

FINANCIAL REPORTING

Interim financial management update for the 2018–2019 biennium for the period 1 January 2018 to 31 March 2018

Additional documents for this item: Financial report and audited financial statements for the year ended 31 December 2017 (Document: UNAIDS/PCB (42)/18.10).

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

- i. *Take note* of the interim financial management update for the 2018–2019 biennium for the period 1 January 2018 to 31 March 2018, including the replenishment of the Building Renovation Fund;
- ii. *Encourage* donor governments to make multi-year contributions and release their contributions towards the 2016–2021 Unified Budget, Results and Accountability Framework as soon as possible to fully fund the 2018–2019 budget of US\$ 484 million.

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I. INTRODUCTION

1. This document presents interim financial management information on the 2018–2019 biennium for the period 1 January 2018 to 31 March 2018. The presentation at the 42nd meeting of the Programme Coordinating Board (PCB) will include financial information up to 31 May 2018. The accounts and operations of the Joint United Nations Programme on HIV/AIDS (UNAIDS) are subject to continuous examination and review by both internal and external auditors of the World Health Organization (WHO).

II. THE UNIFIED BUDGET, RESULTS AND ACCOUNTABILITY FRAMEWORK FOR THE 2018–2019 BIENNIUM

Approved budget and work plan

2. At its 37th meeting in October 2015, the PCB approved the 2016–2021 Unified Budget, Results and Accountability Framework (UBRAF) with a core budget of US\$ 484.8 million for the 2016–2017 biennium (the same level as for the previous four biennia), and distribution of US\$ 310.2 million managed by the Secretariat and US\$ 174.6 million to be allocated among the 11 Cosponsors. The Board also requested the submission of a revised and more prioritized UBRAF for approval at the 38th meeting of the PCB.
3. At its 38th meeting in June 2016, the PCB approved the final, prioritized and more detailed 2016–2021 UBRAF based on the recommendation of the PCB working group on the development of the 2016–2021 UBRAF.
4. At its 40th meeting in June 2017, the PCB approved the 2018–2019 budget and the revised resource mobilization and allocation model. It approved an annual core budget of US\$ 184 million and distribution of US\$ 140 million to adequately resource the UNAIDS Secretariat; allocation of US\$ 22 million to be distributed among the eleven Cosponsors and a further allocation of US\$ 22 million to Cosponsors at country level in the form of country envelopes to leverage joint action in the Fast-Track countries and in support of populations in greatest need in other countries.
5. It also approved the allocation of additional resources in the form of supplemental funds totaling US\$ 58 million (US\$ 43 million for the Cosponsors and US\$ 15 million for the Secretariat) to address particular epidemic and country contexts, thus bringing the total resources to the level of a fully funded UBRAF (US\$ 484 million for 2018–2019 biennium).

Funds made available for the 2018–2019 biennium

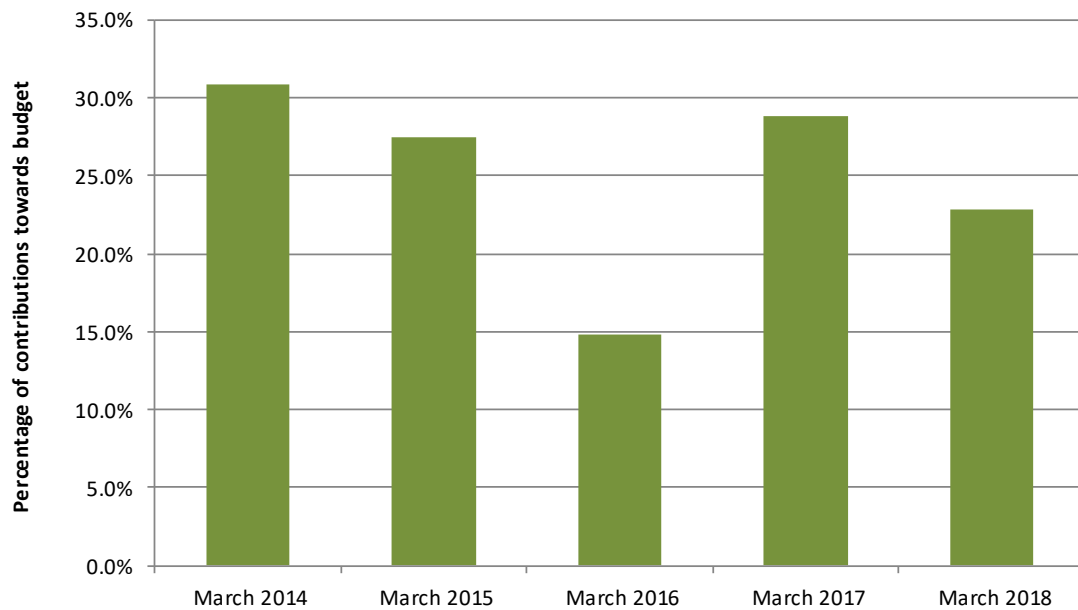
6. During the period under review revenue totaling US\$ 42.1 million from thirteen governments was made available towards year 2018 of the UBRAF. Table 1 provides the details of revenue attributed towards year 2018 of the 2018–2019 UBRAF during the period 1 January 2018 to 31 March 2018.

Table 1. Unified Budget, Results and Accountability Framework—details of revenue for the period 1 January 2018 to 31 March 2018 (in US dollars)

Voluntary contributions	Funds made available towards year 2018 of the Unified Budget, Results and Accountability Framework
Governments	
Andorra	36 810
Australia	3 640 777
Belgium	3 529 412
Belgium - Flanders	843 645
France	490 798
Germany	5 889 167
Japan	600 000
Monaco	37 267
New Zealand	708 717
Norway	16 579 518
Russian Federation	500 000
Thailand	100 000
United Kingdom of Great Britain & Northern Ireland	9 179 927
Total	42 136 038

7. Figure 1 compares the funds made available by 31 March of each year towards the UBRAF in 2014, 2015, 2016, 2017 and 2018. The funds listed below were made available by 31 March of each year of the biennium. A total amount of US\$ 42.1 million has been made available for year 2018 of the 2018–2019 UBRAF representing 22.9% of the annual core budget of US\$ 184 million, which is less than the amount made available for the same period in 2017 of US\$ 69.8 million or 29% of the annual approved budget of US\$ 242 million.
8. It should also be noted that out of the US\$ 42.1 million made available as at 31 March 2018, US\$ 30 million or 71% was only made available during March 2018. This highlights the need for donors who have already made commitments to pay the outstanding amounts, and for those donors who have not yet done so to pledge and pay their contributions to UNAIDS for 2018 in full.

Figure 1. Comparison of revenue made available as at 31 March of each year towards the Unified Budget, Results and Accountability Framework from 2014 to 2018



III. FUNDS EXPENDED AND ENCUMBERED UNDER THE 2018–2019 UNIFIED BUDGET, RESULTS AND ACCOUNTABILITY FRAMEWORK

9. During the period 1 January to 31 March 2018, expense and encumbrance (including transfers to Cosponsors) totaling US\$ 75.4 million were incurred against the core budget of US\$ 184 million for year 2018 of the 2018–2019 UBRAF which corresponded to a financial implementation rate of 41%.
10. The total expense and encumbrance for the implementation of the activities contained in the UBRAF were distributed as follows:
 - US\$ 44 million was transferred to the Cosponsors, and
 - US\$ 27.7 million was expended and US\$ 3.7 million encumbered for Secretariat activities and staff costs.
11. Table 2 provides details on year 2018 of the 2018–2019 UBRAF approved core budget, expense and encumbrances, broken down by result areas and the Secretariat core functions for the period 1 January 2018 to 31 March 2018.

Table 2. Year 2018 of the 2018–2019 Unified Budget, Results and Accountability Framework approved core budget, expense and encumbrances for the period 1 January 2018 to 31 March 2018 (in US dollars)

	2018 Approved core budget	2018 Expense	Encumbrance ^{a/}	Total	Balance	Percentage implementation
	(a)	(b)	(c)	(d) = (b + c)	(e) = (a - d)	(f) = (d / a)
I. Result Areas						
1 HIV testing and treatment	12 085 366	12 085 366		12 085 366	0	100.0%
2 Elimination of Mother To Child Transmission	3 894 198	3 894 198		3 894 198	0	100.0%
3 HIV prevention among young people	7 186 417	7 186 417		7 186 417	0	100.0%
4 HIV prevention among key populations	7 185 444	7 185 444		7 185 444	0	100.0%
5 Gender inequality and GBV	4 736 539	4 736 539		4 736 539	0	100.0%
6 Human rights, stigma and discrimination	3 760 099	3 760 099		3 760 099	0	100.0%
7 Investment and efficiency	2 103 996	2 103 996		2 103 996	0	100.0%
8 HIV and health services integration	3 047 941	3 047 941		3 047 941	0	100.0%
Total Cosponsors	44 000 000	44 000 000	0	44 000 000	0	100.0%
II. Core Functions						
1 Leadership, advocacy and communication	33 830 500	6 917 740	558 456	7 476 196	26 354 304	22.1%
2 Partnerships, mobilization and innovation	30 079 000	5 625 278	750 910	6 376 188	23 702 812	21.2%
3 Strategic information	15 887 500	3 154 152	682 954	3 837 106	12 050 394	24.2%
4 Coordination, convening & country implementation support	32 422 000	5 340 450	1 249 498	6 589 948	25 832 052	20.3%
5 Governance and mutual accountability	27 781 000	6 647 299	469 455	7 116 754	20 664 246	25.6%
Total Secretariat	140 000 000	27 684 920	3 711 273	31 396 193	108 603 807	22.4%
Grand Total	184 000 000	71 684 920	3 711 273	75 396 193	108 603 807	41.0%

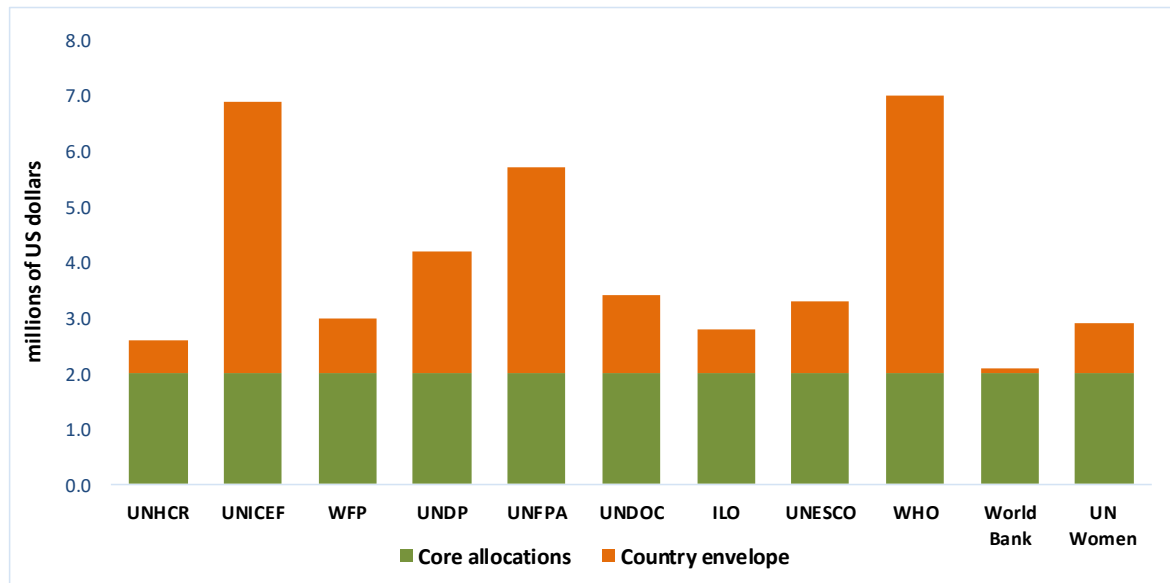
^{a/} Encumbrances represent firm commitment for goods and/or services which have not yet been delivered

Funds transferred to Cosponsors

12. As at 31 March 2018, a total amount of US\$ 44 million has been transferred to the Cosponsors. This represents 100% of the Cosponsors' share for year 2018 of the 2018–2019 biennium core budget. US\$ 2 million has been transferred to each of the 11 Cosponsors to cover their core activities and a further US\$ 22 million has been transferred to Cosponsors at country level in the form of country envelopes.
13. The country envelopes were established for 71 countries through a process which entailed engagement of the Cosponsor at all levels to reach consensus on the formula, process, deliverables and allocations. (Annex I provides details of funds transferred to Cosponsors at country level.)

14. Figure 2 illustrates the new, dynamic and differentiated resource allocation model and provides information on the proportion of funds transferred to each individual Cosponsor).

Figure 2. Funds transferred to Cosponsors as at 31 March 2018



Funds expended and encumbered against the Secretariat budget

15. During the period under review, a total amount of US\$ 27.7 million was expended and US\$ 3.7 million encumbered for Secretariat activities and staff costs against the Secretariat 2018 core budget of US\$ 140 million which together represent a financial implementation rate of 22.4% of the Secretariat part of the 2018 core budget.

IV. FUND BALANCE

16. The nature of UNAIDS as a voluntary funded programme requires a fund balance which serves as a working capital to initiate and implement activities at the beginning of each year, pending receipt of firm pledges/contributions. To ensure continuity of activities from one year to the next including allocating funding to Cosponsors, a sufficient fund balance at the end of each year is necessary to ensure the smooth start up and implementation of the UBRAF in the following year/biennium.
17. At its 26th meeting held in Geneva from 22–24 June 2010, the PCB approved a maximum level for the UBRAF net fund balance equivalent to 35% (i.e. US\$ 170 million) of the UNAIDS core biennial budget. Furthermore, at its 36th meeting held in Geneva from 30 June to 2 July 2015, the PCB established the minimum level for UNAIDS net fund balance equivalent to 22% of the UNAIDS biennial budget (i.e. US\$ 107 million) of the UNAIDS biennial budget.

18. As at 31 December 2017, the net fund balance of the UBRAF stood at US\$ 81.7 million or 16.8% of the biennial budget.¹ This is below the approved minimum level of 22% (or US\$ 107 million) of the biennial budget as approved by the PCB in June 2015.
19. It should be noted that although the net fund balance of the UBRAF is lower than the approved minimum level, the UNAIDS notwithstanding a challenging financial situation, has managed to maintain the net fund balance at the same level as in 2016. This has been possible through initiatives and measures put in place by the Secretariat to reduce costs and increase cost-effectiveness and efficiency including the repositioning exercise and maintaining the Cosponsors allocations at the same level in 2017 as in 2016.
20. As highlighted under paragraph 16, the fund balance of the UBRAF is the Joint Programme's working capital. It enables the transfer of funds to the Cosponsors at the beginning of each year and enables the Joint Programme to operate without interruption.
21. To guarantee the continued smooth operations of the Joint Programme, it is imperative that additional resources are mobilized in order to replenish the fund balance to its minimum level of US\$ 107 million as approved by the PCB.

V. STAFF-RELATED LIABILITIES

22. UNAIDS staff-related liabilities are determined by professional actuaries. As per the actuarial studies as at 31 December 2017, the total staff-related liabilities amounted to US\$ 162.9 million (US\$ 129.1 million as at 31 December 2016). Of this amount, US\$ 115.2 million or 71% is funded; the remaining balance of US\$ 47.7 million or 29% was unfunded (as detailed in Table 3).

Table 3. Staff-related liabilities as at 31 December 2017 (in millions of US dollars)

	Actuarial requirement end 2017	Accrued end 2017					Total Accrued	Under provision
		Funded	Appropriation from UBRAF in 2012	Appropriation from UBRAF in 2013	Appropriation from UBRAF in 2014			
After Service Health Insurance (ASHI)	143.7	66.7	13.9	5.0	6.2	91.8	(51.9)	
Annual leave	7.6	5.9	2.2	0.4	0.5	9.0	1.4	
Terminal payments	10.9	9.0	3.9	0.8	0.3	14.0	3.1	
Special account for compensation	0.7	-	0.0	0.2	0.2	0.4	(0.3)	
Total	162.9	81.6	20.0	6.4	7.2	115.2	(47.7)	

22. At its 30th meeting (held in June 2012), the PCB endorsed the Executive Director's recommendation to fully fund the organizational staff-related liabilities from the fund balance.

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

23. In view of the continuing financial challenges and given that the fund balance is still below its minimum approved level of US\$ 107 million, the Executive Director has decided not to transfer additional funds from the fund balance to cover staff-related liabilities for the time being pending the recovery of the current financial situation and the replenishment of the fund balance.
24. It should be noted that in 2011 UNAIDS unfunded staff liabilities stood at 46% and in the period 2012–2014, staff-related liabilities were funded from the fund balance in accordance with the decision of the PCB. As at 31 December 2017, 71% of UNAIDS staff-related liabilities were funded, which puts UNAIDS in a relatively good position compared to most UN agencies, who have 20–60% of their staff-related liabilities funded.

VI. BUILDING RENOVATION FUND

25. At its 30th meeting in June 2012, the PCB endorsed the Executive Director's recommendation to establish a Building Renovation Fund. It also approved the annual replenishment of the fund for an amount equivalent to the accumulated depreciation of the UNAIDS building (or such other amount as might be determined by the PCB). In line with the decision of the PCB, the Executive Director has decided to put aside US\$ 0.43 million in 2018 for the Building Renovation Fund, which is the same amount as in the last six years.

[Annexes follow]

Annex I

Table 1. 2018 Country Envelopes: Details of funds transferred to Cosponsors at country level (in US dollars)

Region	Country	UNHCR	UNICEF	WFP	UNDP	UNFPA	UNODC	ILO	UNESCO	WHO	World Bank	UN WOMEN	Total	
Asia and Pacific	Bangladesh		45 000			40 000				65 000			150 000	
	China				55 000			65 000	59 000	61 000		60 000	300 000	
	India		240 000		120 000	100 000	150 000	100 000	100 000	190 000			1 000 000	
	Indonesia		60 000			40 000	105 000	55 000		165 000		75 000	500 000	
	Malaysia	70 000			30 000					50 000			150 000	
	Myanmar		50 000	110 000		50 000	30 000		30 000	30 000			300 000	
	Pakistan				50 000	75 000	50 000			125 000			300 000	
	Papua New Guinea		50 000			25 000				50 000		75 000	200 000	
	Philippines		90 000			100 000	100 000	80 000		180 000			550 000	
	Thailand		70 000			50 000					30 000		150 000	
	Viet Nam		33 000					51 000		129 000		87 000	300 000	
Total Asia and Pacific		70 000	638 000	110 000	405 000	430 000	466 000	220 000	189 000	1 045 000	30 000	297 000	3 900 000	
Europe	Belarus		41 000		29 500	54 500				25 000			150 000	
	Kazakhstan		67 000				67 000		16 000				150 000	
	Kyrgyzstan		36 000			50 000	40 000		24 000				150 000	
	Moldova		50 000			54 000				46 000			150 000	
	Tajikistan		65 000			10 000	37 000			38 000			150 000	
	Ukraine		100 000			45 000	65 000			90 000			300 000	
	Uzbekistan		50 000				100 000						150 000	
	Total Europe		-	409 000	-	29 500	213 500	309 000	-	40 000	199 000	-	-	1 200 000
East and South Africa	Angola		100 000		90 000	45 000				65 000			300 000	
	Botswana		45 000		72 000	50 000			40 000	46 000	25 000	22 000	300 000	
	Ethiopia	72 000		28 000		56 000	56 000		56 000	112 000		20 000	400 000	
	Kenya	51 350	78 200	51 350	79 900	70 000	70 000	60 000	74 900	64 300			600 000	
	Lesotho		88 200	30 000	32 600	55 100			36 900	57 200			300 000	
	Madagascar		72 000		44 000	45 000		8 000	8 000	43 000			220 000	
	Malawi	20 000		60 000	60 000	100 000	20 000		30 000	70 000		90 000	450 000	
	Mozambique		220 100		299 800	220 100		77 900		282 100			1 100 000	
	Namibia		95 000		40 000	100 000			35 000	30 000			300 000	
	Rwanda		92 000			97 000				91 000			280 000	
	South Africa		297 000			80 000	131 000	90 000		70 000	297 000	65 000	70 000	1 100 000
	South Sudan	15 000		30 000		53 000				30 000	80 000		208 000	
	Swaziland			60 000		90 000				50 000	100 000		300 000	
	Tanzania		225 000		30 000	58 000	35 000	155 000	55 000	87 000	20 000	35 000	700 000	
	Uganda		120 000	70 000	80 000	100 000		50 000	20 000	80 000		80 000	600 000	
	Zambia		125 000			95 000	125 000			80 000	125 000			550 000
Zimbabwe		50 000	45 000	115 000	55 000		40 000	40 000	50 000		55 000	450 000		
Total East and South Africa		158 350	1 607 500	374 350	1 023 300	1 420 200	396 000	390 900	625 800	1 679 600	110 000	372 000	8 158 000	
Latin America and Caribbean	Argentina				52 000	41 000				87 000			180 000	
	Brazil		90 000		100 000	115 000			95 000				400 000	
	Colombia				35 000	60 000				60 000		25 000	180 000	
	Cuba		40 000			50 000				60 000			150 000	
	Dominican Republic		36 000	28 000	22 000	28 000	28 000			28 000			170 000	
	Ecuador		50 000			50 000				50 000			150 000	
	Guatemala		26 000	18 000		24 000		10 000	19 000	38 000		17 000	152 000	
	Haiti		75 750		41 000	68 000			35 000	80 250			300 000	
	Jamaica		65 000		30 000	55 000				100 000		50 000	300 000	
	Peru		42 500			51 000			24 000	32 500			150 000	
	Venezuela	44 000	68 500			52 000				85 500			250 000	
Total Latin America and Caribbean		44 000	493 750	46 000	280 000	594 000	28 000	10 000	173 000	621 250	-	92 000	2 382 000	
Middle East and North Africa	Egypt		30 000				100 000			20 000			150 000	
	Iran	50 650	54 100			59 150	55 250			80 850			300 000	
	Somalia			55 000	40 000	55 000							150 000	
	Sudan		48 000							152 000			200 000	
Total Middle East and North Africa		50 650	132 100	55 000	40 000	114 150	155 250	-	-	252 850	-	-	800 000	

Annex I continued

Region	Country	UNHCR	UNICEF	WFP	UNDP	UNFPA	UNODC	ILO	UNESCO	WHO	World Bank	UN WOMEN	Total
West and Central Africa	Benin		34 450	28 000	28 000					59 550			150 000
	Burkina Faso	20 000	50 000	30 000	26 000	20 000				30 000			176 000
	Burundi		42 000	15 000			32 000			46 000		15 000	150 000
	Cameroon	20 000	75 000	20 000	20 000	50 000		30 000	30 000	75 000		30 000	350 000
	Central African Republic	35 800	62 600	40 300	17 900	44 700				40 300		22 400	264 000
	Chad	20 000	100 000	20 000		80 000			20 000	60 000			300 000
	Côte d'Ivoire	20 000	60 000	20 000	15 000	85 000		10 000	30 000	60 000			300 000
	Democratic Republic of Congo	50 000	75 000	35 000	35 000	20 000			35 000	50 000			300 000
	Equatorial Guinea		45 000		20 000	45 000				40 000			150 000
	Gabon		37 500			37 500			37 500	37 500			150 000
	Ghana		60 000		60 000	60 000			60 000	60 000			300 000
	Guinea Conakry		65 000	25 000	25 000	75 000				30 000			220 000
	Liberia	20 900	21 400	21 950	22 200	20 500			20 150			22 900	150 000
	Mali		130 000			70 000				100 000			300 000
	Niger	35 000	75 000	40 000									150 000
	Nigeria		300 000		50 000	165 000	50 000	140 000		345 000		50 000	1 100 000
	Republic of Guinea-Bissau		67 000	30 000		35 000				24 000			156 000
Republic of the Congo	15 000	40 000	20 000	15 000	35 000				51 000			176 000	
Senegal		40 000						40 000	70 000			150 000	
Sierra Leone		199 300	108 700									308 000	
Togo		64 500		40 000	45 500							150 000	
Total West and Central Africa		236 700	1 643 750	453 950	374 100	920 200	50 000	180 000	272 650	1 178 350	-	140 300	5 450 000
Grand Total		559 700	4 924 100	1 039 300	2 151 900	3 692 050	1 404 250	800 900	1 300 450	4 976 050	140 000	901 300	21 890 000 ^(a)

^(a) In addition to the above amount, a total of US\$ 100,000 was agreed to be transferred to IOM country offices (Guatemala for US\$ 18,000 and South Sudan for US\$ 92,000) in consultation with the respective UN Country Teams

Annex II



May 2018

REPORT OF THE INTERNAL AUDITOR FOR 2017

1. The Office of Internal Oversight Services (IOS) of the World Health Organization transmits herewith its annual report for the year 2017 for the information of the PCB of the Joint United Nations Programme on HIV/AIDS (UNAIDS).

Objective and scope

2. IOS provides an independent and objective assurance and advisory activity, which is designed to add value to and improve the operations of UNAIDS. Work is conducted in accordance with the International Professional Practices Framework promulgated by the Institute of Internal Auditors. The standards provided by the Institute have been adopted for use throughout the United Nations system and provide independent, authoritative guidance designed to ensure an effective oversight function.
3. Using a systematic and disciplined approach, IOS helps UNAIDS accomplish its objectives by evaluating and improving the effectiveness of processes for risk management, control and governance. IOS is authorized full, free and prompt access to all records, property, personnel, operations and functions within UNAIDS which, in its opinion, are relevant to the subject matter under review.
4. The scope of work was to evaluate whether the framework of processes for risk management, control and governance, as designed and implemented by UNAIDS management, was adequate and functioning in a manner so as to fulfil specific purposes. In particular, IOS assessed that: (a) significant financial, managerial and operating information was accurate, reliable and timely; (b) staff actions complied with UNAIDS and WHO regulations, rules, policies, standards and procedures; and (c) resources were acquired economically, used efficiently, and protected adequately.
5. IOS provides oversight services to UNAIDS in accordance with the Memorandum of Understanding of 9 January 2008 between IOS and UNAIDS.

Methodology

5. IOS views risk as the possibility of an event occurring that will influence the achievement of objectives. In order to ensure that its available audit resources are focused on the areas of highest risk, IOS uses a risk assessment model. This model supports professional judgments made in the prioritization of the annual plan of work.
6. The model comprises three basic components: (i) the audit universe of the budget centres drawn from the Enterprise Resource Planning (ERP) system (WHO Global Management System (GSM) database); (ii) a set of weighted risk parameters which are applied consistently to obtain a relative risk ranking of entities in the audit universe; and (iii) a further screening against specific risk factors. The risk assessment process incorporates both subjective and objective measures—such as financial exposure,

recent changes in staff or systems, and the internal control environment—which determines the relative risk of the auditable areas.

7. The results of the updated audit risk assessment had been discussed with UNAIDS management and a plan of work had been drawn up for the year 2017. IOS modified this agreed plan of work during 2017, further to subsequent request from UNAIDS management to focus on Regional Support Teams (RST MENA and RST EECA) and to include an additional Country Office (UCO/Kazakhstan). These requested changes met the criteria for identification of auditees per the IOS audit risk assessments. As a consequence of the changes in priorities, one cross cutting functional audits (Agreements for Performance of Work) was carried forward to 2018.
8. The main findings from IOS reports issued in 2017 are summarized hereafter.

Audits

Headquarters and crosscutting functions

9. *Resource Mobilization at UNAIDS Headquarters (Audit Report No. 17/1117)*. The audit found that the overall effectiveness of risk management and control activities in the area of Resource Mobilization at UNAIDS is partially satisfactory with some improvement required.
10. The recently issued Resource Mobilization Strategy is a positive step to help ensure sustainable funding for the programme.
11. To diversify its funding sources, UNAIDS should continue and reinforce its efforts to increase partnerships with non-traditional donors, such as the private sector and middle-income countries, and by improving its participation in joint UN funding initiatives. While multidonor trust funds are an important financing tool for the UN, the engagement of UNAIDS in these funds has been declining. UNAIDS should further develop a sustainable strategy for the private sector and design procedures and processes for fundraising with these partners.
12. At UNAIDS, staff invest significant time developing and following multiple resource mobilization strategies and plans at various levels. Up to December 2017, the separate strategies were often not aligned with the UBRAF (UBRAF), although the newly issued resource mobilization strategy paper indicates that this issue has now been addressed. Insufficient communication results in time-consuming and fragmented fundraising efforts. It would be helpful to consult with key stakeholders to optimise the priorities in these efforts. There is an expectation mismatch as internal stakeholders often expect the Programme Partnerships and Fundraising Department (PPF) to be more proactive in mobilizing resources instead of coordinating dialogue between donors and sectors.
13. Performance monitoring of resource mobilization needs to be strengthened by adopting key performance indicators to facilitate the comparison of the efforts to the funds raised in order to track resource mobilization performance. A geographical coordinated strategy also needs to be developed for Amplifiers (e.g. Goodwill Ambassadors).
14. Approval thresholds need to be standardized and the administrative burden for smaller donations should be minimized as well as the delegation of authority for signing donor agreements consistently documented.

15. Further resource mobilization opportunities should be explored, taking into account the changing financing architecture, by (i) a more proactive and focused approach to private sector funding, including designing procedures and processes for fund raising with private philanthropists, and (ii) consider alternative and innovative fund raising tools.
16. IOS considers that, UNAIDS needs to strengthen its resource mobilization capacity. A structured approach to develop resource mobilization capacity at HQ and in the field needs to be developed (e.g. use of knowledge centre for resource mobilization), supplemented by training for staff on how to effectively mobilize resources.
17. In the area of effectiveness and efficiency, (i) documentation of handover notes from key staff that separates from UNAIDS requires improvement, (ii) the assessment of emerging non-governmental donors should be expanded; and (iii) contracts with “fund-raising event-support” vendors should be reviewed in a timely manner to ensure that no restrictive clauses are included that would limit UNAIDS’ negotiating capacity in the face of competitive entities.

Regional Support Teams

18. *UNAIDS Regional Support Team for the Eastern Europe and Central Asia, Moscow (Audit Report No. 17/1121)*. The audit found that the overall effectiveness of risk management and control processes in the areas of administration and finance of the RST was partially satisfactory, with some improvement required. Control deficiencies with a high level of residual risk which need to be rectified promptly were found in the following areas:
 - (a) Compliance with rules and regulations: (i) contracts were signed and approval from the Programme Review Committee (PRC) was obtained in multiple cases after the activity start date; and (ii) sufficient valid bids were not collected for some procurement of services transactions and the reason for this was not documented accordingly in the adjudication reports.
 - (b) Effectiveness and efficiency: (i) Contract Review Committee (CRC) approval was not obtained for the rental contract that exceeded US\$ 200 000.
 - (c) Reliability and integrity of financial information: assurance activities of implementing partners such as spot checks had not been conducted on a regular basis.
19. *UNAIDS Regional Support Team for the Middle East and North Africa, Cairo (Audit Report No. 17/1102)*. The audit found that the overall effectiveness of risk management and control processes in the areas of administration and finance of the RST is partially satisfactory with some improvement required. Control deficiencies with a high level of residual risk which need to be rectified promptly were found in the following areas:
 - (a) Compliance with rules and regulations: (i) contracts were signed in multiple cases after the activity start date; (ii) the basis of the calculation of cost-sharing for utilities and office space needs to be reviewed in coordination with WHO; and (ii) sufficient valid bids were not collected for some procurement transactions and the reason for this was not accordingly documented in the adjudication reports.

- (b) Safeguarding of assets: key functions in procurement and finance have not been sufficiently segregated for during a transitional period which was also due to the fact that key positions recruitment have not been finalized.
- (c) Reliability and integrity of financial information: (i) the recruitment for some key positions needs to be finalized and all posts in the Human Resources Plan should reflect the situation at the duty station; and (ii) information in the fixed assets register needs to be updated.

Country Offices

20. *Country Office in Egypt, Cairo (Audit Report No. 17/1110)*. The audit found that the overall effectiveness of risk management and control processes in the areas of administration and finance of the UCO is partially satisfactory with some improvement required. Control deficiencies with a high level of residual risk which need to be rectified promptly were found in the following areas:
- (a) Compliance with rules and regulations: (i) contracts were signed in multiple cases after the activity start date; (ii) three valid bids were not collected for some procurement transactions and the reason for this was not adequately documented in the adjudication reports; (iii) a memorandum of understanding has not been signed yet with the current co-host UNFPA; and (iv) security issues with the current security company need to be addressed.
 - (b) Reliability and integrity of financial information: (i) erroneous contract modalities have been selected for individuals; and (ii) the information in the fixed assets register requires being updated and adjusted.
21. *Country Office in Kazakhstan, Almaty (Audit Report No. 17/1122)*. The audit found that the overall effectiveness of risk management and control processes in the areas of administration and finance of the UCO—and also taking into consideration the relatively low volume of transactions—is satisfactory. Control deficiencies with a high level of residual risk which need to be rectified promptly were found in the following areas:
- (a) Compliance with rules and regulations: for funds received from local donors, the UCO should establish a formal process of reporting to demonstrate a high level of accountability to the donors.
 - (b) Efficiency and effectiveness: In the area of Direct Financial Cooperation and Programme Funding Agreements, the quality of deliverables, in particular financial reports, require a more scrutinized review of supporting documentation in order to validate the information provided by the implementing partners.
22. *Country Office in the United Republic of Tanzania, Dar-Es-Salaam (Audit Report No. 17/1101)*. The audit found that the overall effectiveness of risk management and control processes in the areas of administration and finance of the UCO is partially satisfactory with major improvement required. Control deficiencies with a high level of residual risk which need to be rectified promptly were found in the following areas:
- (a) Safeguarding of assets: (i) the basis of the calculation of cost sharing for utilities and office space needs to be reviewed in coordination with UNDP; and (ii) a move to a stand-alone office versus staying at the UN House should be assessed in order to significantly decrease the expenditure on operating costs which is the UCO highest expenditure after staff costs.

- (b) Compliance with rules and regulations: (i) the Contract Review Committee (CRC) was not consulted by Headquarters or the UCO for an expenditure that required the approval of the CRC (office space/cost sharing); and (ii) three valid bids were not collected for some procurement transactions and the justification for this was not documented in the related adjudication reports.
- (c) Effectiveness and efficiency: Deliverables (technical and financial reports) were not always received in a timely manner from the implementing partners for PFAs and DFCs.
- (d) Reliability and integrity of financial information: The activity budget of the UCO should be reviewed in order to ensure that the UCO will be able to adequately support the Government for priority activities. Considerations should be given to redeploy funds that can be saved through cost saving initiatives in operations (e.g. rent).

Good practices

23. IOS also noted the following good practices:

- The recently developed Resource Mobilization Strategy identified shortcomings, challenges and areas of improvement:
 - UNAIDS has a wide range of donors with and increasing number of non-government donors and finance dialogue with the governing board on a regular basis;
 - investment books are being developed to demonstrate the return on investment to the donor for each country; and
 - improved coordination of resource mobilization efforts with the Organization's communication and public information functions has helped to promote the image of UNAIDS as a valued partner in the eyes of its donors and potential partners.
- In some regions, the relationship with the Government reinforces the work of the Organization, also with the support of the First Ladies;
- In regions with a low country presence, the RST manages the countries remotely effectively, setting a good example of investing and building on national staff at the country level;
- Design of contract database that captures all important data for monitoring contracts;
- Proactive workplan implementation monitoring on a regular basis; and
- Technical support at country level to the Government has led to a significant cost saving in procurement of antiretroviral medication.

Investigations

24. During 2017, one new matter of alleged misconduct was referred to IOS for review (Table 1).

Table 1. Summary of reports of concern, by type, for the period 2015–2017

Types of reports of concern	2015	2016	2017
Fraud	0	3	1
Failure to comply with professional standards	1	2	0
Harassment	0	2	0
Sexual harassment	0	1	0
Sexual exploitation and abuse	0	0	0
Total	1	8	1

25. The reports of concern are subject to the Office of Internal Oversight Services standard intake committee review process to assess the nature of the allegations and the need for a full investigation. In relation to the 8 matters reported in 2016 (referred to in Table 1), two cases of reported fraud were closed and included in last year's report. A third case of suspected fraud and mismanagement was closed following the preliminary review, which found the matter to be unsubstantiated.
26. During 2017, the Office also supported UNAIDS management in the review and investigation of allegations of sexual harassment and harassment, (respectively one case and two cases). The Office has completed the related investigations and found insufficient evidence to support the allegations. A further two cases of alleged failure to comply with professional standards and mismanagement are currently under investigation. In accordance with standard procedures, once the investigations are completed the related investigation report is normally forwarded to the UNAIDS Executive Director for consideration of the findings, and decision on any related disciplinary or other measures, as applicable.

Follow-up and implementation

27. IOS monitors the implementation of all its recommendations to ensure either, that action has been taken effectively by management or that senior management has accepted the risk of not taking action. Reporting on and monitoring of each individual audit recommendation is performed with the assistance of a recommendation-tracking database maintained by IOS. Audit recommendations are categorized by risk category, significance and implementation effort.
28. As of 30 May 2018, IOS was able to close seven audits (12/910, 12/913, 14/971, 15/982, 15/988, 15/989 and 16/1047). There are four long outstanding audits, for which IOS has not received an update recently or no initial response has been obtained (12/895, 14/968, 15/997 and 16/1035). For all other audits, responses have been received in 2018.

Overall

29. At the conclusion of each assignment, IOS prepared a detailed report and made recommendations to management designed to help manage risk, maintain controls and implement effective governance within the Secretariat. Crucial issues identified

during each assignment have been summarized in this report. In accordance with the harmonization of practices across United Nations Agencies, IOS uses a four-tier rating system for its overall conclusions on audits, namely: (i) satisfactory; (ii) partially satisfactory with some improvement required; (iii) partially satisfactory with major improvement required; and (iv) unsatisfactory. In 2017, one audit was found to be “satisfactory”, four audits were found to be “partially satisfactory” with improvement required in some areas and one was found to be “partially satisfactory” with major improvement required.

30. We are satisfied with the continuous progress on implementation of audit recommendations; however, we note that recurring issues have been noted in the following areas requiring a more “holistic approach” to achieve sustainable improvements in these high risk areas:
- Regular review of user access rights to ERP and update the required access rights;
 - Non-compliance with procurement procedures with recurring situations where a sole supplier was indicated as the reason for not following a competitive bidding process;
 - Discrepancies between the information contained in the fixed assets register and physical verification;
 - Insufficient internal coordination between Headquarters, Regional Support Teams and Country Offices resulting in inefficiencies in administrative procedures which negatively impact programme implementation; and
 - Following the reorganization, to take decisions for key recruitment of positions in Country Offices and Regional Support Teams (e.g. Fast track advisers and operational staff).

Main operational risks and opportunities facing UNAIDS

31. The UNAIDS Risk Management process was initiated in 2013. The Risk Register was finalized in 2017 and shared with IOS at the beginning of 2018. This is an essential document for the work of IOS to assess management’s detailed assertions of risk. An external audit of this area is planned for 2018.
32. Reputational risks have increased recently with the outcome of investigations that have been conducted in 2017. Internal and confidential information has been leaked to the public and therefore could negatively impact the image of the Organization with donors and member states.

Action by the Programme Coordinating Board

33. The PCB is invited to *take note* of this report.

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