



UNAIDS PROGRAMME COORDINATING BOARD

UNAIDS/PCB (32)/13.7
Issue date: 26 May 2013

THIRTY-SECOND MEETING

Date: 25-27 June 2013

Venue: Executive Board Room, WHO, Geneva

Agenda item 4.2

Financial reporting

Interim financial management update for the 2012–2013 biennium for the period 1 January 2012 to 31 March 2013

Additional documents for this item: Financial report and audited financial statements for the year ended 31 December 2012 (Document: UNAIDS/PCB(32)/13.6).

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

- i. *Take note* of the interim financial management update for the 2012-2013 biennium for the period 1 January 2012 to 31 March 2013;
- ii. *Encourage* donor governments to release their contributions towards the 2012-2015 Unified Budget, Results and Accountability Framework as soon as possible;
- iii. *Take note* of the partial funding of staff-related liabilities and the replenishment of the Building Renovation Fund.
- iv. *Take note* of the actions taken by the Executive Director to mitigate the long term impact of currency fluctuations.

Cost implications of decisions: US\$ 6.8 million

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I. INTRODUCTION

1. This document presents interim financial management information on the 2012–2013 biennium, for the period 1 January 2012 to 31 March 2013. The presentation at the 32nd meeting of the Programme Coordinating Board will include financial information up to 31 May 2013. The audited financial statements of UNAIDS up to the end of 2011 covered two consecutive calendar years, beginning with an even-numbered year. However, to comply with the International Public Sector Accounting Standards (IPSAS) which are being applied as from 1 January 2012, annual audited financial statements have been prepared at the end of 2012 and will be prepared in subsequent years.
2. The accounts and operations of UNAIDS are subject to continuous examination and review by both internal and external auditors of WHO, which provides administration in support of the Programme as per Economic and Social Council of the United Nations (ECOSOC) resolution 1994/24, and Article XI of the Memorandum of Understanding among Cosponsors establishing UNAIDS.

II. THE UNIFIED BUDGET, RESULTS AND ACCOUNTABILITY FRAMEWORK FOR THE 2012–2013 BIENNIUM

Approved Budget and Workplan

3. At its 28th meeting in June 2011, the Programme Coordinating Board approved the 2012-2015 Unified Budget, Results and Accountability Framework with a request to further strengthen the results, accountability and budget matrix which was endorsed by the Programme Coordinating Board at its 29th meeting.¹ Furthermore, at its 28th meeting, the Programme Coordinating Board also approved the core budget for 2012-2013 in the amount of US\$ 484.8 million (the same level as for the previous two biennia) and the distribution of US\$ 320.3 million for the Secretariat and US\$ 164.5 million to be shared among ten Cosponsors.²

Funds made available for the 2012-2013 biennium

4. During the year ended 31 December 2012 revenue totaling US\$ 220.2 million was made available towards the Unified Budget, Results and Accountability Framework. In addition to the above US\$ 56.6 million was made available during the period 1 January 2013 to 31 March 2013 which together represents total revenue of US\$ 276.8 million for the period under review. Thirty governments contributed 97.6% of this amount, and the World Bank contributed 1.3% of this amount. The remaining 1.1% is made up of financial revenue (primarily interest earnings) received and apportioned during the reporting period as well as miscellaneous income, including funds received from public institutions and private contributors other than governments, miscellaneous donations and honoraria received. Table 1 provides the details of revenue attributed towards the 2012-2013 Unified Budget, Results and Accountability Framework during the period 1 January 2012 to 31 March 2013.

¹ Decision 8.1 of the 29th meeting of the Programme Coordinating Board refers.

² When the 2012-2013 Unified Budget, Results and Accountability Framework was approved in June 2011, UNAIDS was composed of ten Cosponsors. UN Women, became UNAIDS eleventh Cosponsors in June 2012.

Table 1: Unified Budget, Results and Accountability Framework – details of revenue for the period 1 January 2012 to 31 March 2013 (in US dollars)

| Voluntary contributions | Funds made available towards the 2012-2013 Unified Budget, Results and Accountability Framework | | |
|--|--|-------------------|--------------------|
| | 2012 | 2013 | Total |
| Governments | | | |
| Andorra | 37 313 | | 37 313 |
| Australia | 5 749 150 | | 5 749 150 |
| Belgium | | 7 399 741 | 7 399 741 |
| Canada | 5 400 000 | | 5 400 000 |
| China | 150 000 | | 150 000 |
| Czech Republic | 51 219 | | 51 219 |
| Denmark | 6 956 522 | 6 956 522 | 13 913 044 |
| Finland | 11 940 299 | | 11 940 299 |
| Flemish Government | 1 111 111 | 1 111 111 | 2 222 222 |
| France | 796 813 | | 796 813 |
| Germany | 3 474 867 | 3 344 929 | 6 819 796 |
| Ireland | 4 254 305 | 471 229 | 4 725 534 |
| Israel | 62 500 | 62 500 | 125 000 |
| Japan | 3 006 325 | 3 135 802 | 6 142 127 |
| Luxembourg | 4 847 277 | 4 889 319 | 9 736 596 |
| Leichtenstein | 26 882 | | 26 882 |
| Monaco | 186 794 | | 186 794 |
| Netherlands | 24 875 622 | 26 178 010 | 51 053 632 |
| New Zealand | 2 938 950 | 1 237 500 | 4 176 450 |
| Norway | 29 400 279 | | 29 400 279 |
| Poland | 264 436 | | 264 436 |
| Portugal | 129 870 | | 129 870 |
| Russian Federation | 500 000 | | 500 000 |
| Sweden | 41 122 677 | 1 636 401 | 42 759 078 |
| Switzerland | 5 376 344 | | 5 376 344 |
| Thailand | 98 917 | 100 000 | 198 917 |
| The Republic of Korea | 100 000 | | 100 000 |
| Turkey | 100 000 | | 100 000 |
| United Kingdom of Great Britain and Northern Ireland | 15 698 587 | | 15 698 587 |
| United States of America | 45 000 000 | | 45 000 000 |
| Sub-total | 213 657 059 | 56 523 064 | 270 180 123 |
| Cosponsoring organizations | | | |
| World Bank | 3 500 000 | | 3 500 000 |
| Sub-total | 3 500 000 | | 3 500 000 |
| Other | | | |
| United Nations Federal Credit Union | 12 840 | | 12 840 |
| Miscellaneous | 249 613 | | 249 613 |
| Sub-total | 262 453 | | 262 453 |
| Total operating revenue | 217 419 512 | 56 523 064 | 273 942 576 |
| Financial revenue | | | |
| Interest | 2 828 966 | | 2 828 966 |
| Sub-total | 2 828 966 | | 2 828 966 |
| TOTAL | 220 248 478 | 56 523 064 | 276 771 542 |

5. Table 2 compares the funds contributed towards the Unified Budget and Workplan (UBW) for 2006–2007, 2008–2009, 2010–2011 and the Unified Budget, Results and Accountability Framework for 2012–2013 by 31 March of 2007, 2009, 2011 and 2013 for the relevant biennium. The percentage of funds made available against the 2012–2013 Unified Budget, Results and Accountability Framework stands at 57.1% which is slightly lower than in previous biennia. 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 2013 in full.

Table 2: Percentage of revenue recognized against the UBW/Unified Budget, Results and Accountability Framework by 31 March in 2007, 2009, 2011 and 2013

| | 31 March 2007 | 31 March 2009 | 31 March 2011 | 31 March 2013 |
|--|------------------|------------------|------------------|------------------|
| Approved level of the UBW/UBRAF in the concerned biennium (in thousands of US dollars) | 406 700 | 484 820 | 484 820 | 484 820 |
| Revenue recognized against the UBW/UBRAF (in thousand of US dollars) | 245 240 | 421 680 | 279 341 | 276 772 |
| Percentage of revenue recognized against the UBW/UBRAF funding requirement | 60.3% | 87.0% | 57.6% | 57.1% |

III. FUNDS EXPENDED AND ENCUMBERED UNDER THE 2012-2013 UNIFIED BUDGET, RESULTS AND ACCOUNTABILITY FRAMEWORK

6. During 2012 a total of US\$ 239.8 million was expended and encumbered against the budget of US\$ 484.8 million approved for the 2012–2013 Unified Budget, Results and Accountability Framework. In addition to the above amount, US\$ 68.1 million was expended and encumbered (including transfers to Cosponsors) during the period 1 January 2013 to 31 March 2013, together represent a total amount of US\$ 307.9 million, which corresponds to a financial implementation rate of 63.5%³. The total expense and encumbrance for the implementation of the AIDS activities contained in the Unified Budget, Results and Accountability Framework were distributed as follows:
- US\$ 108.6 million was transferred to Cosponsors; and
 - US\$ 185.6 million was expended and US\$ 13.7 million encumbered for Secretariat activities and staff costs.
7. Table 3 provides details on the 2012-2013 Unified Budget, Results and Accountability Framework approved allocations, expense and encumbrance broken down by the strategic directions and functions for the period 1 January 2012 to 31 March 2013.

³ Encumbrance equals a firm commitment for goods and/or services which have not yet been delivered.

Table 3: 2012–2013 Unified Budget, Results and Accountability Framework approved allocations, expense and encumbrances for the period 1 January 2012 to 31 March 2013
(in thousands of US dollars)

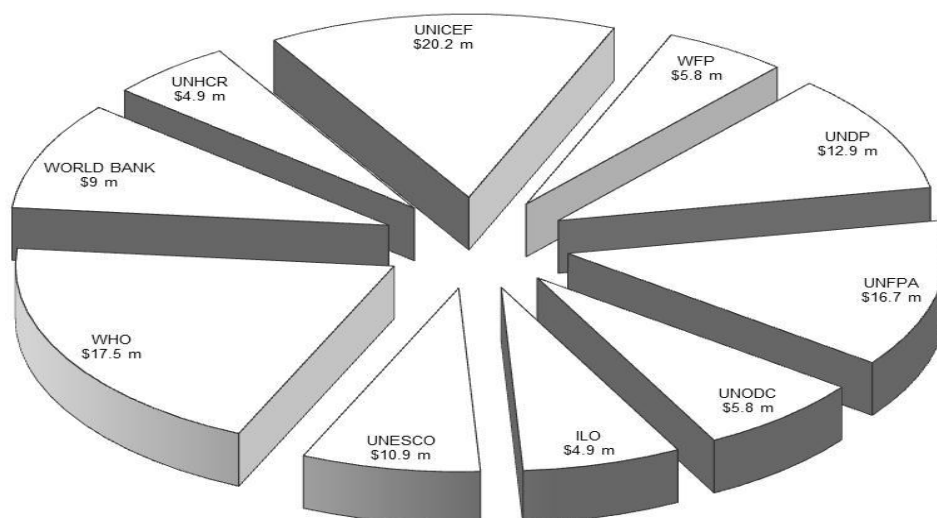
| Strategic Directions | 2012-2013 Approved allocations | Expense | Encumbrance ^{a/} | Total | Balance | Percentage implementation |
|--|--------------------------------------|--------------------|---------------------------|--------------------|--------------------|------------------------------|
| | (a) | (b) | (c) | (d) = (b + c) | (e) = (a-d) | (f) = (d / a) |
| 1 Revolutionize HIV prevention | 82 225 700 | 57 482 000 | | 57 482 000 | 24 743 700 | 69.9% |
| 2 Catalyze the next phase of treatment, care and support | 46 484 500 | 28 713 750 | | 28 713 750 | 17 770 750 | 61.8% |
| 3 Advance human rights and gender | 26 297 300 | 17 263 650 | | 17 263 650 | 9 033 650 | 65.6% |
| 4 Leadership, coordination and mutual accountability | 329 812 500 | 190 753 361 | 13 714 901 | 204 468 263 | 125 344 237 | 62.0% |
| Total | 484 820 000 | 294 212 761 | 13 714 901 | 307 927 663 | 176 892 337 | 63.5% |

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

i) Funds transferred to Cosponsors

8. A total of US\$ 82.3 million was transferred to the Cosponsors during 2012. In addition, US\$ 26.3 million was transferred in January 2013 against the Cosponsors' budget representing a total amount of US\$ 108.6 million or 66% of the Cosponsors' share under the 2012-2013 Unified Budget, Results and Accountability Framework. Figure 1 provides information on the proportion of funds transferred against each individual Cosponsor.

Figure 1: Cosponsors' share of funds transferred as of 31 March 2013



ii) Funds expended and encumbered against the Secretariat budget

9. During 2012 a total of US\$ 157.6 million was expended and encumbered against the Secretariat biennium budget of US\$ 320.3 million. In addition, US\$ 41.7 million was expended and encumbered during the period 1 January 2013 to 31 March 2013 which together represent a total amount of US\$ 199.3 million or a 62.2% financial implementation rate of the Secretariat portion of the 2012-2013 Unified Budget, Results and Accountability Framework.
10. Table 4 provides details on the Secretariat portion of the 2012-2013 Unified Budget, Results and Accountability Framework approved allocations, expense and encumbrance broken down by the three strategic functions for the period 1 January 2012 to 31 March 2013.

Table 4: 2012–2013 Unified Budget, Results and Accountability Framework approved allocations, expense and encumbrances for the period 1 January 2012 to 31 March 2013
(in thousands of US dollars)

| Strategic Functions | Approved allocations | Expense | Encumbrance ^{a/} | Total | Balance | Percentage implementation |
|--|----------------------|--------------------|---------------------------|--------------------|--------------------|---------------------------|
| | (a) | (b) | (c) | (d) = (b + c) | (e) = (a - d) | (f) = (d / a) |
| Leadership and advocacy | 128 686 800 | 81 271 970 | 7 370 552 | 88 642 522 | 40 044 278 | 68.9% |
| Coordination, coherence and partnerships | 99 273 800 | 48 076 273 | 3 307 400 | 51 383 673 | 47 890 127 | 51.8% |
| Mutual accountability | 92 359 400 | 56 284 519 | 3 036 949 | 59 321 468 | 33 037 932 | 64.2% |
| Total | 320 320 000 | 185 632 761 | 13 714 901 | 199 347 663 | 120 972 337 | 62.2% |

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

IV. FUND BALANCE

11. On 31 December 2009, UNAIDS net fund balance stood at US\$ 218.3 million or 45% of the biennial budget. At its 26th meeting held in Geneva in June 2010, the Programme Coordinating Board approved a maximum level for UNAIDS working capital equivalent to 35% of the biennial budget. By 31 December 2011 the Unified Budget, Results and Accountability Framework net fund balance amounted to US\$ 195.6 million or 41% of the biennial budget.
12. At its 30th meeting held in Geneva in June 2012, the Programme Coordinating Board endorsed the Executive Director's recommendation to fully fund the organizational staff-related liabilities from the fund balance and approved the funding of an initial amount of US\$ 20 million, with the shortfall to be covered from the fund balance over a period of five years or less, subject to availability of funds.
13. Furthermore, at its 30th meeting held in Geneva in June 2012, the Programme Coordinating Board endorsed the Executive Director's recommendation to establish a Building Renovation Fund with an initial amount of US\$ 2.6 million. It also approved the replenishment of the Fund on an annual basis out of the fund balance for the amount of accumulated depreciation to the UNAIDS building, or such other amount as might be determined by the Programme Coordinating Board.
14. The initial funding of the staff-related liabilities for US\$ 20 million; the establishment of the Building Renovation Fund for US\$ 2.6 million; the lower income received and the high implementation rate during 2012 resulted in a net fund balance as at 31 December 2012 of US\$ 154.8 million or 32% of

the biennial budget. This represents a reduction of US\$ 40.8 million compared to the fund balance as at 31 December 2011.

15. The net fund balance of US\$ 154.8 million as at 31 December 2012 is now within the approved level of 35% (or US\$ 170 million) of the biennial budget as approved by the Programme Coordinating Board in June 2010. It should be noted that the fund balance available at the start of each year is the Joint Programme's working capital as it enables the Joint Programme to operate without interruption, including allocation of funding to Cosponsors. Accordingly, the fund balance is monitored to ensure it is maintained at a level to guarantee the continued smooth implementation of the Joint Programme.

V. STAFF-RELATED LIABILITIES

16. UNAIDS staff-related liabilities are determined by professional actuaries. As per the actuarial studies as at 31 December 2012, the total staff-related liabilities amounted to US\$ 98 million of which US\$ 66.3 million is funded and the remaining balance of US\$ 31.7 million was unfunded as detailed in table 5 below.

Table 5: Staff-related liabilities as at 31 December 2012 (in millions of US dollars)

| | Actuarial requirement end 2012 | Accrued end 2012 | | | Under provision |
|----------------------------------|--------------------------------|------------------|--------------------------|---------------|-----------------|
| | | Funded | Appropriation from UBRAF | Total Accrued | |
| ASHI | 74.7 | 35.9 | 13.9 | 49.8 | 24.9 |
| Annual Leave | 8.8 | 4.4 | 2.2 | 6.6 | 2.2 |
| Terminal Payments | 13.8 | 6.0 | 3.9 | 9.9 | 3.9 |
| Special Account for Compensation | 0.7 | | | | 0.7 |
| Total | 98.0 | 46.3 | 20.0 | 66.3 | 31.7 |

17. Having considered the level of the fund balance as at 31 December 2012, which is within the level approved by the Programme Coordinating Board, and in line with the Programme Coordinating Board's approval to fund the remaining shortfall under the staff-related liabilities over a period of five years, the Executive Director has decided to put aside the funding in 2013 of US\$ 6.4 million from the fund balance for this purpose, corresponding to 20% of the unfunded staff-related liabilities.

VI. BUILDING RENOVATION FUND

18. As noted above, at its 30th meeting in June 2012, the Programme Coordinating Board endorsed the Executive Director's recommendation to establish a Building Renovation Fund and approved the annual replenishment of the fund for an amount equivalent to the accumulated depreciation to the UNAIDS building, or such other amount as might be determined by the Programme Coordinating Board.
19. Subsequent to the above approval, and in accordance with IPSAS, the estimated useful life of the building has been revised from 50 years to 60 years. This revision implies that the annual funding of the Building Renovation Fund should amount to US\$ 0.43 million. In line with the Programme Coordinating Board's approval that the Fund be replenished on an annual basis out of the fund balance for the amount of depreciation accumulated to the UNAIDS building, the Executive Director has decided to put aside the funding in 2013 of US\$ 0.43 million from the Unified Budget, Results and Accountability Framework fund balance for this purpose.

VII. POSSIBLE APPROACHES TO ADDRESS THE IMPACT OF CURRENCY FLUCTUATIONS

20. At its 30th meeting, the Programme Coordinating Board took note of the Executive Director's approach to mitigate the long term impact of currency fluctuations. The Board recognized the need for a comprehensive strategy to mitigate risk due to currency fluctuations and requested UNAIDS to conduct further analysis of the shorter and longer term financial and programme implications including planned changes in staffing patterns and the options for currency fluctuation risk mitigation, including the potential for splitting the currency of contributions, and to provide this analysis to the 32nd meeting of the Programme Coordinating Board for its consideration⁴.
21. Subsequent to the Programme Coordinating Board's decisions, UNAIDS consulted Geneva-based international organizations on the measures they have taken to deal with currency fluctuations and a strong Swiss franc.
22. Six organizations responded to the survey, the main results of which are summarized below. Further details of the survey are provided in Table 6.
- All organizations had their budgets approved in Swiss francs
 - Four organizations had their books of accounts in Swiss francs and two organizations in US dollars
 - Four organizations received most of their contributions in US dollars, and two in Swiss francs
 - All organizations had more than 75% of total expenditures in Swiss francs
 - Staff cost expenditure in Swiss francs ranged from 40% to 100%
 - Non-staff costs expenditure in Swiss francs ranged from 20% to 60%
 - All organizations re-cost their budget or charge the currency fluctuations to the specific project or absorb the costs centrally
 - None of the organizations made any provisions to mitigate currency fluctuations through a reserve
 - Only one organization used a hedging mechanism for short term commitments
23. As indicated above, the majority of these organizations have both their budgets and books of accounts in Swiss francs and most of their expenditure is incurred in Swiss francs. In addition, two of the organizations receive over 90% of their contributions in Swiss francs. Furthermore, most of the organizations adjust their budgets downwards to take account of adverse currency fluctuations; only one of the organizations uses hedging mechanisms to mitigate currency fluctuations and none of the organizations make any provisions to mitigate currency fluctuations through the establishment of a reserve.
24. In summary, the results of the survey revealed that the measures adopted by Geneva-based organizations could not easily be adopted by UNAIDS given the unique nature of the Programme and its expenditure pattern where currently only 22% is in Swiss francs.

Various measures adopted by UNAIDS to mitigate currency fluctuations

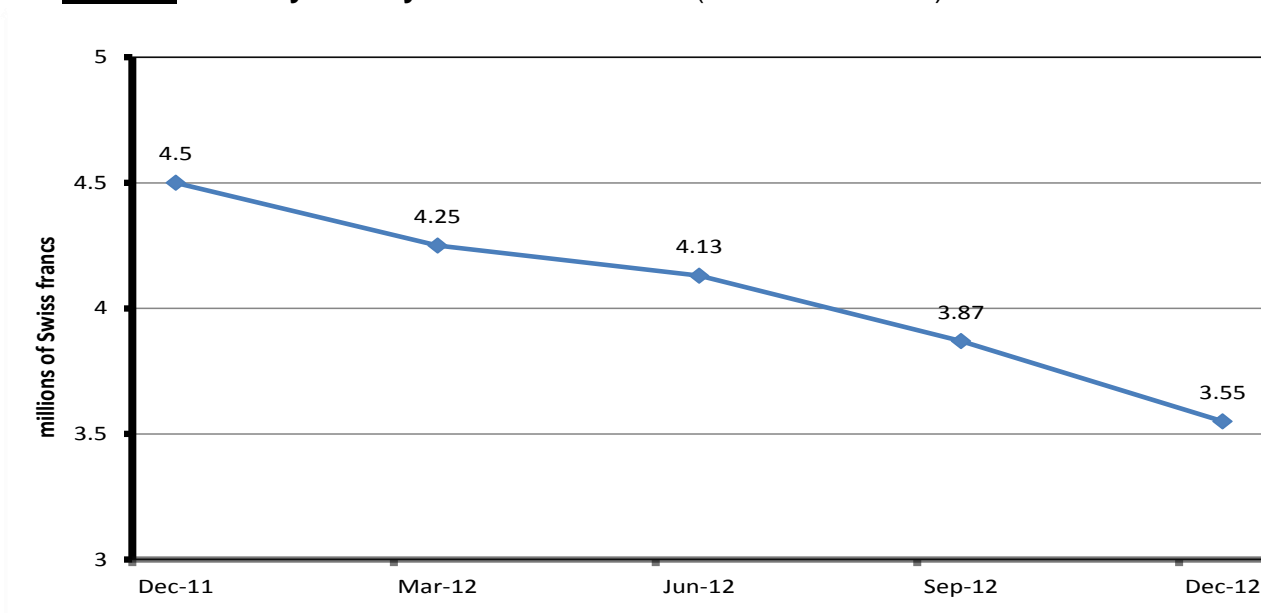
25. As already set out in document UNAIDS/PCB(30)12.7 presented to the Programme Coordinating Board at its 30th meeting in June 2012, UNAIDS has initiated and put in place certain measures to mitigate currency fluctuations, including hedging through forward purchasing of both income and expenditure that has been instituted by WHO. Forward currency contracts have been put in place to partially protect the value of UNAIDS budget against any further appreciation in the value of the Swiss franc vis-a-vis the US dollar.
26. In addition to the hedging through the forward purchasing of income and expenditure currently in place, the Director-General of WHO has proposed the switching of 50% of assessed contributions to

⁴ Decision 7.9 of the 30th meeting of the Programme Coordinating Board.

WHO to Swiss francs. This would mean that Member States would be assessed 50% in Swiss francs and 50% in US dollars to maximize the reduction of WHO's long-term exposure. This would result in the Swiss franc currency risk being shared among the Member states rather than all being borne by the Organization. Given that UNAIDS is entirely voluntarily funded and without assessed contributions, the adoption of a similar proposal would not yield significant results for UNAIDS.

27. UNAIDS has actively looked for ways of containing costs and in particular those in Swiss francs, increasing cost-effectiveness and efficiency through better planning, prioritization and utilization of resources. This includes zero-growth budgeting, tight controls on recruitment of staff, strict policies governing the recruitment of consultants, joint procurement and use of long-term agreements together with other UN agencies, outsourcing functions such as web publishing, better use of technology, video conferencing, Skype, IP telephony and reducing meetings and travel.
28. The measures put in place during 2012 to contain costs and increase cost-effectiveness and efficiency in the Secretariat resulted in a net decrease in the total 2012 expenditure of US\$ 41.5 million or 13% compared to 2011 (i.e. US \$ 279.9 million in 2012 vis-a-vis US\$ 321.4 million in 2011). The above measures have also resulted in a net decrease of 15% in total net Swiss franc expenditure which fell to the equivalent of US\$ 60 million in 2012 compared to US\$ 71 million in 2011. Furthermore, the monthly HQ payroll cost in Swiss francs has decreased from an average of CHF 4.50 million in December 2011 to CHF 3.55 million as at December 2012, a reduction of CHF 0.95 million or 21% compared to December 2011 payroll as reflected in figure 2 below.

Figure 2: Monthly HQ Payroll in Swiss francs (in millions of CHF)



29. In summary, the Executive Director is addressing the issue of currency fluctuations in two inter-related ways: one is through cutting costs globally and the other is through transferring costs away from headquarters which have led to a decrease in Swiss franc expenditure which will, in the long term, help to mitigate the effects of currency variations. This process will continue and will be complemented by maintaining fiscal discipline through internal control mechanisms, operational efficiency and cost effective methods.
30. While appreciating the need to remain vigilant and continuously monitor risks related to currency fluctuations, steps taken and measures put in place to mitigate risks due to currency fluctuations are considered adequate.
31. The Programme Coordinating Board is requested to take note of the actions taken by the Secretariat to mitigate the long term impact on currency fluctuations. The Board is also requested to encourage donor governments and others to release their contributions towards the 2012-2015 Unified Budget,

Results and Accountability Framework as soon as possible to ensure full funding, smooth operations and effective implementation.

32. The Programme Coordinating Board is also requested to take note of the Executive Director's decision to transfer US\$ 6.8 million from the fund balance to partially fund staff-related liabilities and to cover the annual replenishment of the Building Renovation Fund.

Table 6
Summary analysis of the survey on currency fluctuations

| Questionnaire | ITU | ILO | WMO | IOM | WIPO | WTO |
|--|--|--|--|--|---|-------------------------|
| What is the currency of your approved budget | CHF | CHF | CHF | USD, EUR; CHF | CHF | CHF |
| What is the currency of your books of accounts | CHF | USD | CHF | USD | | CHF |
| Kindly provide the percentage of voluntary contribution by currency | | | | | | |
| USD | 75% | 40% | 43% | 70% | 0.90% | 5% |
| GBP | | | 1% | 2% | | |
| AUD | | | | 3% | | 1% |
| CHF | 10% | | 20% | 5% | 92.60% | 87% |
| EUR | 15% | 55% | 23% | 15% | 6.50% | 5% |
| CAD | | | 1% | 2% | | |
| NOK | | | 12% | 2% | | 1% |
| SEK | | 5% | | 1% | | 1% |
| DKK | | | | | | |
| Please indicate the percentage of Swiss franc Expenditure against Total budget | | 90% | | 70% | 100% except payment to UNDP and UNJSPF | 85% |
| Please provide percentage costs incurred in Swiss franc between Staff and non-staff costs against the total costs incurred in Swiss franc. | 80% in Staff Costs and 20% in non-staff costs | | 42% in Staff costs and 58% in non-staff costs | 50% for staff and non-staff costs | 70% Staff costs and 30% non-staff costs | 100% Staff costs in CHF |
| Could you please elaborate on the mechanisms used by the organization to protect your voluntary contributions budget from currency fluctuations? | | | | | | |
| Re-costing the budget | Yes | Budgets are revised and fixed in USD as contributions are received | No | Yes for some individual projects | Recosting the workplan related to voluntary contribution | Prioritize expenditures |
| Currency equalization reserve | Translation of foreign currency funds in consolidated financial statements | | No | No | Less willing to accept voluntary contributions in other currencies other than CHF | |
| Hedging foreign exchange exposure through forward purchasing | No short term commitments only | | No | Yes | | |
| Splitting the currency of voluntary contributions | No | | No | | | |
| Do you absorb gains/losses within the budget | | | | | | |
| At the project level | Yes | Yes | Yes | Yes | No | Yes |
| At the contribution level | Yes | | Yes | No | No | Yes |
| At the Trust fund level | Yes | | Yes | No | Yes | Yes |
| At the organizational level | Yes | | Yes | Yes | Yes | Yes |
| Could you please elaborate as to how you fund your gains and losses | We absorb only realized gains and losses at the project/contribution level. Unrealized gains and losses are absorbed at the organizational level | Absorbed by projects | Charge to project fund | Unfunded at present | Exchange rate gains and losses are absorbed by the regular budget when they occur, during the course of the financial period. Also income projections are adjusted to take into account possible currency fluctuations. | Not really an issue |
| Have you introduced measures to reduce Swiss franc costs | | | | | A series of cost-reducing measures have been introduced | |
| If your organization is using any other method to protect itself from currency fluctuations or could give any other information that might assist UNAIDS in reducing the risk to currency fluctuations, please provide more details below. | | None | Contributions received in currencies that are not regular short term disbursements are converted upon receipt into CHF | We are in a difficult situation due to the fractured nature of project based finance and multi currency exposures. Part of long term strategy is to improve FX position reporting, then we can plan mitigation | Contracts and treaties are being reviewed in order to avoid currency risks | |

[Annexes follow]



April 2013

Report of the Internal Auditor for 2012

1. The Office of Internal Oversight Services (IOS) transmits herewith its report for the year 2012 for the information of the Programme Coordinating Board (PCB) of the Joint and Cosponsored United Nations Programme on HIV/AIDS (UNAIDS).

OBJECTIVE AND SCOPE

2. The Office provides an independent and objective assurance and advisory activity, which is designed to add value to and improve the operations of UNAIDS. Using a systematic and disciplined approach, it helps UNAIDS accomplish its objectives by evaluating and improving the effectiveness of processes for risk management, control and governance. IOS is authorized full, free and prompt access to all records, property, personnel, operations and functions within UNAIDS which, in its opinion, are relevant to the subject matter under review. No limitation was placed on the scope of the work of IOS during 2012.

3. The scope of work was to evaluate whether the network of processes for risk management, control and governance, as designed and implemented by UNAIDS management, was adequate and functioning in a manner so as to fulfill specific purposes. These were to ensure that: (a) significant financial, managerial and operating information was accurate, reliable and timely; (b) staff actions complied with UNAIDS and WHO regulations, rules, policies, standards and procedures; and (c) resources were acquired economically, used efficiently, and protected adequately.

OVERSIGHT FRAMEWORK

4. IOS provides oversight services to UNAIDS in accordance with the "Arrangement regarding the cost reimbursement for the provision of administrative and financial services by WHO to UNAIDS" of December 2004 and the subsequent Memorandum of Understanding of 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. It assesses risk in terms of degree of impact and likelihood of occurrence. In order to ensure that its available resources are focused on the areas of highest risk, IOS uses a risk assessment model. This model supports

professional judgments made in the prioritization of the annual plan of work. The model has three basic components: (i) the audit universe drawn from the Global Management System (GSM) database; (ii) a set of weighted risk parameters which are applied consistently to obtain a relative risk ranking; and (iii) a further screening against specific risk factors. The process incorporates both subjective and objective measures - such as financial exposure, recent changes in staff or systems, and the internal control environment - which determine the relative risk of the auditable areas.

6. The results of the audit risk assessment were discussed with UNAIDS and a programme of work was drawn up for the year 2012. At the conclusion of each assignment, IOS issued a detailed report including recommendations to UNAIDS management, designed to enhance the processes of risk, control and governance within the Secretariat. IOS also provided the Director-General of WHO and the External Auditor with a copy of all its audit reports.

7. The main issues from each individual report are summarized hereafter.

AUDITS

Headquarters

8. **Telephone expenses** (Audit Report No. 12/895). An audit of telephone expenses at UNAIDS was carried out in May 2012. Telephone expenses form part of general operating expenses. The objective of the audit was to assess telephone usage at UNAIDS and ensure that telephone expenses are properly accounted for and monitored on a regular basis, including the use of this facility for private purposes. The audit covered the use of fixed telephones and Blackberry mobile devices at UNAIDS.

9. The result of the audit showed that policies for control over telephones expenses had not been satisfactorily established and that this situation as well as the enhanced use of mobile phones at UNAIDS during the last few years, contributed to the lack of appropriate and effective measures to prevent waste and abuse. The main issues identified during the audit were as follows:

- There is a need to disseminate a UNAIDS specific Telephone Usage Policy and related procedures to all staff.
- There is a need to reinforce sanctions for failure to comply with the Policy and related procedures.
- Greater use should be made of the payroll system to recover the cost of private telephone calls.
- Greater awareness should be instilled of established methods for reducing mobile telephone costs, such as routing through fixed telephone lines.
- Follow-up is needed on cases identified where the cost of private telephone calls may not have been recovered by UNAIDS.

Regional Support Teams

10. Audits of Regional Support Teams (RSTs) cover financial and operational systems, including areas such as budgets and workplans, extrabudgetary funding, obligations and payments through the UNAIDS Enterprise Resource Planning system (ERP) and e-imprest, inventory, cash, administration, security, office organization, monitoring and reporting. These audits are carried out through interviews, observation, documentation review and analysis.

11. **Regional Support Team for Europe and Central Asia** (Audit Report No.12/913). Overall, the audit concluded that key internal controls mitigating major risks appear to be operating effectively; however, areas for improvement were identified relating to separation of functions in the procurement process, follow-up and monitoring of Programme Accelerations Funds (PAFs) - particularly for the years 2004 and 2006 - and rationalization of the inventory system. The RST and the region are undergoing a period of transition, with a challenging host environment, internal changes in leadership and regional reorganizations of UNAIDS Country Offices (UCOs) affecting country presence. The Information Technology (IT) resource (acting Information and Communications Technology (ICT) Regional Coordinator) will be relocated to Nairobi in mid-2013 as part of the offshoring of field IT support – and provide support remotely.

12. Effectiveness and efficiency of support to UCOs could be improved, through strengthening strategic direction/guidance, expanding the Regional Management Meetings to include training and thematic topics, and assisting with access to Russian language technical documents.

13. Attention should be paid to improving workplan implementation rates in some areas and consideration should be given to broadening the measurement of implementation, including the concept of achievement of planned results, rather than purely financial implementation. The workplan preparation process itself should be more inclusive and should be the responsibility of all staff.

14. UCO/Russia closed in May 2011. While the UCO and the RST coexisted, it was common practice to cross-subsidize one another financially. It remains unclear that closure procedures were followed as there was an absence of proper handover documentation. Yet to date, the inventory records are recorded separately, creating inefficiencies. With future restructuring planned in 2013, particularly for Azerbaijan, Armenia and Georgia, it is vital that procedures be developed to handle the transfer of responsibilities and ensure that documentation is complete.

Country Offices

15. The objective of audits of UCOs is to review the effectiveness of internal controls with regard to (a) reliability of financial and operational information; (b) efficiency of operations; (c) compliance with rules and regulations; and (d) safeguarding of assets. These audits are carried out through interviews, observation, documentation review and analysis.

16. Until 1 January 2012, UNDP provided all administrative and support services to the majority of UCOs. As such, all local financial and human resource activities were administered in accordance with UNDP rules and regulations. IOS was unable to verify the control processes and checks in place locally by UNDP for UNAIDS funds, under the single audit principle. Therefore, evidence was obtained through interview (of both UNAIDS and UNDP staff) and was limited to documentation provided by UCOs. Since 1 January 2012, all UCOs use the ERP system provided by WHO.

17. **Country Office in Mozambique** (Audit Report No.12/910). The audit found significant control deficiencies at UCO/Mozambique, affecting all operational aspects of the office. The UCO was found to be inefficient and ineffective. Recording of financial transactions was not up to date, filing systems were non-existent, staff did not have the required access to ERP, and office resources were not being used in an efficient and transparent manner. This compromised the reliability of information, compliance with rules and safeguarding of assets.

18. The UCO's success in attracting significant external funds overburdened the administrative systems in place. Funds were often disbursed late due to the length of time taken to approve contracts, which increased pressure on the UCO to demonstrate implementation. As a result, implementation rates were often inflated by disbursing the entire funds due under contract commitments before completion. This was noted particularly at year-end, when awards were about to end. Adopting this approach is in contravention of the UNAIDS Financial Rules and Regulations and increases the risk of incomplete or poorly performed work. Reliance on UNDP for financial information, which was not always forthcoming on a timely basis, resulted in the development of a parallel tracking system in Excel. This system focused on following the financial elements to the best of the UCO's ability, but it lacked the ability to track deliverables.

19. Leadership changes, staff departures and funding reductions created a state of flux. Unpaid invoices for overdue commitments were threatening to seriously hamper the operations of the UCO and damage the reputation of UNAIDS. A number of anonymous letters widely distributed further compounded the negative perception of UNAIDS in Mozambique.

20. **Country Office in Kenya** (Audit Report No. 12/912). Overall, the controls at UCO/Kenya appear to be operating effectively. Ensuring staff become conversant with the ERP would reduce the burden on the administrative staff and increase efficiency. Prompt action was required to activate the Internet Protocol (IP) telephone network which has not functioned since July 2011; which in turn will reduce communication costs.

Attention should be paid to improving workplan implementation rates in some areas and consideration should be given to broadening the measurement of implementation, including the concept of achievement of planned results, rather than purely financial implementation, i.e. expenditures and encumbrances. Attention should also be given to compliance in the area of petty cash and fixed assets, as well as to addressing local staff concerns over recognition of the Staff Health Insurance scheme.

21. The UCO has recently undergone a difficult period with staffing and interpersonal issues which impacted team work. It is hoped that changes due to the mobility exercise and a recent team-building exercise will assist in moving on and focusing on delivery of the workplan in Kenya.

Investigations

22. No formal investigations were carried out in 2012.

FOLLOW-UP AND IMPLEMENTATION

23. 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 recommendations tracking database maintained by IOS. Audit recommendations are categorized by risk category and significance. A summary of the status of implementation of UNAIDS audit recommendations as at April 2013 is attached as **Attachment 1**. All outstanding reports except for two have been satisfactorily closed based on effective action taken by management.

MAIN OPERATIONAL RISKS FACING UNAIDS

24. A major challenge facing UNAIDS in 2013 continues to be the issue related to decentralized accountability. As the implementation of the global ERP system matures, there is a risk that the accountability framework will be further diminished without systematic implementation of effective, efficient monitoring controls and measures to address consequences for non-compliance. This risk is particularly impacting the area of compliance with procedures, due to the reliance on individual responsibility and delegation of authority embedded in the ERP system. Thus the need for the UNAIDS Secretariat to strengthen risk management and internal controls to ensure compliance with applicable rules, regulations, policies and procedures.

ACTION BY THE PROGRAMME COORDINATING BOARD

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

Internal Audit Recommendations
Implementation status as of 29 April 2013

| Audit No. | Audit Title | Date of Final Report | Number of Recs | Implementation Rate compared to 1st response due date | Comments on changes since previous status report (29 June 2012) |
|------------------|--|-----------------------------|-----------------------|--|--|
| 10/827 | UNAIDS Country Office in Indonesia | 2010/06 | 12 | 100% | Audit closed since previous status report |
| 10/834 | UNAIDS Country Office in India | 2010/07 | 8 | 100% | Audit closed since previous status report |
| 10/840 | UNAIDS Country Office, Brazil | 2010/10 | 30 | 100% | Audit closed since previous status report |
| 10/841 | UNAIDS Regional Support Team for West and Central Africa, Dakar, Senegal | 2010/10 | 15 | 100% | Audit closed since previous status report |
| 10/848 | Procurement at UNAIDS headquarters | 2011/04 | 17 | 53% | 9 recommendations closed 8 recommendations in progress |
| 11/857 | Recruitment at UNAIDS headquarters | 2011/06 | 16 | 0% | No new response received from the auditee during the period |
| 11/864 | UNAIDS Regional Support Team Eastern and Southern Africa | 2011/11 | 26 | 100% | Audit closed since previous status report |
| 11/865 | UNAIDS Country Office in Ethiopia | 2011/11 | 15 | 100% | Audit closed since previous status report |
| 11/881 | UNAIDS Country Office in Uganda | 2012/02 | 6 | 100% | Audit closed since previous status report |
| 12/895 | Telephone expenses at UNAIDS headquarters | 2012/10 | 27 | 0% | No initial response received |
| 12/910 | UNAIDS Country Office in Mozambique | 2013/02 | 32 | N/A | Not due yet |
| 12/912 | UNAIDS Country Office in Kenya | 2013/02 | 11 | N/A | Not due yet |
| 12/913 | UNAIDS Regional Support Team for Europe and Central Asia (RST/ECA) | 2013/02 | 26 | N/A | Not due yet |

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