expense	293 936 807	295 725 197

13. In addition to the US\$ 238.7 million expensed in 2014 and US\$ 239.2 million expensed in 2015 against the Unified Budget, Results and Accountability Framework for 2014-2015, a total of US\$ 3 million was encumbered during 2015; together, these amounts represent a financial implementation rate of 99.2% of the 2014-2015 biennium core budget.

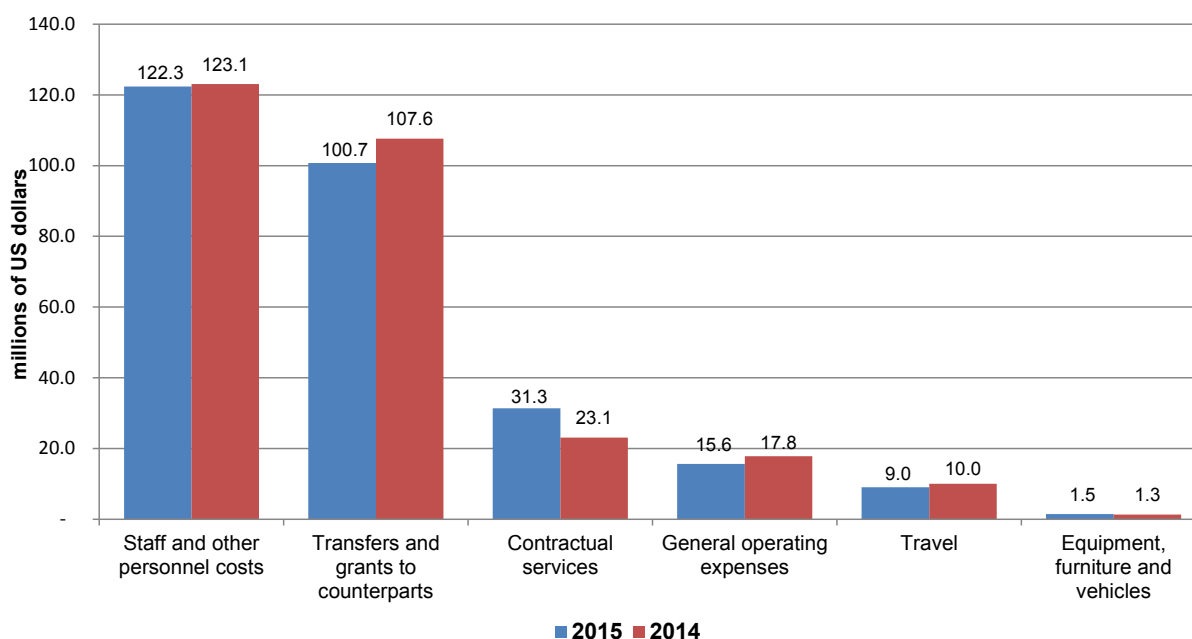
14. Initiatives and measures put in place during 2013 and 2014 to contain costs and increase cost-effectiveness and efficiency in the Secretariat continued throughout 2015. The result is a level of expenditure in 2015 that is consistent with that of 2014. This is reflected in Table D and Figure B (below), which also shows a reduction of costs under the main major expense categories with the exception of contractual services and equipment, furniture and vehicles (when compared to 2014).

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

Expense	2015	2014
Staff and other personnel costs ^{a/}	122 345 371	123 082 200
Transfers and grants to counterparts	100 725 613	107 590 338
Contractual services	31 324 307	23 145 568
General operating expenses	15 622 990	17 788 651
Travel	9 035 129	9 970 143
Equipment, furniture and vehicles	1 472 388	1 319 442
Sub-total	280 525 798	282 896 342
Depreciation	705 153	751 095
Finance costs	4 934 963	7 092 529
ASHI and Terminal Payment (actuarial valuations)	7 770 893	4 985 231
Total Expense	293 936 807	295 725 197

a/ **Excludes** US\$7.8 million for 2015 and US\$ 5 million for 2014 related to expense against the Staff Health Insurance and Terminal Payment Fund due to movement in the actuarial liability.

Figure B: Details of expense by major category for year 2015 and 2014 (in millions of US dollars)



Fund Balance

15. The nature of UNAIDS as a voluntary funded programme requires a fund balance² 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 the transfer of funds to Cosponsors, a sufficient fund balance at the end of each year is necessary to ensure the smooth start up and implementation of the Unified Budget, Results and Accountability Framework in the following year/biennium.
16. At its 26th meeting held in Geneva from 22-24 June 2010, the Programme Coordinating Board approved a maximum level for the Unified Budget, Results and Accountability Framework net fund balance equivalent to 35% (i.e. US\$ 170 million) 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
17. Based on the request of the Programme Coordinating Board at its 34th meeting in July 2014, the Secretariat conducted an analysis to determine the appropriate lower-limit threshold for the net fund balance and reported back to the Programme Coordinating Board at its 36th meeting.
18. At its 36th meeting held in Geneva from 30 June – 2 July 2015, the Programme Coordinating Board approved the minimum level for UNAIDS net fund balance equivalent to 22% (i.e. US\$ 107 million) of the UNAIDS biennial budget.
19. As at 31 December 2015, the net fund balance of the Unified Budget, Results and Accountability Framework stood at US\$ 82.6 million or 17% of the biennial budget³. This is below the approved minimum level of 22% (or US\$ 107 million) of the biennial budget as approved by the Programme Coordinating Board in June 2015. It also represents a reduction of US\$ 38.3 million when compared to the net fund balance of US\$ 120.9 million (or 24.9% of the biennial budget) as at 31 December 2014.
20. The reduction in the Unified Budget, Results and Accountability Framework fund balance is due to the lower income received during 2015, (only 83% or US\$ 200.9 million was mobilized in 2015 towards a target of US\$ 242.4 million) and the high implementation rate during 2015 which resulted in a net fund balance of US\$ 82.6 million.
21. As highlighted under paragraph 15, 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 the transfer of funds to Cosponsors. However, given the level of the net fund balance as at 31 December 2015 of US\$ 82.6 million which is US\$ 24.4 million lower than the minimum required balance and given that the Secretariat had no formal pledges for 2016 as at 31 December 2015 this could have profound implications for the working of the Joint Programme and could hamper the Joint Programme's operations and its ability to deliver results.

² The fund balance is only mentioned here, as it is discussed in more detail in the Financial Management Update. Traditionally, the Financial Management Update is the place where the funding situation is discussed and decision points are included.

³ In addition to the expense of US\$ 239.3 million in 2015 under the 2014-2015 Unified Budget, Results and Accountability Framework, US\$ 3 million was encumbered during 2015 (representing firm commitments of goods and services to be delivered in 2016). As a result, the net fund balance as at 31 December 2015 under the Unified Budget, Results and Accountability Framework to cover 2016 Unified Budget, Results and Accountability Framework activities was US\$ 82.6 million (US\$ 85.6 million less US\$ 3 million reserved for 2015 encumbrances).

PART II

FINANCIAL STATEMENTS, SCHEDULES AND NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015

This section of the financial report presents the overall financial position of UNAIDS as of and for the year ended 31 December 2015. 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 2015.

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

7 March 2016



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

LETTER OF TRANSMITTAL

4 April 2016

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 2015.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'M. G. Aguinaldo'.

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

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

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 2015, 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

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 2015, 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.

Yours sincerely,



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

Quezon City, Philippines
4 April 2016

Statement I

Statement of Financial Position

All sources of funds as at 31 December 2015

(in US dollars)

	Note	31 December 2015	31 December 2014
ASSETS			
Current assets			
Cash and cash equivalents held by WHO	4.1	143 987 301	184 895 736
Accounts receivable - current	4.2	64 977 892	97 242 455
Staff receivables	4.3	2 270 541	1 967 341
Prepayments	4.4	2 500 542	10 051 146
Other current receivables	4.5	33 010	33 010
Total current assets		213 769 286	294 189 688
Non-current assets			
Accounts receivable - non-current	4.2	3 045 815	335 197
Property, plant and equipment	4.6	22 338 229	22 903 905
Total non-current assets		25 384 044	23 239 102
TOTAL ASSETS		239 153 330	317 428 790
LIABILITIES			
Current liabilities			
Contributions received in advance	4.7	3 985 937	-
Accounts payable	4.8	4 971 197	3 994 676
Staff payable	4.9	122 060	278 708
Accrued staff benefits - current	4.10	9 558 559	9 566 053
Deferred revenue - current	4.11	2 090 090	27 968 109
Other current liabilities		-	17 127
Total current liabilities		20 727 843	41 824 673
Non-current liabilities			
Accrued staff benefits - non-current	4.10	67 540 134	59 263 331
Deferred revenue - non-current	4.11	2 988 831	335 197
Long-term borrowings	4.12	21 592 366	21 671 229
Total non-current liabilities		92 121 331	81 269 757
TOTAL LIABILITIES		112 849 174	123 094 430
NET ASSETS/EQUITY			
Net assets/reserves			
Operating Reserve Fund	4.13	35 000 000	35 000 000
Equity in capital assets	4.14	6 020 555	5 417 124
Common Fund		(8 763 033)	(9 696 226)
Non-restricted funds		85 626 977	128 822 473
Restricted funds		34 376 900	53 087 609
Building Renovation Fund	4.15	3 890 000	3 460 000
Staff Benefits		(27 337 838)	(21 023 786)
Non-payroll staff entitlements Fund		(2 509 405)	(732 834)
TOTAL NET ASSETS/EQUITY		126 304 156	194 334 360
TOTAL LIABILITIES AND NET ASSETS/EQUITY		239 153 330	317 428 790

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 2015
(in US dollars)

	<u>Notes</u>	<u>31 December 2015</u>	<u>31 December 2014</u>
Revenue			
Voluntary contributions	5.2		
Governments		210 834 890	260 043 159
Cosponsoring organizations		2 670 135	3 228 640
Others		5 879 215	7 506 883
Financial revenue	5.3	6 522 363	6 867 285
Total revenue		<u>225 906 603</u>	<u>277 645 967</u>
Expense			
	5.4		
Staff and other personnel costs		130 116 264	128 067 431
Transfers and grants to counterparts		100 725 613	107 590 338
Contractual services		31 324 307	23 145 568
General operating expenses		15 622 990	17 788 651
Travel		9 035 129	9 970 143
Equipment, vehicles and furniture		1 472 388	1 319 442
Depreciation		705 153	751 095
Finance costs		4 934 963	7 092 529
Total expense		<u>293 936 807</u>	<u>295 725 197</u>
Total (deficit) for the year		<u>(68 030 204)</u>	<u>(18 079 230)</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 2015

(in US dollars)

	Notes	31 December 2015	2015 Movements	2015 Transfers	31 December 2014
Net assets/reserves	4.13				
Operating Reserve Fund	4.14	35 000 000			35 000 000
Equity in capital assets		4 458 270			4 458 270
Loan adjustments		1 562 285	603 431		958 854
Total Equity in capital assets		6 020 555	603 431	-	5 417 124
Common Fund					
Depreciation on property, plant and equipment		(4 712 992)	(705 153)		(4 007 839)
Revaluation reserve		(4 050 041)	1 638 346		(5 688 387)
Total Common Fund		(8 763 033)	933 193	-	(9 696 226)
Non-restricted funds					
UBRAF Core unrestricted		85 626 977	(42 765 496)	(430 000)	128 822 473
Restricted funds					
UBRAF Supplementary restricted		22 298 263	(16 140 824)		38 439 087
Extra-budgetary funds		12 078 637	(2 569 885)		14 648 522
Total Restricted		34 376 900	(18 710 709)	-	53 087 609
Other Funds					
Building Renovation Fund	4.15	3 890 000		430 000	3 460 000
Staff Benefits Fund					
Terminal Payments		3 654 219	1 050 262		2 603 957
Staff Health Insurance		(30 257 017)	(7 247 717)		(23 009 300)
Special Fund for Compensation		(735 040)	(116 597)		(618 443)
Total Staff Benefits Fund		(27 337 838)	(6 314 052)	-	(21 023 786)
Non-payroll staff entitlements Fund		(2 509 405)	(1 776 571)		(732 834)
Net assets/equity		126 304 156	(68 030 204)	-	194 334 360

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 2015
(in US dollars)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Surplus/(deficit) for the year	(68 030 204)	(18 079 230)
Depreciation	705 153	751 095
(Increase)/decrease in accounts receivables - current	32 264 563	21 345 329
(Increase)/decrease in accounts receivables - non-current	(2 710 618)	17 916 184
(Increase)/decrease in staff receivables	(303 200)	(6 304)
(Increase)/decrease in prepayments	7 550 604	(9 598 820)
(Increase)/decrease in other current receivables	-	(33 010)
Increase/(decrease) in contributions received in advance	3 985 937	-
Increase/(decrease) in accounts payables	976 521	(1 405 065)
Increase/(decrease) in staff payables	(156 648)	(53 914)
Increase/(decrease) in accrued staff benefits - current	(7 494)	(705 364)
Increase/(decrease) in deferred revenue - current	(25 878 019)	(21 579 634)
Increase/(decrease) in deferred revenue - non-current	2 653 634	(17 916 184)
Increase/(decrease) in accrued staff benefits - non-current	8 276 803	2 366 140
Increase/(decrease) in other current liabilities	(17 127)	(10 683)
<i>Net cash flow from operating activities</i>	<u>(40 690 095)</u>	<u>(27 009 460)</u>
Cash flows from investing activities		
(Increase)/decrease in purchase of property, plant and equipment	(139 477)	(494 184)
<i>Net cash flow from investing activities</i>	<u>(139 477)</u>	<u>(494 184)</u>
Cash flows from financing activities		
Increase/(decrease) in long-term borrowings	(78 863)	1 237 989
<i>Net cash flow from financing activities</i>	<u>(78 863)</u>	<u>1 237 989</u>
Net Increase/(decrease) in cash and cash equivalents	<u>(40 908 435)</u>	<u>(26 265 655)</u>
Cash and cash equivalents at beginning of year	<u>184 895 736</u>	<u>211 161 391</u>
Cash and cash equivalents at end of year	<u>143 987 301</u>	<u>184 895 736</u>

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

Statement V

Statement of Comparison of Budget and Actual Amount

2014-2015 Unified Budget, Results and Accountability Framework

for the period ended 31 December 2015

(in US dollars)

Strategic Directions and Functions	2014-2015 Approved allocations	Expense 2014	Expense 2015	Expense 2014-2015	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	38 717 010	78 268 010	833 990	98.9%
2 Catalyze the next phase of treatment, care and support	47 539 000	23 769 500	22 753 836	46 523 336	1 015 664	97.9%
3 Advance human rights and gender	37 885 000	18 942 500	18 508 060	37 450 560	434 440	98.9%
4 Leadership and advocacy	131 642 000	64 279 645	66 911 878	131 191 523	450 477	99.7%
5 Coordination, coherence and partnerships	105 118 000	49 803 395	50 885 232	100 688 627	4 429 373	95.8%
6 Mutual accountability	83 534 000	42 325 765	41 510 978	83 836 743	(302 743)	100.4%
Total	484 820 000	238 671 805	239 286 994	477 958 799	6 861 201	98.6%
Basis differences						
Capitalization of assets		(494 184)	(139 477)			
Loan repayment		(605 876)	(603 431)			
Total basis differences		(1 100 060)	(742 908)			
Timing differences						
Expenses incurred in prior period against all funds		8 465 980	-			
Entity differences						
Expenses under other funds		49 687 472	55 392 721			
Total expense as per the Statement of Financial Performance (Statement II)		295 725 197	293 936 807			

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.⁴

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.

Functional currency and translation of foreign currencies

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

⁴ When UNAIDS was established in 1994 the Joint Programme consisted of six UN system organizations: UNDP, UNICEF, UNFPA, WHO, UNESCO and the World Bank. Since that time, a further five UN agencies, namely UNODC, ILO, WFP, UNHCR and UN Women, have become UNAIDS Cosponsors.

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

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

Materiality and the use of judgements and estimates

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

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

Financial Statements

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Cash and cash equivalents held by WHO

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 of WHO. As at 31 December 2015, no available-for-sale financial assets were held by WHO.

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

3.2 Accounts receivables

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

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

3.3 Inventories

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

3.4 Prepayments

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

3.5 Property, plant and equipment (PP&E)

Property, plant and equipment (PP&E) with a value 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 2015 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 Contributions received in advance

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

3.9 Accounts payable and accrued liabilities

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

3.10 Employee benefits

UNAIDS recognizes the following categories of employee benefits:

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

3.10a Short-term employee benefits

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

3.10b Post-employment benefits

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

United Nations Joint Staff Pension Fund

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

The plan exposes participating organizations to actuarial risks associated with the current and former staff of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the plan. UNAIDS and the UNJSPF, in line with the other participating organizations in the Fund, are not in a position to identify UNAIDS's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence UNAIDS has treated this plan as if it 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.

3.11 Borrowing costs

UNAIDS has taken a loan from the Swiss Government and Canton de Genève jointly with WHO for the construction of the UNAIDS/WHO building in Geneva. There are no borrowing costs associated with this loan. Borrowings are currently stated at amortized cost; any difference between the proceeds and the redemption value is recognized in the Statement of Financial Performance over the period of the borrowings using the effective interest method. The loan received by UNAIDS is an interest-free loan, the benefit to UNAIDS of this arrangement has been treated as an in-kind contribution.

3.12 Deferred revenue

Deferred revenue is recognized when legally binding agreements between the Programme and its donors, (including governments, international organizations and private and public institutions) 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.

3.13 Provisions and contingent liabilities

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

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

3.14 Contingent assets

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

3.15 Revenue recognition

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

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

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

3.16 Expense recognition

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

3.17 Segment reporting-fund accounting

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

3.18 Statement of Cash flow

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

3.19 Budget comparison

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

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

4. SUPPORTING INFORMATION TO THE STATEMENT OF FINANCIAL POSITION

4.1 Cash and cash equivalents held by WHO

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\$ 143 987 301 as at 31 December 2015.

	<u>31 December 2015</u>	<u>31 December 2014</u>
	(in US dollars)	(in US dollars)
Cash on hand and at bank (imprest accounts)	99 826	144 786
Cash held on behalf of UNAIDS by WHO	<u>143 887 475</u>	<u>184 750 950</u>
Total Cash and cash equivalents held by WHO	<u>143 987 301</u>	<u>184 895 736</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. For short-term tactical investment reasons, the external managers of these portfolios may from time to time decide to lengthen temporarily the average duration of these portfolios to slightly longer than one year. This will not change the short-term classification of these financial assets unless the investment time horizon objective of the portfolio and the duration of its benchmark have been changed to more than one year. The investments in the 'held-to-maturity' portfolio with a duration of less than one year are classified as current assets in the category 'financial assets at amortized costs'.

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

Risk exposure

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

Credit risk

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

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

Interest rate risk

UNAIDS is exposed to interest rate risk through short-term and long-term fixed income investments. The investment duration is a measure of sensitivity to changes in market interest rates, and the effective average duration of WHO's investment as at 31 December 2015 was 0.5 years for short-term investments and 6.3 years for the long term investments. The duration of the long-term investments was lengthened by purchasing longer term fixed income products to better match the duration of the liabilities which are funded by these investments.

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

Foreign exchange currency risk

UNAIDS receives voluntary contributions and makes payments in currencies other than US dollars and it is exposed to foreign exchange currency risk arising from fluctuations in the currency exchange rates. Exchange gains and losses on the purchase and sale of currencies, revaluation of cash book balances and all other exchange differences are adjusted against the funds and accounts eligible to receive interest under the interest apportionment programme. Translation into US dollars of transactions expressed in other currencies is performed at the United Nations Operational Rates of Exchange prevailing at the date of transaction. Assets and liabilities that are denominated in foreign currencies are translated at the United Nations Operational Rates of Exchange year end closing rate. Forward foreign exchange contracts are transacted to hedge foreign currency exposures and to manage short-term cash flows. Realized and unrealized gains and losses resulting from settlement and revaluation of foreign currency transactions are recognized in the Statement of Financial Performance.

Hedging foreign exchange exposures on future payroll costs

The value of non-dollar (i.e. Swiss Franc) payroll expenditures in 2016 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 2015. As at 31 December 2015 the forward foreign currency exchange hedging contracts were CHF 17.3 million. Unrealized net loss on these contracts amounted to US\$ 0.9 million as at 31 December 2015 (US\$ 1.4 million net losses as at 31 December 2014). Realized gains or losses on these contracts will be recorded on maturity of the contracts and applied during 2016.

Hedging foreign exchange exposures on receivables and payables

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

These exposures are re-balanced at each month end to coincide with the settings of the monthly United Nations Operational Rates of Exchange. Through this process the exchange gains or losses realized on the forward foreign currency contracts match the corresponding unrealized exchange losses and gains on the movements in the net accounts receivable and accounts payable. As at 31 December 2015 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)
Euro	4 550 000	4 975 839	24 624

4.2 Accounts receivable

As at 31 December 2015, US\$ 68 million in contributions receivable was outstanding (US\$ 97.6 million as at 31 December 2014). A total of US\$ 60.3 million of this receivable is due to letters of credit outstanding with the Government of the United States of America; and US\$ 7.7 million represents receivables due in future financial periods (broken down between current and 2017). An allowance for doubtful debts has been established after review of all the outstanding receivables for US\$ 0.2 million.

	31 December 2015	31 December 2014
	(in US dollars)	(in US dollars)
Accounts receivable - current		
Unified Budget, Results and Accountability Framework	46 638 488	71 801 685
Supplementary Funds	15 815 678	22 739 835
Extra-budgetary Funds	2 770 317	2 947 526
Allowance for doubtful debt against Extra-budgetary Funds	(246 591)	(246 591)
Total Accounts receivable - current	64 977 892	97 242 455
Accounts receivable - non-current		
Unified Budget, Results and Accountability Framework	1 687 289	
Supplementary Funds	1 301 542	335 197
Others	56 984	
Total Accounts receivable - non current	3 045 815	335 197
Total Accounts receivable	68 023 707	97 577 652

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 2015, US\$ 2.3 million in staff receivables was outstanding including salary advances, rental advances, travel advances and education grant advances (US\$ 2 million as at 31 December 2014). The education grant advances represent the advances made to staff members for the scholastic year 2015-2016.

	31 December 2015	31 December 2014
	(in US dollars)	(in US dollars)
Staff receivables		
Salary advances	149 073	104 422
Rental advances	383 430	323 162
Education Grant advances	1 512 463	1 314 153
Travel advances	54 410	34 986
Expected Sick Leave Insurance Contribution	71 527	172 385
Other staff advances	99 638	18 233
Total Staff receivables	2 270 541	1 967 341

4.4 Prepayments

The total value of prepayments is US\$ 2.5 million (US\$ 10.1 million as at 31 December 2014). Out of this amount US\$ 1.7 million relates to an advance paid to one of UNAIDS Cosponsors towards its share under the UNAIDS 2016-2021 Unified Budget, Results and Accountability Framework for the 2016-2017 biennium to enable smooth operations and continuation of activities from one year to the next. An amount of US\$ 0.6 million relates to advances made to UNDP to cover payments made on behalf of UNAIDS. The remaining US\$ 0.2 million represents payments to suppliers in advance of receipt of goods or services which will be charged to expense in 2016.

	31 December 2015	31 December 2014
	(in US dollars)	(in US dollars)
Prepayments		
Advances to UNDP	542 247	443 180
Advances to Cosponsors	1 725 000	9 500 000
Advances to Suppliers	233 295	107 966
Total Prepayments	2 500 542	10 051 146

4.5 Other current receivables

As at 31 December 2015, 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 2015 with a value of US\$ 5 000 or above. The assets value purchased during 2015 has been depreciated over the estimated useful life using the straight line method. Equipment with original cost value totalling US\$ 317 241 has been fully depreciated and are still in use by the Secretariat.

	Building	Furniture and Fixtures	Vehicles	Communications and IT Equipment	Other Equipment	Total
	(in US dollars)	(in US dollars)	(in US dollars)	(in US dollars)	(in US dollars)	(in US dollars)
Cost or fair value	25 613 445	11 298	746 057	294 876	246 068	26 911 744
Accumulated depreciation	(3 415 128)	(5 649)	(207 923)	(226 998)	(152 141)	(4 007 839)
Total carrying cost as at 31 December 2014	22 198 317	5 649	538 134	67 878	93 927	22 903 905
Movements 1 January to 31 December 2015						
Additions	-	-	85 445	20 360	33 672	139 477
Disposals						
Depreciation	(426 891)	(2 260)	(161 654)	(58 898)	(55 450)	(705 153)
Total - Property, Plant and Equipment	21 771 426	3 389	461 925	29 340	72 149	22 338 229

Intangible assets

The Programme has no intangible assets to report.

Inventory

The Secretariat only held publication for distribution with no realizable value. The cost of publications expensed during 2015 amounted to US\$ 22 639.

4.7 Contributions received in advance

This represents funds received in advance for activities starting in 2016.

4.8 Accounts payable

This represents the total amount outstanding to suppliers for goods and services. The total accounts payable for UNAIDS programme activities as at 31 December 2015 was US\$ 5 million (US\$ 4 million as at 31 December 2014).

	31 December 2015	31 December 2014
	(in US dollars)	(in US dollars)
Accounts payable		
Payables to suppliers	2 160 907	1 306 047
Non-staff meeting participants payable	24 190	25 294
Accrual of goods and services	2 505 189	2 663 335
Other payables	280 911	
Total - Accounts Payable	4 971 197	3 994 676

4.9 Staff payable

The total balance for staff payable as at 31 December 2015 was US\$ 0.1 million (US\$ 0.3 million as at 31 December 2014). These amounts relate to salaries payable and other staff liabilities including Pension and Mutual Staff Contributions.

	<u>31 December 2015</u> (in US dollars)	<u>31 December 2014</u> (in US dollars)
Staff payables		
Salaries payable	121 067	133 767
Other employee liabilities	993	144 941
Total - Staff payables	<u>122 060</u>	<u>278 708</u>

4.10 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 2015. The professional actuarial studies were calculated based on personnel data and past payment experience. As per the actuarial studies as at 31 December 2015, the total liability for staff benefits stood at US\$ 126.6 million (out of which US\$ 77.1 million is reflected in our accounts).

	<u>31 December 2015</u> (in US dollars)	<u>31 December 2014</u> (in US dollars)
Accrued staff benefits - current		
Terminal Payments	9 548 993	9 560 045
Special fund for compensation	9 566	6 008
Total accrued staff benefits - current	<u>9 558 559</u>	<u>9 566 053</u>
Accrued staff benefits -non-current		
Terminal payments	11 131 578	10 211 114
After-service health insurance	55 389 933	48 142 216
Special fund for compensation	1 018 623	910 001
Total accrued staff benefits - non-current	<u>67 540 134</u>	<u>59 263 331</u>
Accrued staff benefits		
Terminal payments	20 680 571	19 771 159
After-service health insurance	55 389 933	48 142 216
Special fund for compensation	1 028 189	916 009
Total Accrued staff benefits	<u>77 098 693</u>	<u>68 829 384</u>

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 2015 has estimated the total liability for terminal payments (excluding annual leave) to be US\$ 12.1 million (US\$ 11.1 million as at 31 December 2014). This

calculation did not include cost of end of service grant and separation by mutual agreement. As per the actuarial study, a net increase of US\$ 1 million has been recognized, by nature of expense in the Statement of Financial Performance.

The annual leave entitlements stood at US\$ 8.5 million as at 31 December 2015. The liability has reduced by US\$ 0.1 million from US\$ 8.6 million in 2014.

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 2015 determined by professional actuaries based on personnel data and past payments experience provided by WHO stood at US\$ 104.9 million of which US\$ 49.5 million is funded resulting in net unfunded liability of US\$ 55.4 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\$ 7.3 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\$ 55.4 million as at 31 December 2015, 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 2015 stood at US\$ 30.3 million. (i.e. US\$ 55.4 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\$ 0.1 million has been recognized by nature of expenses in the Statement of Financial Performance. The total liability stood at US\$ 1 million as at 31 December 2015.

Actuarial calculations

Staff Benefits as per Actuarial Valuation

IPSAS Disclosure tables as at 31 December 2015

	After Service Health Insurance	Terminal Payments excluding Accrued Annual Leave	Special Fund for Compensation
	(in US dollars)	(in US dollars)	(in US dollars)
RECONCILIATION OF DEFINED BENEFIT OBLIGATIONS -141 (c)			
Defined Benefit Obligation at 31-Dec-2014	90 575 987 ¹⁾	11 148 284	745 393
Service cost for 2015	10 559 553	1 069 316	105 410
Interest cost for 2015	2 534 069	309 614	21 529
(Actual Gross Benefit Payments in 2015)	(493 636)	(466 283)	(4 417)
(Actual After Service Non Aetna Administrative Expenses in 2015)	(30 707)		
(Actual After Service Aetna Administrative Expenses in 2015)	(1 871)		
Actual Contributions by After Service Participants in 2015	118 519		
Actuarial (Gain)/Loss	<u>(4 919 200)</u>	<u>76 622</u>	<u>(123 408)</u>
Defined Benefit Obligation at 31-Dec-2015	<u>98 342 714</u>	<u>12 137 553</u>	<u>744 507</u>
RECONCILIATION OF ASSETS - 141 (e)			
Assets at 31-Dec-2014, for SHI Net of 470.1 Reserve	47 996 535		
(Actual Total SHI Gross Benefit Payments for 2015)	(5 664 144)	(466 283)	(4 417)
(Actual Total SHI Non Aetna Administrative Expenses in 2015)	(352 337)		
(Actual Total SHI Aetna Administrative Expenses in 2015)	(23 711)		
Actual Total SHI Participant Contributions during 2015	3 261 774		
Actual Total SHI Non Aetna Organization Contributions during 2015	6 411 964	466 283	4 417
Actual Aetna Expenses (Directly Paid by PAHO) during 2015	23 711		
(increase)/Decrease in 470.1 Reserve in 2015	(768 323)		
Expected return on Assets for 2015	2 549 276		
Asset Gain/(Loss)	<u>(3 925 122)</u>		
Assets at 31-Dec-2015, for SHI Net of 470.1 Reserve	<u>49 509 623</u>		
RECONCILIATION OF FUNDED STATUS - 141 (f)			
Defined Benefit Obligation (DBO)			
Active	86 483 913	12 137 553	516 423
Inactive	<u>11 858 801</u>		<u>228 084</u>
Total DBO	98 342 714	12 137 553	744 507
Plan Assets			
(Gross Plan Assets)	(51 514 623)		
Offset for WHO 470.1 Reserve	<u>2 005 000</u>		
(Net Plan Assets)	(49 509 623)		
(Surplus)/Deficit	48 833 091	12 137 553	744 507
Unrecognized Gain/(Loss)	6 556 842		283 682
Unrecognized Prior Service Credit/(Cost)			
Net (Asset)/Liability Recognized in Statement of Financial Position	<u>55 389 933</u>	<u>12 137 553</u>	<u>1 028 189</u>
Current (Asset)/Liability		1 005 975	9 566
Non-current (Asset)/Liability	<u>55 389 933</u>	<u>11 131 578</u>	<u>1 018 623</u>
Net (Asset)/Liability Recognized in Statement of Financial Position	<u>55 389 933</u>	<u>12 137 553</u>	<u>1 028 189</u>
Annual Expense for 2015--141(g)			
Service cost	10 559 553	1 069 316	105 410
Interest cost	2 534 069	309 614	21 529
Expected return on assets	(2 549 276)		
Amortization of (Gain)/Loss		<u>76 622</u>	<u>(10 342)</u>
Total Expense Recognized in Statement of Financial Performance	<u>10 544 346</u>	<u>1 455 552</u>	<u>116 597</u>
Expected Accounting Contributions during 2016--141(q)			
Expected Organization Contributions during 2016			
Contributions by UNAIDS	4 202 000	1 020 953	9 741
Contributions by participants	<u>678 000</u>		
Total Expected Contributions for 2016	<u>4 880 000</u>	<u>1 020 953</u>	<u>9 741</u>

1) Reflects the restated DBO as at 31 December 2014 which is based on the revised actuarial valuation due to the change in assumptions for discount rates for UNAIDS to reflect the geographic distribution of staff and future retirees

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)

2015 Service Cost plus Interest Cost

Current Medical Inflation Assumption Minus 1%	9 706 116
Current Medical Inflation Assumption	13 093 622
Current Medical Inflation Assumption Plus 1%	17 863 389

31 December 2015 Defined Benefit Obligation

Current Medical Inflation Assumption Minus 1%	76 446 525
Current Medical Inflation Assumption	98 342 714
Current Medical Inflation Assumption Plus 1%	127 991 049

Measurement Date

All plans	31 December 2015
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Discount rate

Terminal Payments (other than accrued leave)	The discount rate used is 3.0% (increase from 2.9% in the prior valuation). Based on the combined projected benefit payments from the prior valuation with weights of 75% on the Aon Hewitt AA Bond Universe yield curve and 25% on the SIX Swiss Exchange yield curve as of 31 December 2015. The resulting discount rate is rounded to the nearest 0.1%.									
After Service Health Insurance	<p>Europe—2.9% (decrease from 2.8% in prior valuation).</p> <p>The Americas—4.5% (increase from 4.1% in prior valuation).</p> <p>Other Countries—4.8% (increase from 4.4% in prior valuation).</p> <p>The discount rates are based on the yields on high grade corporate bonds. The yield curve approach is used to reflect the expected cash flows and assumed currency exposure-specific to ASHI.</p> <p>The liability is assumed to be incurred in Swiss Francs, euros and US dollars, based on approximate liability mix for UNAIDS and the following yield curves:</p> <p>Switzerland - SIX- Swiss Exchange curve Euro Zone - iBoxx Euro Zone curve United States - Aon Hewitt AA Bond Universe</p> <p>The discount rates for the 31 December 2015 valuation are based on the geographic locations of the UNAIDS offices. The resulting rates which are rounded to the nearest 0.1% are shown in the table below:</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="3">% of Rate for 2015</th> </tr> <tr> <th>Switzerland</th> <th>Euro Zone</th> <th>United States</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">40%</td> <td style="text-align: center;">20%</td> <td style="text-align: center;">40%</td> </tr> </tbody> </table>	% of Rate for 2015			Switzerland	Euro Zone	United States	40%	20%	40%
% of Rate for 2015										
Switzerland	Euro Zone	United States								
40%	20%	40%								
Special Fund for Compensation	The discount rate used is 3.7% (increase from 2.9% in the prior valuation). Based on the combined projected benefit payments from the prior valuation with weights of 75% on the Aon Hewitt AA Bond Universe yield curve and 25% on the SIX Swiss Exchange yield curve as of 31 December 2015. The resulting discount rate is rounded to the nearest 0.1%.									

Annual General Inflation

Terminal Payments (other than accrued leave)	<p>The inflation rate used is 2.2%. Based on inflation rates of 2.5% for United States and 1.1% for Switzerland with weights of 75% and 25%, respectively. The resulting inflation rate is rounded to the nearest 0.1%.</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 2015 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 Q3 2015 10-year forecast of global capital market assumptions. Rate for Europe is the average of rates for Switzerland (1.1%) and the rest of Europe (1.6%), rounded to the nearest 0.1%. Rate for The Americas and Other Countries is based on the 31 December 2013 valuation of the United Nations Joint Staff Pension Fund (UNJSPF).</p>
Special Fund for Compensation	<p>The inflation rate used is 2.2%. Based on inflation rates of 2.5% for the United States of America and 1.1% for Switzerland with weights of 75% and 25%, respectively. The resulting inflation rate is rounded to the nearest 0.1%.</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

After Service Health Insurance	<p>The discount rate has been revised to reflect the geographic distribution of UNAIDS' current and anticipated future retirees. This is a departure from the earlier assumptions of UNAIDS being aggregated as a European based Organization where the discount rate was determined as mix between Swiss and Euro zone rate. Based on current census data and projected cash flows from the 31 December 2014 valuation, it was determined that 60% of the liability is for Europe, which is divided into 2/3rd portion for Switzerland and 1/3rd portion for Euro Zone. The remaining 40% of the liability has been considered as non-European. Thus the resulting discount rates for each year has been 40% being Swiss rate (60% of 2/3) plus Euro zone rate of 20% (60% *1/3) plus 40% of a US bond rate</p>
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Actuarial Method

Repatriation Travel and Removal on Repatriation	Calculated using projected unit credit with service prorate, with an attribution period from the "entry on duty date" to separation.
Repatriation Grant, Termination Indemnity, and Grant in Case of Death	Calculated using the projected unit credit method with accrual rate proration.
Accrued Leave	The liability is set equal to the walk-away liability as if all staff separated immediately.
Abolition of Post, End-of-Service Grant, and Separation by Mutual Agreement	These benefits are considered termination benefits under IPSAS 25 and, therefore, excluded from the valuation.
Special Fund for Compensation	Calculated using projected unit credit, with an attribution period from the "entry on duty date" to separation.
After- Service Health Insurance	Liabilities are attributed using the projected unit credit method linearly from the "entry on duty date" to the earlier of the full eligibility date (the latest of age 55, 10 years of service, and five years of continuous service) and retirement date.

United Nations Joint Staff Pension Fund

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

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

The latest actuarial valuation was performed as of 31 December 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 2015, contributions paid to UNJSPF amounted to US\$ 22.8 million (US\$ 22.6 million contributions in 2014). Expected contributions due in 2016 are US\$ 22.8 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.

4.11 Deferred revenue

As at 31 December 2015 deferred revenue amounted to US\$ 5.1 million (US\$ 28.3 million as at 31 December 2014). This represents multi-year pledges made in 2015 for which the revenue recognition has been deferred to future financial periods. Out of this amount only US\$ 3 million represents non-current deferred revenue for 2017 and future financial periods.

	31 December 2015	31 December 2014
	(in US dollars)	(in US dollars)
Deferred revenue - current		
Unified Budget, Results and Accountability Framework	843 644	26 389 524
Supplementary Funds	1 246 446	1 578 585
Total Deferred revenue - current	<u>2 090 090</u>	<u>27 968 109</u>
Deferred revenue - non-current		
Unified Budget, Results and Accountability Framework	1 687 289	
Supplementary Funds	1 301 542	335 197
Total Deferred revenue - non-current	<u>2 988 831</u>	<u>335 197</u>
Total - Deferred Revenue	<u>5 078 921</u>	<u>28 303 306</u>

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\$ 21.6 million has been amortized using the effective interest rate of 0.70% (Swiss Libor rate for 30 years) as compared to 0.81% for 2014. Included in the long term borrowings is an amount of CHF 598 000 which is maturing in the following year.

4.13 Changes in net assets/equity

During the financial period ended 31 December 2015, the Programme had an overall deficit of US\$ 68 million, out of which US\$ 42.8 million related to Unified Budget, Results and Accountability Framework funds and US\$ 25.2 million to non-core funds

In line with the Programme Coordinating Board's approval to fund the annual replenishment of the Building Renovation Fund, in 2015 the Executive Director authorized the transfer of a total of US\$ 0.43 million from the fund balance towards the Building Renovation Fund. The Programme Coordinating Board during its 36th meeting held from 30 June to 2 July 2015 took note of the Executive Director's decision.

The unfunded staff-related liabilities, stood at US\$ 27.3 million as at 31 December 2015 (US\$ 21 million as at 31 December 2014). The net increase of US\$ 6.3 million was due to the movements in the actuarial liabilities of ASHI and terminal payments.

The 2015 deficit of US\$ 42.8 million, under the Unified Budget, Results and Accountability Framework funds resulted in a fund balance of US\$ 85.6 million as at 31 December 2015 (US\$ 128.8 million as at 31 December 2014).

4.14 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.

4.15 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\$ 219.4 million (US\$ 210.8 million from governments; US\$ 2.7 million from UNAIDS Cosponsors; and a net of US\$ 5.9 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\$ 2.4 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	194 600 098	11 577 271	4 657 521	210 834 890
Cosponsors	1 650 000	954 759	65 376	2 670 135
Others	104 272	5 844 832	(69 889)	5 879 215
Total - Voluntary Contributions	196 354 370	18 376 862	4 653 008	219 384 240

5.3 Financial revenue

The total interest earnings were US\$ 2.3 million for the financial period ended 31 December 2015 and the net realized gains on hedging and exchange transactions were US\$ 2.6 million for the same period. Net unrealized foreign exchange gains on revaluation of the accounts receivables and Swiss loan adjustments amounted to US\$ 1.6 million. This has resulted in a total amount of US\$ 6.5 million as financial revenue as at 31 December 2015. Interest revenue is recognized as it accrues and is allocated by WHO.

	31 December 2015	31 December 2014
	(in US dollars)	(in US dollars)
Finance Revenue		
Interest	2 249 746	1 528 005
Realised foreign exchange gains on balance sheet hedging	2 623 928	1 439 930
Net unrealized foreign exchange gains on revaluation	1 638 347	
Actuarial revaluation gains on Terminal Payments Funds	10 342	3 899 350
Total - Finance Revenue	6 522 363	6 867 285

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 2015.

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 2015 have been recognized and capitalized in accordance with IPSAS 17.

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.

	<u>31 December 2015</u>	<u>31 December 2014</u>
	(in US dollars)	(in US dollars)
Finance Costs		
Bank charges and investment management fees	202	1 364
Net realized foreign exchange losses	4 523 614	902 559
Net unrealized foreign exchange losses on revaluation	-	5 688 387
Actuarial interest cost related to valuation of Terminal Payments	411 147	500 219
Total - Finance Costs	<u>4 934 963</u>	<u>7 092 529</u>

6. SEGMENT REPORTING

Schedule 1 Statement of Financial Performance by Segments All sources of funds for the year ended 31 December 2015 (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	194 600 098	11 577 271	4 657 521							16 234 792	210 834 890
Cosponsoring organizations	1 650 000	954 759	65 376							1 020 135	2 670 135
Others	104 272	5 844 832	(69 889)							5 774 943	5 879 215
Finance revenue	4 551 683	205,208	-	116 784		10 342		1 638 346		1 970 680	6 522 363
Total	200 906 053	18 582 070	4 653 008	116 784	-	10 342	-	1 638 346	-	25 000 550	225 906 603
Programme Support Costs			2 469 771						(2 469 771)	-	-
Payroll transfers to accrual funds				2 732 798	8 586 715				(11 319 513)	-	-
Total revenue	200 906 053	18 582 070	7 122 779	2 849 582	8 586 715	10 342	-	1,638,346	(13 789 284)	25 000 550	225 906 603
Expense											
Staff and other personnel costs	116 662 520	2 472 807	3 876 866	1 409 567	9 660 890	105 410	7 247 717		(11 319 513)	13 453 744	130 116 264
Transfers and grants to counterparts	87 650 917	8 972 341	4 102 355							13 074 696	100 725 613
Contractual services	12 741 981	17 285 464	611 177		685 685					18 582 326	31 324 307
General operating expenses	14 199 395	996 084	427 008	135	368					1 423 595	15 622 990
Travel	6 243 103	2 450 578	325 105		16 343					2 792 026	9 035 129
Equipment, vehicles and furniture	1 531 283	521 752	22 784					(603 431)		(58 895)	1 472 388
Programme Support Costs	118 534	2 023 868	327 369						(2 469 771)	(118 534)	-
Depreciation								705 153		705 153	705 153
Finance costs	4 523 816			389 618		21 529				411 147	4 934 963
Total expense	243 671 549	34 722 894	9 692 664	1 799 320	10 363 286	126 939	7 247 717	101 722	(13 789 284)	50 265 258	293 936 807
Total Surplus/(Deficit) by fund	(42 765 496)	(16 140 824)	(2 569 885)	1 050 262	(1 776 571)	(116 597)	(7 247 717)	1 536 624	-	(25 264 708)	(68 030 204)

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 2015 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 2015 are presented below.

Reconciliation of Budget Utilization (Statement V) with Statement of Cash Flow (Statement IV) as at 31 December 2015

	2015			
	Operating	Investing	Financing	Total
	(in US dollars)	(in US dollars)	(in US dollars)	(in US dollars)
Actual amount on budget implementation (Statement V)	239 286 994			239 286 994
Timing difference				-
Basis Difference		(139 477)	(78 863)	(218 340)
Presentation Difference	(150 474 074)			(150 474 074)
Entity Difference	55 392 721			55 392 721
Actual Amount in Statement of Cash Flow	144 205 641	(139 477)	(78 863)	143 987 301

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

During the financial year ended 31 December 2015, 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 2015.

9. RELATED PARTY AND SENIOR MANAGEMENT DISCLOSURE

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

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

Key management personnel are members of the UN Joint 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.

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

Key Management Personnel

(in US dollars)

Number of individuals	18
Compensation and post adjustment	3 675 853
Entitlements	289 379
Pension and Health Plans	997 004
Total remuneration 2015	4 962 236
Outstanding advances against entitlements	64 666
Outstanding loans (in addition to normal entitlements if any)	-

10. EVENTS AFTER THE REPORTING DATE

The Programme's reporting date is 31 December 2015. On the date of the certifying of these accounts by the Executive Director and submission to the External Auditor, there have been no material events, favorable or unfavorable, occurred between the balance sheet date and the date when the financial statements have been authorized for issue that would have impacted these statements.

11. CONTINGENT LIABILITIES, COMMITMENTS AND CONTINGENT ASSETS

Contingent Liabilities

As at 31 December 2015, there were five 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 2015
	(in US dollars)
Operating Leases	
Within one year	1 774 185
Later than one year but not later than five years	1 329 656
Total Operating Lease	3 103 841

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 2015, there were no material contingent assets to disclose.

Schedule 2

**Unified Budget, Results and Accountability Framework - details of revenue
for the year ended 31 December 2015**

(in US dollars)

Voluntary contributions	Funds made available towards the year 2015 of the Unified Budget, Results and Accountability Framework
Governments	
Andorra	33 149
Australia	5 703 422
Belgium	5 619 413
Belgium - Flanders	819 672
Canada	3 891 113
China	150 000
Czech Republic	40 937
Denmark	8 291 874
Finland	8 667 389
France	334 467
Germany	2 974 982
Ireland	3 020 134
Israel	10 000
Japan	628 670
Liechtenstein	24 900
Luxembourg	4 178 092
Mali	84 644
Monaco	162 514
Netherlands	22 675 737
New Zealand	1 090 884
Norway	21 894 157
Poland	64 536
Portugal	110 620
Russian Federation	500 000
Sweden	24 978 785
Switzerland	11 160 714
Thailand	99 944
Turkey	100 000
United Kingdom of Great Britain and Northern Ireland	22 189 349
United States of America	45 000 000
Zimbabwe	100 000
Sub-total	194 600 098
Cosponsoring organizations	
World Bank	1 650 000
Sub-total	1 650 000
Other	
Miscellaneous	104 272
Sub-total	104 272
Total operating revenue	196 354 370
Financial revenue	4 551 683
TOTAL	200 906 053

Schedule 3

**Supplementary funds - details of revenue
for the year ended 31 December 2015**
(US dollars)

Voluntary contributions	Funds made available towards Supplementary Specified funds 31 December 2015
Governments	
China	450 000
Japan	300 000
Luxembourg	1 627 339
Netherlands	134 588
Norway	48 607
Sweden	3 664 446
Switzerland	1 042 502
United States of America (CDC)	159 997
United States of America (USAID)	4 149 792
Sub-total	11 577 271
Cosponsoring Organizations	
UNDP	175 173
UNESCO	18 892
UNFPA	603 694
UNICEF	157 000
UN Women	
Sub-total	954 759
Other	
AID Life	54 466
African Society for Laboratory Medicine (ASLM)	75 000
Asian Development Bank	927 809
Bill and Melinda Gates Foundation	1 631 023
British Columbia Centre for Excellence in HIV/AIDS(BC-CFE)	80 790
Drosos Foundation	230 000
European Commission	11 392
Ford Foundation	135 000
MDTF Office	1 407 863
MINUSMA	25 000
OPEC Fund for International Development	600 000
Ribbon Rouge Foundation	8 323
UN DOCO	20 000
UNAIDS USA	35 470
UNOHCHR	76 000
UNOPS	691 095
Victoria Beckham	27 177
Miscellaneous / Refund to Donor	(191 576)
Sub-total	5 844 832
Total operating revenue	18 376 862
Financial revenue	
Interest	205 208
Sub-total	205 208
TOTAL	18 582 070

Schedule 4

Extra-budgetary funds - details of revenue
for the year ended 31 December 2015
(US dollars)

Voluntary contributions	Funds made available towards Extra-budgetary funds 31 December 2015		
	In Cash	In- Kind and In-service	Total
Governments			
Belgium		215 278	215 278
Finland		406 664	406 664
France		106 844	106 844
Germany		298 507	298 507
Japan	300 000		300 000
Luxembourg		127 315	127 315
Netherlands		295 105	295 105
Norway		148 534	148 534
Sweden		258 450	258 450
Switzerland		58 797	58 797
United States of America (USAID)	2 000 000	295 105	2 295 105
Canton de Genève, Switzerland		146 922 ⁽¹⁾	146 922
Sub-total	2 300 000	2 357 521	4 657 521
Cosponsoring Organizations			
UNDP	65 376		65 376
Sub-total	65 376	-	65 376
Other			
Miscellaneous/Refund to Donor	(69 889)		(69 889)
Sub-total	(69 889)	-	(69 889)
Total operating revenue	2 295 487	2 357 521	4 653 008
TOTAL	2 295 487	2 357 521	4 653 008

(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 2015

During the period under review, revenue totalling US\$ 200.9 million was made available towards the Unified Budget, Results and Accountability Framework. Thirty one governments contributed 96.9% of this amount, and the World Bank contributed 0.8% of this amount. The remaining 2.3% 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 45 provides the details of this revenue.

Furthermore, non-core resources amounting to US\$ 25.7 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 46 and 47.

II. Funds expended for the financial period ended 31 December 2015

The total expense for the financial period ended 31 December 2015 against the Unified Budget, Results and Accountability Framework for 2014-2015 amounted to US\$ 239.3 million and expenses against the non-core funds amounted to US\$ 49.8 million.

A. Unified Budget, Results and Accountability Framework

During the year ended 31 December 2015, a total amount of US\$ 239.3 was expended for the implementation of activities contained in the 2012–2015 Unified Budget, Results and Accountability Framework and were distributed as follows: US\$ 85 million was expended to Cosponsors and US\$ 154.3 million was expended for the Secretariat.

Total expenses for 2014-2015 biennium amounted to US\$ 478 million (US\$ 238.7 million expended in 2014 and US\$ 239.3 million expended in 2015). In addition to the above expended amount, US\$ 3 million was encumbered during the same financial year which together represents a financial implementation rate of 99.2% (summarized in Table 1 below).

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

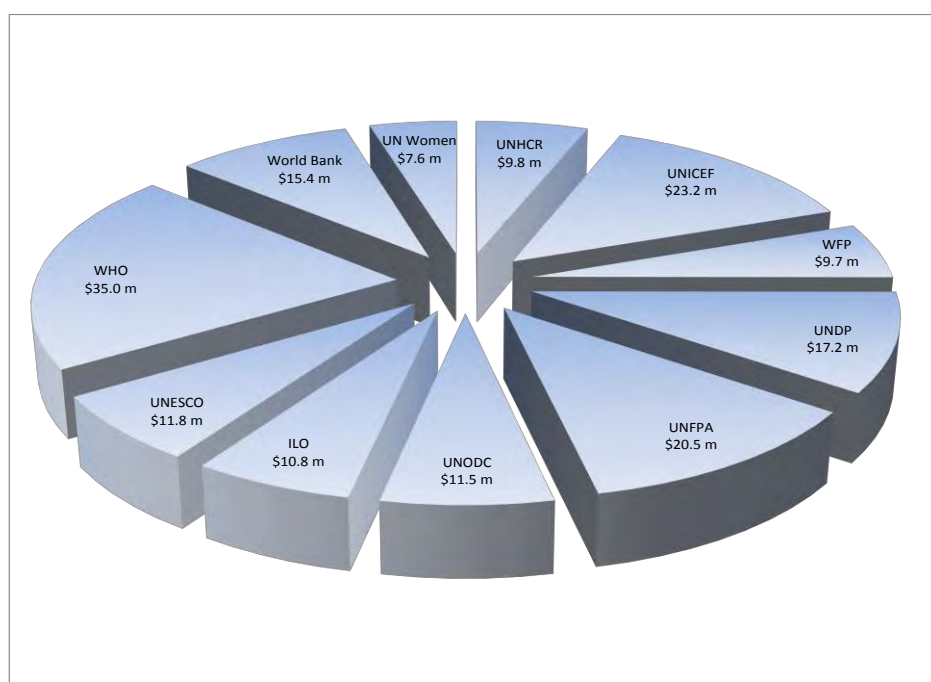
Strategic Directions and Functions	2014-2015 Approved core budget	Expense 2014	Expense 2015	Encumbrance ^{a/}	Expense and Encumbrance 2014-2015	Balance	Percentage implementation
	(a)	(b)	(c)	(d)	e = (b + c + d)	(f) = (a - e)	(g) = (e / a)
1 Revolutionize HIV prevention	79 102 000	39 551 000	38 717 010		78 268 010	833 990	98.9%
2 Catalyze the next phase of treatment, care and support	47 539 000	23 769 500	22 753 836		46 523 336	1 015 664	97.9%
3 Advance human rights and gender	37 885 000	18 942 500	18 508 060		37 450 560	434 440	98.9%
4 Leadership and advocacy	131 642 000	64 279 645	66 911 878	1 380 775	132 572 298	(930 298)	100.7%
5 Coordination, coherence and partnerships	105 118 000	49 803 395	50 885 232	909 165	101 597 792	3 520 208	96.7%
6 Mutual accountability	83 534 000	42 325 765	41 510 978	661 121	84 497 864	(963 864)	101.2%
Total	484 820 000	238 671 805	239 286 994	2 951 061	480 909 860	3 910 140	99.2%

^{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 2015, financial transfers made to Cosponsors amounted to US\$ 172.3 million (US\$ 87.3 million in 2014 and US\$ 85 million in 2015). These transfers represent 98.7% of the Cosponsors' approved core budget 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: Funds transferred to the Cosponsors as of 31 December 2015



ii) Expense incurred against the Secretariat budget

UNAIDS Secretariat expense amounted to US\$ 154.3 million during the year ended 31 December 2015. Together with the 2014 expense of US\$ 151.4 million, total expenses for 2014-2015 biennium amounted to US\$ 305.7million. In addition to the above expended amount, US\$ 3 million was encumbered during the same financial year which together represents a financial implementation rate of 99.5% 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 core budget, expense, and encumbrance for the year ended 31 December 2015 (in US dollars)

Strategic Functions	2014-2015 Approved core budget	Expense 2014	Expense 2015	Encumbrance ^{a/}	Expense and Encumbrance 2014-2015	Balance	Percentage implementation
	(a)	(b)	(c)	(d)	e = (b +c+d)	(f) = (a - e)	(g) = (e / a)
4 Leadership and advocacy	128 480 000	62 698 645	65 345 414	1 380 775	129 424 834	(944 834)	100.7%
5 Coordination, coherence and partnerships	99 020 000	46 749 376	47 847 904	909 165	95 506 445	3 513 555	96.5%
6 Mutual accountability	82 720 000	41 998 533	41 106 172	661 121	83 765 826	(1 045 826)	101.3%
Total	310 220 000	151 446 553	154 299 491	2 951 061	308 697 105	1 522 895	99.5%

^{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 2015, a total amount of US\$ 44.4 million was expended against non-core funds (US\$ 34.7 million was expended against supplemental funds and US\$ 9.7 million was expended against extra-budgetary funds). In addition to the above, US\$ 2.4 million and US\$ 0.3 million was encumbered against supplemental and extra-budgetary funds, respectively as indicated in Table 3 and Table 4 on pages 51 and 52.

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 53 to 54 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\$ 109.5 million for the financial period ended 31 December 2015. In addition to the above expense, a total of US\$ 3.5 million was encumbered during the same period which together totalled US\$ 113 million for the financial period ended 31 December 2015.

Table 3

Supplementary funds
Funds available, expense and encumbrance summary by source of revenue
for the year ended 31 December 2015
(in US dollars)

Source of revenue	2014 carry-over	Funds made available in 2015	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	1 652 101		1 652 101	1 652 101		1 652 101	100.0%
China	900 000	450 000	1 350 000	138 515		138 515	10.3%
Germany	78 555		78 555	70 308	1 157	71 465	91.0%
Japan	1 588 109	300 000	1 888 109	1 708 392	43 957	1 752 349	92.8%
Korea	94 220		94 220	69 553	23 053	92 606	98.3%
Luxembourg	1 628 201	1 627 339	3 255 540	2 042 375	162 103	2 204 478	67.7%
Netherlands	62 590	134 588	197 178	3 210	28 943	32 154	16.3%
Norway	23 515	48 607	72 122	45 667		45 667	63.3%
Russian Federation	2 381 961		2 381 961	2 288 576	93 385	2 381 961	100.0%
Sweden	5 373 704	3 664 446	9 038 150	5 533 424	197 634	5 731 058	63.4%
Switzerland	24 724	1 042 502	1 067 226	205 591		205 591	19.3%
United States of America (CDC)	1 027 733	159 997	1 187 730	862 024	22 168	884 192	74.4%
United States of America (USAID)	16 477 076	4 149 792	20 626 868	13 479 760	808 450	14 288 210	69.3%
African Society for Laboratory Medicine (ASLM)		75 000	75 000			-	0.0%
AIDS Life		54 466	54 466	24 264		24 264	44.5%
Asian Development Bank	122 113	927 809	1 049 922	241 761	94 316	336 078	32.0%
Bill & Melinda Gates Foundation	1 405 228	1 631 023	3 036 251	997 795	202 119	1 199 914	39.5%
British Columbia Centre for Excellence in HIV/AIDS(BC-CFE)	23 860	80 790	104 650	19 775		19 775	18.9%
Drosos Foundation	141 905	230 000	371 905	227 311		227 311	61.1%
Ford Foundation	220 963	135 000	355 963	286 094	38 493	324 587	91.2%
GIZ	21 614		21 614	21 614		21 614	100.0%
Islamic Development Bank	200 000		200 000	77 484	55 587	133 071	66.5%
Korean Women against AIDS	50 000		50 000	50 000		50 000	100.0%
MDTF Office	944 228	1 407 863	2 352 091	1 241 758	213 467	1 455 225	61.9%
M.A.C. AIDS Fund	410 377		410 377	410 377		410 377	100.0%
MINUSMA		25 000	25 000	31 780		31 780	127.1%
Organization of Petroleum Exporting Countries	101 243	600 000	701 243	115 727		115 727	16.5%
Ribbon Rouge Foundation		8 323	8 323	8 323		8 323	100.0%
UNCERF	70 287		70 287	65 088		65 088	92.6%
UNDP	17 170	175 173	192 343	82 319	54 347	136 666	71.1%
UNDOCO		20 000	20 000	20 000		20 000	100.0%
UNESCO		18 892	18 892			-	0.0%
UNICEF	36 875	157 000	193 875	73 380		73 380	37.8%
UNFPA	1 526 010	603 694	2 129 704	955 065	227 218	1 182 283	55.5%
UNAIDS USA	200 344	35 470	235 814	199 589		199 589	84.6%
UNOHCHR		76 000	76 000	39 860	10 850	50 710	66.7%
UNOPS	996 760	691 095	1 687 855	1 231 262	100 447	1 331 709	78.9%
UN WOMEN	1 684		1 684	1 684		1 684	100.0%
Victoria Beckham		27 177	27 177	27 176		27 176	100.0%
Interest and other	635 939	25 024	660 963	173 912	1 628	175 540	26.6%
Total	38 439 087	18 582 070	57 021 157	34 722 894	2 379 323	37 102 217	65.1%

^{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 2015
(in US dollars)

Source of revenue	2014 carry-over	Funds made available in 2015	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							
Belgium	179 354	215 278	394 632	215 278		215 278	54.6%
Finland		406 664	406 664	406 664		406 664	100.0%
France		106 844	106 844	106 844		106 844	100.0%
Germany (including GIZ)	218 601	298 507	517 108	298 507		298 507	57.7%
Japan		300 000	300 000			-	0.0%
Luxembourg	27 341	127 315	154 656	127 315		127 315	82.3%
Netherlands	375 293	295 105	670 398	295 105		295 105	44.0%
Norway	294 945	148 534	443 479	148 534		148 534	33.5%
Russian Federation	1 324 576		1 324 576	1 316 210		1 316 210	99.4%
Sweden		258 450	258 450	258 450		258 450	100.0%
Switzerland		205 719	205 719	205 719		205 719	100.0%
United States of America (CDC)	394 446		394 446	295 105		295 105	74.8%
United States of America (USAID)	1 950 340	2 295 105	4 245 445	1 830 518	186 916	2 017 434	47.5%
European Commission	203 761		203 761			-	0.0%
MDTF Office	41 685		41 685	19 300		19 300	46.3%
UNDP	162 472	65 376	227 848	77 231		77 231	33.9%
UNWTO ST-EP Foundation	25 000		25 000			-	0.0%
WHO	1 235 069		1 235 069	413 808	26 515	440 323	35.7%
Interest and other	8 215 638	(69 889)	8 145 749	3 658 076	126 672	3 784 748	46.5%
Total	14 648 522	4 653 008	19 301 530	9 672 664	340 103	10 012 767	51.9%

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

Table 5

Country and Regional expense and encumbrance against all sources of funds
for the financial year ended 31 December 2015
(in US dollar)

Region	Countries	Unified Budget, Results and Accountability Framework			Non-core Funds			Total		
		Expense	Encumbrance ^{a/}	Total	Expense	Encumbrance ^{a/}	Total	Expense	Encumbrance ^{a/}	Total
Asia and Pacific	Regional Support Team, Asia and Pacific	3 968 205	180 368	4 148 573	3 914 656	30 457	3 945 114	7 882 861	210 826	8 093 687
	Bangladesh	500 461	14 498	514 959	35 535	-	35 535	535 996	14 498	550 494
	Cambodia	677 252	-	677 252	192 169	-	192 169	869 421	-	869 421
	China	1 319 168	3 511	1 322 679	110 012	-	110 012	1 429 180	3 511	1 432 691
	Fiji	622 321	10 830	633 151	38 205	-	38 205	660 527	10 830	671 356
	India	1 325 722	48 392	1 374 114	863 737	192 500	1 056 237	2 189 459	240 892	2 430 351
	Indonesia	927 988	11 390	939 378	146 029	-	146 029	1 074 016	11 390	1 085 407
	Lao People's Democratic Republic	78 315	1 090	79 405	-	-	-	78 315	1 090	79 405
	Malaysia	9 622	1 105	10 727	-	-	-	9 622	1 105	10 727
	Mongolia	7 492	558	8 050	10 454	-	10 454	17 946	558	18 504
	Myanmar	955 240	9 381	964 621	1 746 934	225 366	1 972 301	2 702 174	234 748	2 936 922
	Nepal	634 044	13 021	647 065	-	-	-	634 044	13 021	647 065
	Pakistan	729 388	7 892	737 280	257 404	61 538	318 942	986 791	69 431	1 056 222
	Papua New Guinea	1 083 670	3 551	1 087 221	31 570	-	31 570	1 115 240	3 551	1 118 791
	Philippines	349 802	16 807	366 609	200 003	-	200 003	549 805	16 807	566 612
Sri Lanka	96 802	-	96 802	2 152	-	2 152	98 954	-	98 954	
Thailand	829 372	5 323	834 695	-	-	-	829 372	5 323	834 695	
Viet Nam	683 910	6 835	690 745	733 254	3 890	737 144	1 417 164	10 725	1 427 889	
Total Asia and Pacific		14 798 772	334 552	15 133 324	8 282 115	513 753	8 795 868	23 080 887	848 305	23 929 193
Caribbean	Regional Support Team, Caribbean	1 989 387	58 939	2 048 326	80 870	20 927	101 797	2 070 257	79 865	2 150 123
	Bahamas	-	-	-	-	-	-	-	-	-
	Barbados	1 104	-	1 104	-	-	-	1 104	-	1 104
	Belize	1 109	-	1 109	-	-	-	1 109	-	1 109
	Cuba	-	-	-	-	-	-	-	-	-
	Dominican Republic	403 608	14 383	417 991	1 125	-	1 125	404 732	14 383	419 116
	Guyana	539 643	7 639	547 282	-	-	-	539 643	7 639	547 282
	Haiti	905 120	27 538	932 658	-	-	-	905 120	27 538	932 658
	Jamaica	660 838	19 246	680 084	-	-	-	660 838	19 246	680 084
	Suriname	9 907	-	9 907	-	-	-	9 907	-	9 907
	Trinidad and Tobago	2 732	-	2 732	-	-	-	2 732	-	2 732
Total Caribbean		4 513 447	127 745	4 641 192	81 995	20 927	102 922	4 595 442	148 672	4 744 114
East and South Africa	Regional Support Team, East and South Africa	4 755 448	87 202	4 842 650	8 502 285	409 682	8 911 967	13 257 733	496 884	13 754 617
	Angola	1 060 260	3 292	1 063 552	9 969	-	9 969	1 070 230	3 292	1 073 521
	Botswana	899 362	33 502	932 863	255 438	1 299	256 737	1 154 800	34 800	1 189 600
	Eritrea	93 927	1 145	95 072	-	-	-	93 927	1 145	95 072
	Ethiopia	882 628	10 929	893 557	276 095	57 349	333 445	1 158 723	68 279	1 227 002
	Kenya	1 314 718	40 604	1 355 322	242 085	44 548	286 633	1 556 803	85 152	1 641 955
	Lesotho	573 307	7 107	580 414	7 251	1 887	9 138	580 558	8 994	589 552
	Madagascar (covering Seychelles, Comores, Mauritius)	624 375	1 530	625 905	-	-	-	624 375	1 530	625 905
	Malawi	1 173 855	27 381	1 201 236	281 630	114 506	396 136	1 455 485	141 887	1 597 372
	Mozambique	1 280 334	10 979	1 291 313	195 810	11 952	207 761	1 476 144	22 931	1 499 075
	Namibia	640 319	13 445	653 764	59 310	-	59 310	699 629	13 445	713 074
	Rwanda	780 741	4 441	785 181	45 584	-	45 584	826 324	4 441	830 765
	South Africa	1 794 945	22 284	1 817 228	897 383	97 552	994 934	2 692 327	119 836	2 812 163
	South Sudan	1 298 985	31 694	1 330 679	40 269	40 269	80 538	1 339 253	71 963	1 411 216
	Swaziland	1 023 051	10 219	1 033 270	10 000	-	10 000	1 033 051	10 219	1 043 270
	Tanzania, United Republic of	1 023 388	21 228	1 044 616	277 574	5 491	283 065	1 300 962	26 719	1 327 681
	Uganda	1 061 606	44 692	1 106 298	499 806	54 102	553 908	1 561 413	98 794	1 660 207
Zambia	1 196 110	59 301	1 255 410	36 525	1 500	38 025	1 232 635	60 801	1 293 435	
Zimbabwe	1 584 727	2 217	1 586 945	268 125	24 170	292 295	1 852 852	26 387	1 879 239	
Total East and South Africa		23 062 086	433 190	23 495 276	11 905 138	864 307	12 769 445	34 967 224	1 297 497	36 264 721
Europe	Regional Support Team, Europe	2 995 378	45 519	3 040 897	3 746 964	171 251	3 918 215	6 742 342	216 769	6 959 112
	Armenia	120	-	120	43 796	-	43 796	43 915	-	43 915
	Belarus	112 389	4 242	116 632	-	-	-	112 389	4 242	116 632
	Kazakhstan	719 533	21 926	741 460	-	-	-	719 533	21 926	741 460
	Kyrgyzstan	84 042	1 592	85 634	37 571	-	37 571	121 613	1 592	123 205
	Moldova, Republic of	60 469	-	60 469	78 708	4 516	83 224	139 177	4 516	143 693
	Tajikistan	85 594	1 307	86 901	41 051	-	41 051	126 645	1 307	127 952
	Ukraine	1 097 488	27 185	1 124 673	-	-	-	1 097 488	27 185	1 124 673
	Uzbekistan	369 287	2 331	371 618	41 000	-	41 000	410 287	2 331	412 618
	Total Europe		5 524 303	104 103	5 628 405	3 989 089	175 767	4 164 856	9 513 392	279 870

^{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 ^{a/}	Total	Expense	Encumbrance ^{a/}	Total	Expense	Encumbrance ^{a/}	Total
Latin America	Regional Support Team, Latin America	2 639 143	40 475	2 679 618	117 439	36 506	153 945	2 756 582	76 981	2 833 563
	Argentina	846 262	7 323	853 585	-	-	-	846 262	7 323	853 585
	Bolivia	36 531	3 291	39 822	6 998	-	6 998	43 530	3 291	46 820
	Brazil	793 323	1 848	795 171	-	-	-	793 323	1 848	795 171
	Chile	10 466	109	10 575	-	-	-	10 466	109	10 575
	Colombia	174 350	825	175 175	14 443	1 016	15 459	188 792	1 841	190 633
	Costa Rica	3 970	-	3 970	32 863	1 342	34 205	36 834	1 342	38 176
	Ecuador	17 375	-	17 375	-	-	-	17 375	-	17 375
	El Salvador	140 343	690	141 033	-	-	-	140 343	690	141 033
	Guatemala	1 123 977	11 280	1 135 257	24 618	3 373	27 991	1 148 595	14 653	1 163 248
	Honduras	558 424	-	558 424	70 868	-	70 868	629 292	-	629 292
	Mexico	22 500	1 500	24 000	-	-	-	22 500	1 500	24 000
	Nicaragua	7 991	36	8 027	1 636	-	1 636	9 626	36	9 662
	Panama	19 067	728	19 795	50 070	788	50 858	69 137	1 516	70 653
	Paraguay	6 363	-	6 363	-	-	-	6 363	-	6 363
	Peru	871 440	11 383	882 824	9 773	-	9 773	881 213	11 383	892 596
Uruguay	12 400	750	13 150	-	-	-	12 400	750	13 150	
Venezuela	258 406	12 449	270 855	-	5 000	5 000	258 406	17 449	275 855	
Total Latin America		7 542 332	38 815	7 635 018	189 827	10 504	376 732	7 871 039	140 712	8 011 751
Middle East & North Africa	Regional Support Team, Middle East and North Africa	1 824 526	81 535	1 906 061	331 812	38 493	370 305	2 156 338	120 028	2 276 366
	Algeria	197 423	244	197 667	6 578	-	6 578	204 000	244	204 244
	Djibouti	425 774	11 780	437 554	145 584	55 587	201 170	571 358	67 367	638 724
	Egypt	145 510	7 482	152 991	215 661	-	215 661	361 171	7 482	368 653
	Iran	367 869	8 586	376 455	-	-	-	367 869	8 586	376 455
	Morocco	476 624	1 232	477 856	-	-	-	476 624	1 232	477 856
	Somalia	373 077	1 439	374 515	889	-	889	373 965	1 439	375 404
	Sudan	496 048	51 762	547 810	-	-	-	496 048	51 762	547 810
	Tunisia	64 397	276	64 673	7 806	-	7 806	72 203	276	72 479
	Yemen	151 327	2 502	153 828	3 000	28 943	31 944	154 327	31 445	185 772
Total Middle East and North Africa		4 522 575	166 837	4 689 412	711 329	123 023	834 353	5 233 904	289 861	5 523 765
West and Central Africa	Regional Support Team, West and Central Africa	4 613 535	16 550	4 630 085	2 966 331	10 576	2 976 907	7 579 865	27 127	7 606 992
	Benin	482 244	30 912	513 156	-	-	-	482 244	30 912	513 156
	Burkina Faso	647 434	4 378	651 811	-	-	-	647 434	4 378	651 811
	Burundi	554 945	2 605	557 550	173 993	-	173 998	728 938	2 610	731 548
	Cameroon	958 595	12 566	971 160	143 802	56 190	199 993	1 102 397	68 756	1 171 153
	Central African Republic	904 137	47 531	951 668	65 003	23 053	88 056	969 140	70 584	1 039 724
	Chad	636 436	11 258	647 694	18 575	-	18 575	655 011	11 258	666 269
	Congo	648 151	6 394	654 546	-	-	-	648 151	6 394	654 546
	Côte d'Ivoire	1 055 442	21 825	1 077 267	123 902	10 708	134 609	1 179 343	32 533	1 211 876
	Democratic Republic of Congo	1 635 132	22 542	1 657 674	193 155	-	193 155	1 828 287	22 542	1 850 829
	Equatorial Guinea	80 204	-	80 204	-	-	-	80 204	-	80 204
	Gabon	503 581	16 881	520 462	-	-	-	503 581	16 881	520 462
	Gambia	138 865	2 660	141 525	-	-	-	138 865	2 660	141 525
	Ghana	835 938	293	836 231	76 003	77 676	153 679	911 941	77 969	989 910
	Guinea	602 681	4 490	607 171	-	-	-	602 681	4 490	607 171
	Guinea-Bissau	15 982	473	16 454	41 180	4 293	45 472	57 161	4 766	61 927
	Liberia	693 574	-	693 574	104 090	18 311	122 400	797 664	18 311	815 975
	Mali	466 037	10 787	476 824	119 281	152	119 433	585 318	10 939	596 257
	Mauritania	151 848	9 238	161 085	-	-	-	151 848	9 238	161 085
	Niger	369 163	14 132	383 295	-	-	-	369 163	14 132	383 295
Nigeria	2 637 374	5 343	2 642 716	68 098	-	68 098	2 705 472	5 343	2 710 814	
Senegal	138 054	1 393	139 447	55 656	-	55 656	193 710	1 393	195 103	
Sierra Leone	865 559	393	865 952	-	-	-	865 559	393	865 952	
Togo	498 896	16 812	515 708	-	-	-	498 896	16 812	515 708	
Total West & Central Africa		20 133 806	259 454	20 393 260	4 149 069	200 963	4 350 032	24 282 874	460 417	24 743 292
Grand Total		80 097 320	1 464 697	81 615 888	29 308 563	1 909 243	31 394 207	109 544 763	3 465 332	113 010 095

^{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 2015

**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 2015**

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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
PCB	Programme Coordinating Board
ORF	Operating Reserve Fund
ASHI	After Service Health Insurance
UBRAF	Unified Budget, Results and Accountability Framework
JPMS	Joint Programme Monitoring System
UBW	Unified Budget and Workplan
PDC	Property Disposal Committee
PAHO	Pan-American Health Organization
HRM	Human Resources Management
ICSC	International Civil Service Commission
RBM	Results-Based Management
PMP	Performance Management Policy
PALM	Performance and Learning Management
PDP	People Development and Performance Policy and Guidelines
PIP	Performance Improvement Plan
JIU	Joint Inspection Unit

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 fourth 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 five 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. We commend UNAIDS Management for preparing quality financial statements which warranted the issuance of an unmodified opinion for four years already, since the adoption of IPSAS. For 2015, we issued an unmodified audit opinion on the Organization's financial statements for the financial year ended 31 December 2015. 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

2015, 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. As part of our value adding services, we have identified three areas where governance over UNAIDS's resources could be better improved. UNAIDS could derive lessons learned from the assessment of the Unified Budget, Results and Accountability Framework (UBRAF) in its pursuit of greater efficiency and focus. It could highlight the improvement of the policies and practices on asset management particularly the inclusion of structured evaluation for loss of *attractive items* and the full implementation and monitoring of the human resource policies regarding performance management with greater focus on training supervisors in managing not only personnel performance but underperformance as well.

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

a. Craft quality assurance guidelines for reporting on the implementation of UBRAF that:

- **establish clear criteria for specifically defining quality and validated information in each key checkpoint or for each deliverable;**
- **outline roles and responsibilities for the key data quality assurance evaluators; and**
- **obtain agreement on the points and time that quality reviews will occur and how and to whom findings will be reported.**

Recommendation No. 2

Take the lead, through the UNAIDS Secretariat, in engaging with the PCB for the 2012-2015 UBRAF assessment as a primary operational tool. The assessment to include the analysis of strengths as well as lessons learned and weaknesses to be addressed for an improved 2016-2021 UBRAF, and to be presented in the 38th Meeting of the PCB in June 2016 at the time of the presentation of the final, more detailed and prioritized 2016-2021 UBRAF.

Recommendation No. 3

Ensure, through HRM, the full implementation and monitoring of performance management policies and system with emphasis in the area of staff career development as UNAIDS strengthens its management performance processes.

Recommendation No. 4

Provide, through HRM, greater focus on training supervisors in managing performance to include the management of underperformance.

Recommendation No. 5

Enhance asset management procedures by incorporating the following:

- criteria defining various circumstances surrounding asset loss;
- updated guidelines for documentation in case of asset loss; and
- levels of administrative and fiscal responsibility for every type of circumstance defined as the cause of asset loss.

Implementation of External Auditor's recommendations in prior years

7. We reviewed the action taken on the audit recommendations provided in the 2014 External Auditor's Report, and we noted that all of the seven recommendations, or 100%, were fully implemented. We commend Management for the immediate action/s on and recognizing the value of the audit recommendations which improved the financial management and governance in the areas covered by our examination.

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 WHO Financial Regulations and legislative authority. The primary objectives of the audit were to provide an independent opinion on whether:

- a. the financial statements presented fairly the financial position of UNAIDS as at 31 December 2015, 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 2015 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. Reporting Arrangement and Assessment of UBRAF;
- b. Human Resource Performance Management; and
- c. Asset Management – Asset Accountability Policy/Procedures

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

16. For the financial year 2015, the audit was performed at the Headquarters of the UNAIDS in Geneva, Switzerland. This is the fourth 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.

A. 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 2015, a number of recommendations were made to improve the presentation and disclosure requirements in compliance with IPSAS. We issued an unqualified opinion on the financial statements. As such, we concluded that the financial statements present fairly, in all material respects, the financial position of UNAIDS for the financial year ended 31 December 2015, 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 total deficit of US\$ 68.03 million for the year, as shown in the Statement of Financial Performance (Statement II). This is a 276.27% increase from that of the previous year's total deficit of US\$ 18.08 million. The deficit could be attributed mainly to a decrease in Total revenue (US\$ 51.74 million): Voluntary contributions, especially from Governments (US\$ 49.21 million) and Cosponsoring organizations (US\$ 0.56 million); Others (US\$ 1.63 million); and Financial revenue (US\$ 0.34 million). While there was a decrease in Total expense (US\$ 1.79 million), this made no remarkable offset; hence, the increase in Total deficit of US\$ 49.95 million in 2015.

21. Net assets/equity, as reflected in the Statement of Changes in Net Assets/Equity (Statement III), show a decrease of US\$ 68.03 million or 35.01% from US\$ 194.33 million for the year ended 31 December 2014 to US\$ 126.30 million for the year ended 31 December 2015. Considering the reported 276.27% increase in total deficit and said 35.01% 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 2015 was US\$ 225.91 million broken down as follows: US\$ 210.83 million from Governments, US\$ 2.67 million from Cosponsoring organizations, US\$ 5.88 million from other sources, and the balance of US\$ 6.52 million from financial revenue. On the other hand, total expenses for the same financial period amounted to US\$ 293.94 million which consisted of the following: US\$ 130.12 million for salaries and other personnel costs, US\$ 100.73 million for transfers and grants to counterparts, US\$ 31.32 million for contractual services, US\$ 15.62 million for general

operating expenses, US\$ 9.04 million for travel, US\$ 1.47 million for equipment, vehicles and furniture, US\$ 0.71 million for depreciation, and the remaining US\$ 4.93 million for finance costs. As earlier stated, the overall “deficit” (i.e., revenue less expenses) in 2015 that was carried forward to 2016 was US\$ 68.03 million.

23. Of the US\$ 484.82 million 2014-2015 approved allocations, expenditures of US\$ 239.29 million under the 2015 Unified Budget, Results and Accountability Framework (UBRAF) were incurred, representing 49.35% budget implementation for the second year of the biennium. The balance remaining of the approved UBRAF as at 31 December 2015 amounted to US\$ 6.86 million.

24. The Operating Reserve Fund (ORF) which was established by the PCB in June 1996 stood at US\$ 35 million for the year ended 31 December 2015. This fund can be used to finance the implementation of the UBRAF while awaiting the receipt of core contributions. The rules and procedures guiding the use of the ORF by the Executive Director were decided by the PCB at its Sixth Meeting in May 1998. With the ORF, the continued operation of UNAIDS is relatively secure.

25. Comparatively, total current assets amounted to US\$ 213.77 million while total current liabilities reached US\$ 20.73 million; thus, registering a liquidity ratio of 10.31. Cash and cash equivalents at the beginning of the year amounted to US\$ 184.90 million, but decreased to US\$ 143.99 million at the end of the year after accounting for a net decrease of US\$ 40.91 million or 22.12% from operating, investing and financing activities. UNAIDS, thus, needs to reinforce its financial performance in the coming years and ensure the inflow of additional funds into the Joint Programme.

1.3 Financing awareness

26. UNAIDS has made remarkable achievements in the fight against AIDS and has commenced to address the challenges going forward. Critical to UNAIDS is a robust financing scheme to sustain its global advocacy and leadership of the AIDS response. Significant reductions in contributions by several of the strongest supporters and key

donors of UNAIDS were eminent. In year 2014, the Joint Programme raised 96% of its approved budget, but in 2015, it achieved only 83% of its resource mobilization target. For UNAIDS to effectively support the implementation of its strategies and to achieve the goals jointly set via the 2016-2021 UBRAF, it is vital to be adequately resourced.

27. At the referral for approval of the UNAIDS Strategy for 2016-2021 and the associated UBRAF at the Programme Coordinating Board Meeting in October 2015, the UNAIDS Executive Director reiterated the aim for the expansion of the donor base and the need to continue to reach out to all current and potential new donors seeking their continued and increased financial support. He urged awareness on the UNAIDS financial situation and the consequences of its current inadequate funding. Without additional resources, there will certainly be profound implications for the working of UNAIDS and for its reach and ability to deliver results.

28. We commend the Executive Director of UNAIDS in pushing forward the issue of funding, seeking proactive decisions from the PCB and using the full opportunity provided by the upcoming United Nations General Assembly High-level Meeting on Ending AIDS (AIDS 2016) and the Global Fund replenishment.

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

1.4 After service health insurance

30. The defined benefit obligations of UNAIDS for After Service Health Insurance (ASHI) as at 31 December 2015 stood at US\$ 104.9 million, of which US\$ 49.5 million is funded, resulting in net unfunded liability of US\$ 55.4 million. These were determined by professional actuaries based on personnel data and past experience on payments as provided by WHO. Following the PCB decision at its 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 the funding of ASHI liability.

Therefore, the unfunded ASHI liability as at 31 December 2015 stood at US\$ 30.3 million.

28. For the year 2015, the discount rate for ASHI has been revised to reflect the geographical distribution of UNAIDS's current and anticipated future retirees. This is a departure from the earlier assumption of UNAIDS being aggregated as a European-based Organization where the discount rate was determined as a mix between Swiss and Euro Zone rates.

2. GOVERNANCE MATTERS

29. We have identified three areas where governance over UNAIDS's resources could be better enhanced. These are along the areas of: a) reporting arrangements and UBRAF assessment; b) asset management policy; and c) human resource performance management.

2.1 Reporting arrangements

30. The evaluation of the efficiency and effectiveness of strategies enshrined in the 2012-2015 UBRAF depends on the reporting system. This requires a clear differentiation of roles and responsibilities between the Cosponsors and the Secretariat, not just in terms of how they work together, but also in terms of what they actually deliver. As gleaned from the 28th Meeting of the UNAIDS Programme Coordinating Board (PCB), it requested the UNAIDS Secretariat to report back annually to the PCB on the implementation of the 2012-2015 UBRAF.

31. Behind the identification and establishment of the functions that enable each level of the Joint Programme (country, region and global) and the Cosponsors in reporting their performance based on roles and responsibilities at each level, and at the same time, in acting coherently and cohesively in the implementation of the UBRAF is the Joint Programme Monitoring System (JPMS).

32. JPMS is a web-based tool developed to allow the Joint Programme at the country, regional and global levels to report on the implementation of UBRAF in a structured and transparent way. JPMS facilitates comprehensive reporting against UBRAF results including indicator-based reporting and reports on the thematic areas by each Cosponsor and the Secretariat at the country, regional and global levels, in line with the PCB accountability requirements. Reporting in the JPMS is done once a year. It serves as a platform to the Cosponsors to report against their own plans. JPMS collates and shares reports from across UNAIDS, beginning with those at a country level, and then allowing regions and global reporting to draw upon and analyse.

33. On the other hand, review of the UBRAF by Nordic Consulting Group in November 2014 indicated that the JPMS is basically a self-reporting tool for UNAIDS – how UNAIDS staff and stakeholders assess aspects of performance. It clarified that there is a review of data quality, but no systematic and critical validation of data. It goes further that self-assessments are useful, but not sufficient for reporting.

34. Quality of data provided to the JPMS does not happen by accident. It must be planned and verified so there is agreement about how quality is measured, and data or information corroborated and validated; thus, when quality checks occur, the data must meet predetermined standards for its completeness and veracity, and if found short, there are determined corrective actions that can be implemented.

35. Conducting quality assurance for information or data regarding programme/project accomplishments and implementation is a way forward of preventing errors or blunders in reporting as part of quality management. It is focused on providing confidence that quality and validated information will be reported. It ascertains whether the project did indeed succeed, and has been reported accurately, if not, it can provide a starting point for developing future lessons learned.

36. There are two principles included in assuring quality of data: accurate data (the information should be complete, validated and suitable for the intended purpose), and right first time (information and data errors or blunders should be eliminated).

37. The quality assurance guidelines for reporting and information is a tool that can help the project implementation and accomplishment reporting deliver the highest possible quality and validated data within committed resources and schedule for all its intended users.

Recommendation No. 1

For Management to craft quality assurance guidelines for reporting on the implementation of UBRAF that: a) establish clear criteria for specifically defining quality and validated information in each key checkpoint or for each deliverable; b) outline roles and responsibilities for the key data quality assurance evaluators; and c) obtain agreement on the points and time that quality reviews will occur and how and to whom findings will be reported.

2.2 2012-2015 UBRAF assessment

38. Given the important role of the UBRAF, this should be provided with formal and documented bases, which is an assessment or the evaluation report, for making future decisions through lessons learned and for confirming or developing a common understanding of the scope of activities and deliverables among stakeholders of the UBRAF taken as a whole. We noted that there was no assessment or evaluation report yet prepared for the 2012-2015 UBRAF as an operational instrument or tool.

39. Indispensable at this point is the assessment of the three main components of the UBRAF. Instituting assessment of the UBRAF itself is critical, as it more clearly delineates the:

- a. Objectives, scope and deliverables (i.e., what has to be achieved)
- b. Stakeholders, roles and responsibilities (i.e., who will take part in it)
- c. Resource, financial and quality plans (i.e., how it will be achieved)
- d. Work breakdown structure and schedule (i.e., when it will be achieved)
- e. Success factors/risks and constraints; and
- f. Lessons learned.

40. A mid-term review was conducted at the beginning of the 2014-2015 biennium to take stock of and draw lessons from the first biennium of the UBRAF to strengthen implementation in the second biennium. The same is an appropriate activity for the 2012-2015 UBRAF as a primary operating tool to derive the lessons learned for the preparation of the succeeding UBRAF.

41. It is emphasized that the interdependencies of tasks and activities within the three components embodied in the UBRAF have to be anchored on well-defined procedures, roles and responsibilities for assessment. It is through the result of assessment that lessons learned can be acquired. The knowledge derived from experience can promote the recurrence of desirable outcomes or preclude the recurrence of undesirable outcomes.

42. Use of lessons learned is a principal component of all levels of organizational culture committed to continuous process improvement. It enables the knowledge gained from past experience to be applied to current and future projects to avoid the repetition of past failures and mishaps. Moreover, lessons learned documentation can represent both positive and negative experiences.

43. The strong commitment of the PCB to foster greater accountability and more effective internal controls for programme implementation across the Joint Programme clearly suggests that this should be demonstrated at all levels and particularly in the delivery of its main advocacy. The UBRAF provides an umbrella

framework that coordinates multiple, interdependent tasks, not just with each other, but with other critical components that solely contribute to the Joint Programme goal and objectives. Ancillary factors such as organizational, personnel-related or process-specific have to be considered to produce an overall UBRAF assessment and measurement that meets the evaluation requirements; thus, eventually enabling and better fulfilling its promised goals as an operational instrument. The importance of the assessment of the UBRAF cannot be over-emphasized, as every UNAIDS stakeholder would want to know the result of implementing UBRAF. Therefore, an assessment of the UBRAF that serves as a primary operational tool for programme engagements has to be recognized as a necessity.

Recommendation No. 2

For the UNAIDS Secretariat to take the lead in engaging with the PCB for the 2012-2015 UBRAF assessment as a primary operational tool. The assessment to include the analysis of strengths as well as lessons learned and weaknesses to be addressed for an improved 2016-2021 UBRAF, and to be presented in the 38th Meeting of the PCB in June 2016 at the time of the presentation of the final, more detailed and prioritized 2016-2021 UBRAF.

2.3 Human resource performance management

44. In a rapidly changing world, the demands of the global AIDS response are becoming increasingly complex. This necessitates performance management to ensure that staff at all levels of the Joint Programme have the knowledge and competencies required to deliver the Joint Programme's core advocacy, and that they are driven to learn and adopt to new challenges while managing their own careers.

45. The 2000 Framework for Human Resources Management (HRM) was adopted by the International Civil Service Commission (ICSC) and UNAIDS is expected to adopt the principles set therein for effective management of performance. Therefore, UNAIDS should be committed to ensuring that performance management within the Joint Programme are aligned to the framework, particularly in:

- a. identifying performance expectations that are tied to the organization's goals and objectives and at the same time ensuring that staff can fully develop and utilize their capabilities;
- b. providing for the recognition of performance as an important tool for improving productivity and morale at all levels;
- c. employing assessment tools which can be readily understood and easily communicated and ensuring that assessment tools measure performance that is consistent with the organization's goals;
- d. providing for dialogue and employing the concept of continuing feedback on performance;
- e. emphasizing the importance of clear communication at all levels with regard to the concept of performance management and its modalities, including expectations, assessments and consequences of performance; and
- f. including monetary and non-monetary awards that are based on a transparent and widely disseminated policy and are clearly tied to the performance or event concerned; monetary awards should not replace the need for a competitive remuneration package.

46. To emphasize the importance of performance management, the Joint Inspection Unit (JIU), in its report "Managing Performance and Contracts," highlighted performance management as an integral part of a system of responsibility, authority and accountability. Thus, it is expected that individual performance be accurately appraised against well-defined and measurable goals, and assessed through measurable indicators, as individual contribution to the strategic organizational goals. Consequently, managerial actions must flow from this appraisal, if Results-based Management (RBM) is to be genuinely institutionalized into the Joint Programme. The

JIU also suggested eight benchmarks on performance management in its report "Results-based Management in the United Nations in the Context of the Reform Process". These are:

- a. the main prerequisite for an effective performance management system is a change in the culture of the organizations concerned;
- b. performance management systems communicate and clarify organizational goals to staff and align individual performance expectations with organizational goals;
- c. performance management systems are seen as managerial tools that help the organizations run, direct and control their resources on a day-to-day basis;
- d. performance management systems are simple and easy to administer;
- e. performance management systems use appropriate and balanced measures for the achievement of goals;
- f. performance management systems ensure consistency in the assessment throughout a given organization;
- g. the results of performance appraisal are used as basis for appropriate personnel actions, and in career development; and
- h. performance management systems identify and address staff development needs and chronic underperformance.

47. The effective management of staff performance is a strategic priority and a key factor in delivering on the targets and commitments of UNAIDS.

48. Performance management in UNAIDS is governed by the Staff Regulations and Staff Rules, guided by the Performance Management Policy (PMP), and supported by the Competency Framework and Performance and Learning Management (PALM) system as tools that are intended to optimize performance management and to support a productive relationship between supervisors and their staff. A productive relationship that requires ongoing commitment to the fundamental practices of results-based performance management which includes effective planning, constructive feedback and objective evaluation of performance. As such, the tasks outlined in the policy should be seen as opportunities to strengthen communication, document results and

achievements and to identify areas for improvement. It operates as a continuous cycle and is intended to support and develop staff members throughout their career with UNAIDS.

*Performance Management Policy and Performance and Learning Management
as clear links to career development initiatives*

49. The ICSC Framework for Human Resources Management highlights the linkages between performance management systems and recruitment and retention, as well as career management and staff development. The JIU emphasized that performance management systems should provide objective and reliable input not only for managers to make informed decisions on recruitment, retention and staff development needs, based on individual merit within a transparent process, but also for staff to decide on their career goals. To realize this, organizations must be able to identify top performers through performance management systems as well as measure individual staff members' actual contribution to the achievement of the organizations' objectives. However, many still perceive the lack of any tangible impact of the assessment made of their performances on their careers as the "missing link" in the results chain being constructed.

50. The Inspectors also reported that many of the performance appraisal systems in place, however, still only measure individuals' performance through the achievement of results in the short term (normally annual cycles), and do not serve to identify the staff that possess the required competencies to develop long-term careers within the organization. They should be career management tools as well as appraisal tools.

51. As stated in one of the benchmarks, the results of performance appraisal are to be used as basis for appropriate personnel actions, and in particular for career development. Under career development, several UNAIDS initiatives were developed: Strategy on Human Resources, PMP, People Development and Performance Policy and Guidelines for UNAIDS Secretariat (PDP), Competency Framework and PALM.

52. The PMP is complemented by the PDP. Both tools apparently show how the results of staff members' performance appraisals would be utilized to assist staff toward their career goals. Performance appraisal of staff members is periodically undertaken, and staff profiles that include their career development objectives and action plans are linked to the competency framework and periodic performance appraisal.

53. The PMP provides that learning and development makes UNAIDS more effective as an organization. Staff members are encouraged to be proactive and to take responsibility for their development by identifying competencies, skills and knowledge that are prerequisites for effectively performing on the job and seeking opportunities to enhance their development through on-the-job-learning activities. It further suggested a two-step tactic:

Step 1: Identify and map your learning requirements. Spend time identifying what expertise and skills you need to achieve the work objectives for the year. Ask yourself, "What and where do I need to develop?" and "How can I make it happen?". It may help to review your performance over the past year. Summarize what you have achieved, your strengths and what you could have done better.

Step 2: Discuss your learning objectives and approaches with your supervisor and colleagues. Discuss with others to see if your learning objectives are appropriate and support your work objectives. Refining your learning objectives is an ongoing process but you may add or revise your objectives during the midterm review period.

54. Moreover, career direction should be developed and built upon learning pathways. The PDP provides that, *No one has completely mastered all of the UNAIDS competencies, regardless of the staff member's level and length of time in the organization. The competencies are aspirational and define excellence in performance.* The Competency Framework, however, can help all staff identify areas in which to improve, either to increase effectiveness in their present position or to build skills for a desired future position.

55. The Competency Framework emphasizes and discusses the core and managerial competencies as well as values. It apparently gives common language to describe good performance. It somehow outlines behaviour in each of the values and competencies and provides a venue to discuss both strengths as well as areas where development is needed in an agreed upon and transparent way. This is where the individual learning plans of staff members can be identified and drawn.

56. Performance appraisal should not only be a means to assess how each staff member is performing but it should more importantly be a tool to assist staff members in their career development thereby improving staff motivation, and to identify the existence of qualified and competent staff to assume vacancies and the lack of the required competencies as inputs to learning and development, and assistance to movements towards the desired career paths. The results of the performance appraisal through PALM would provide the inputs to competency gaps which could be addressed by learning initiatives. Thus, how individual performance appraisal results would be formally used to develop specific training and development plans for each staff member within the PDP should be responded to.

57. Since the PALM is in its second year and is anchored to both the PDP and the Competency Framework, all these would be better understood and defined if the PDP and the Competency Framework are well established and the PALM system is fully implemented and monitored. For this to happen, it is eminent for these policies and system the assurance of its proper implementation and monitoring. This also supports the identification and assessment of its lacunae; thus, installing its stronghold and serving the purpose for which it was created.

58. Management asserted that *UNAIDS' approach to performance and learning management is integrated at both the policy and system levels.*

Recommendation No. 3

For Management, through HRM, to ensure the full implementation and monitoring of performance management policies and system with emphasis in the area of staff career development as UNAIDS strengthens its management performance processes.

*Need for training of supervisors on performance management
and managing underperformance*

59. The PMP outlines the roles and responsibilities of the first-level and second-level supervisors, among others, as follows: (a) demonstrating the required managerial competencies to manage the performance of staff members being supervised; (b) coaching staff members on professional development, including identification of learning and developmental opportunities; and (c) mentoring the first-level supervisor on managerial competencies as necessary.

60. The Guidelines for Performance Improvement Plan (PIP) within the PMP underscores that PIP is required whenever performance is not meeting expectations and may lead to, or result in, a final performance rating of 2 “partially met” or 1 “did not meet” performance expectations. The PIP guidelines further highlights that: a) Supervisors must spend the necessary time providing staff with guidance, coaching and feedback; b) While recognizing and managing underperformance is an important aspect of a supervisor’s responsibilities, accepting and addressing one’s own professional short comings is also the responsibility of a staff member; and c) Underperformance should be identified and acted upon by a first level supervisor as early as possible to ensure a common understanding of expectations and to provide the staff member with an opportunity for improvement.

61. The PMP also includes managing underperformance which requires the first-level supervisor to provide recommendations on how performance can be improved

using his/her judgment to determine the period of time to do so in case a staff member under him underperforms. Underperformance may be exhibited in the failure to do the duties of the position, non-compliance with office policies, rules and procedures and unacceptable work ethics. Given these challenges, managing underperformance will require specific managerial skills for it to be dealt with more effectively in the same way as performance management would require specialized skills.

62. Managing performance including underperformance can pose some challenges to the Joint Programme for both the staff and the supervisors. Underperformance specifically needs to be addressed promptly and appropriately as staff members who perform well lose motivation if they are made to assume the workload of underperforming colleagues. Further, the ICSC considers that performance improvement measures should be integrated more explicitly into performance management strategies. The supervisors, in particular, would need clear procedures, organizational support and most of all the competence to handle underperformance issues. This may require cultivating the managers' skills and competencies for managing underperformance and tracking the actions taken in this regard through relevant training, which were found to be not integrated in the policy and procedures. Well-trained managers are better able to manage staff performance, and identify and address issues of underperformance.

63. Training on managing performance and underperformance is foreseen as part of the PMP and capacity building process which is needed to ensure an effective and consistent application of policy both from staff members and supervisors.

64. Mandatory training on performance management needs to be instituted for all staff particularly for those who supervise the work of others and this must be enabled by policies and procedures to afford clear controls and authority. Specific performance management components, such as providing feedback, setting goals and objectives, mentoring, and addressing underperformance, are to be reinforced through trainings to

equip staff and managers with the requisite skills to manage performance including underperformance more effectively.

Recommendation No. 4

For Management, through its HRM, to provide greater focus on training supervisors in managing performance to include the management of underperformance.

2.4 Asset Management – Asset Accountability Policy/Procedures

65. The Internal Control Framework of the World Health Organization invokes that internal control helps to achieve the Organization's objectives and sustains and improves performance and that it consistently seeks to strengthen the ways in which it achieves expected results, accountability and stewardship of resources. The Framework also declares that an effective internal control system helps an organization to safeguard resources against loss due to wastage, abuse, mismanagement, errors and fraud, among others.

66. Based on the preceding paragraph, it can now be stringed that the operational principles and objectives embraced by WHO flow from accountability and stewardship of resources applied through policies and procedures to mitigate risks and finally, the assessment of these control activities through monitoring done on a continuous basis. Integral in the whole scheme of internal control within the Organization, therefore, its asset protection and preservation and control activities putting into effect this control objective logically follow.

67. This internal control principle can be imbibed by the Joint Programme as it embarks on enhancing accountability and controls in its service deliveries, the disposition or courses of action of the Joint Programme intended to influence and determine decisions and actions on how its assets are managed need to be brought to

fore. The protection of tools, devices and equipment, otherwise known as "attractive items", need equal attention and protection particularly those that are provided to its personnel on temporary basis. The protection of these assets including the enabling policies and procedures are highlighted as to its significance since these will shore up support to the activities of the Property Disposal Committees globally.

68. Worth mentioning is the fact that these attractive items with a total acquisition cost of US\$443,483.87 are below the IPSAS threshold to be capitalized and only recorded in the Asset Registry which therefore necessitates stronger control and accountability mechanism.

69. We noted, based on Management representation, that the current mechanism of the Joint Programme relating to managing its assets is twofold: a) assignment of all equipment to a UNAIDS staff member during its lifecycle, together with a signed accountability form; and b) provision in the UNAIDS Secretariat Phone Policy and Policy on the Provision of Notebooks and Associated Facilities to Field Based Staff for financial recovery from the assigned staff member if the assigned equipment is lost or damaged.

70. We reviewed the policies furnished the Audit Team and noted several provisions treating on loss, theft, unauthorized use and the corresponding liability. We also noted that the provisions on losses or theft of an asset merely describe the responsibilities of staff members for asset loss but the underlying circumstances for asset loss are not defined. On the other hand, we determined that the asset management policy of the Pan-American Health Organization (PAHO) clearly defines these circumstances such as simple negligence, gross negligence and wilful misconduct. This piece of accountability information provides enough basis for the eventual defining of fiscal responsibility, an issue that is the main contention of PDC cases for loss of attractive items. With clearer circumstances, the Joint Programme can proceed to further enhance its accountability measures particularly those pertaining to asset loss due to

wilful misconduct or gross negligence where disciplinary actions against the guilty individual can be exacted apart from asset recovery measures.

71. With the aforementioned circumstances, we believe that it is essential that asset accountability procedures are established, operating as intended and that the levels of risk are appropriate and acceptable to the organization. In the current UNAIDS environment, it is vital that Management is able to demonstrate that resources are effectively managed, efficiently controlled and accountability instilled, especially to those organization assets that are often used, e.g., information technology, communication and office equipment. Gleaned from the policies discussed herein, there is a need for more explicit procedures to be in place. More than a signed accountability form, assurance must exist that events related to asset loss have been properly processed and that the required physical handling and control over assets exist to ensure that accountability deficit is addressed.

Recommendation No. 5

For Management to enhance its asset management procedures by incorporating the following:

- a) criteria defining various circumstances surrounding asset loss;**
- b) updated guidelines for documentation in case of asset loss; and**
- c) levels of administrative and fiscal responsibility for every type of circumstance defined as the cause of asset loss.**

C. DISCLOSURES BY MANAGEMENT

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

72. During the period 1 January 2015 to 31 December 2015, 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 2015 to 31

December 2015. These information are emphasized in Note 8 of the Notes to the Financial Statements.

D. IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS

73. We validated the implementation of External Audit Recommendations contained in the 2014 audit report. We noted that Management implemented all of the seven recommendations we provided; thereby, registering a 100% implementation. We recognize the prompt action by Management on the recommendations. Annex A presents the detailed analysis of the implementation of the recommendations.

E. ACKNOWLEDGEMENT

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

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

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

**3 April 2016
Quezon City, Philippines**

Annex A

Implementation of External Audit Recommendations in Prior Year

No.	Recommendation	External Auditor's Validation
1	Revisiting the existing programme policies and guidelines on agreements and arrangements with Cosponsors, including the grant of advance payments, under certain or special circumstances.	The External Auditor's recommendations primarily involve three aspects, namely: (1) issuance of specific guidance on advances, (2) review and revision of the provisions of LOA, and (3) strict observance of rules and practices on advances. Based on the actions made by Management which were supported with pertinent attachments, the External Audit recommendations have been addressed.
2	Enhancing the existing guidelines, by way of more specific Guidance Notes applicable exclusively to these agreements with Cosponsors, harmonizing them with internal rules and regulations obtaining in the respective Cosponsoring organizations. This could include the revision or enhancement of 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, to be done hand in hand, or in consultation with the Cosponsoring organizations, with careful consideration of their own rules and practices. This way, UNAIDS' own policies and efforts towards minimizing risks associated with programme budgeting vis-à-vis funding constraints need not be compromised or ignored altogether.	
3	Ensuring the strict and meticulous observance, including allowing only advance payments after having duly considered all prevailing circumstances and only in extreme cases, should existing rules and practices are already found adequate.	

<p>4</p>	<p>Initiate and propose an evaluation policy that is structured and with clearly-defined evaluation guidelines that is aligned with the UNEG Standards, which, ideally, should include the following:</p> <ul style="list-style-type: none"> i. Responsibilities of evaluators, senior management and programme managers 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. 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. 	<p>The External Audit recommendation to mainly initiate and propose a structured evaluation policy has been addressed by Management, though the evaluation policy is still awaiting approval</p>
<p>5</p>	<p>Enhance its existing guidelines on Contracts and Agreements, assess where weaknesses are evident, and determine where the challenges are present, in ensuring the faithful and</p>	<p>Management's actions sufficiently addressed the External Audit recommendations to enhance existing guidelines and to assess weaknesses and difficulties on</p>

	<p>complete compliance with reportorial requirements. Consider revisiting and, if at all, doing away with those that can be dispensed with, and strengthening those that are essential to contract monitoring and evaluation. Management also need to impose more strictly a rigid observance of the reporting requirements on the part of managers/persons responsible for contract management.</p>	<p>contracts and guidelines. Chapter 17 of the Procurement Manual was dedicated to this purpose, including the assignment of responsibilities for contract monitoring as well as reporting requirements for each type of contract. In addition, an internal mechanism has been developed to facilitate monitoring of contracts and status of outstanding financial and technical reports and payments due. An assessment of the effectiveness of these processes is also being conducted.</p>
6	<p>Take advantage of the momentum and milestones already gained by pushing forward towards comprehensive adoption of the Procurement Framework. Proceed with the dissemination of the Procurement Manual throughout the Secretariat and continuously conduct trainings throughout the Programme.</p>	<p>Management's actions comprehensively addressed the External Audit recommendations as pointed out in its responses. The Procurement Manual has been released, training materials have been developed, face-to-face training has also been conducted, and steps have been taken with the aim of embedding risk management throughout the Secretariat.</p>
7	<p>Sustain what has already been started in Enterprise Risk Management through continuous Committee meetings, with the end in view of finally adopting a comprehensive Risk Management Policy that is applied throughout the Programme to ensure that risk management is integrated in every activity or process of the Programme.</p>	<p>Management had addressed this recommendation.</p>