

Narrative Report for 2016 Financial Management Report

Stop TB Partnership Secretariat (STBP) has been hosted by UNOPS for 2 years now, after the transition to UNOPS from WHO on 1 January 2015.

The 2016 financial management report has been prepared following “Accruals” principles under the International Public Sector Accounting Standards (IPSAS). As per the accruals principles, the recognition of economic events happen by matching revenues to expenses (the matching principle) at the time the transaction occurs rather than when cash is transferred (or received). This approach provides a more accurate picture of the entity’s real financial state.

The preparation of the 2016 financial management report was rather complex due to UNOPS moving to a new financial system as of 1 January 2016. The financial data was impacted by the migration from the previous UNOPS financial system as well as some technical glitches, common when transitioning to a new system. The information was reviewed by the Partnership’s Finance team and manual adjustments have been reflected to correct any errors.

In accordance with its Financial Policy approved by the Coordinating Board in 2004 and the new Financial Management Policy Outline reviewed by the Finance Committee in December 2016, STBP accumulates cost elements and prepares the financial management report on activity based costing and IPSAS principles.

Under UNOPS modus operandi, financial liabilities are managed through establishing encumbrances in its financial system. Thus, for any order placed or contract entered into by UNOPS on behalf of STBP, an encumbrance is established in the UNOPS system. No encumbrance is established unless funds are available. Expenditures are incurred against previously established encumbrances as per UNOPS rules. This approach doesn’t allow for liabilities being entered into or expenditure incurred unless funds are available, ensuring a tight control and good financial management of the STBP funds.

Based on this approach, UNOPS financial system and STBP Order Management System (OMS) were accessed and financial data was extracted to prepare the annual financial management report for 2016. The objective was to maintain the consistency with prior years and to illustrate the manner in which the cost elements related to the Partnership’s key functional entities evolve over time.

The balance brought forward from prior years of US\$74.2 million includes the US\$2.3 million still pending to be transferred from WHO following the transition of the Partnership from WHO to UNOPS. Out of the US\$ 74.2 balance brought forward, the amount of US\$54.1 million are funds encumbered prior to the reporting period and shall be disbursed after 1 January 2016.

The income in 2016 (US\$75.4 million) shows an increase of 43% vs 2015 (US\$52.8 million), mainly due to the increase in the income received from countries for In-House Procurement orders placed through GDF (from US\$12.7 million in 2015 to US\$45.3 million in 2016).

The overall expenditure in 2016 (US\$61.1 million) shows an increase of 8% versus the expenditure incurred in 2015 (US\$56.5 million). This increase in the overall expenditure is explained by an increase of the expenditure incurred under the Strategic Goal 3 (GDF). GDF expenditure showed a 72% increase from 2015 to 2016, from US\$25.9 million in 2015 to US\$44.5 million in 2016, explained by the increase in orders for the build-up of the new Drugs Strategic Rotating Stockpile and increase in orders for the In-House procurement of diagnostics and drugs. The overall expenditure increase was partially offset however by a 69% reduction of the expenditure incurred under Strategic Goal 2 (TB REACH), from US\$17.7 million in 2015 to US\$5.5 million in 2016, explained by the closure of TB REACH Wave 4 grants in 2016 and preparatory work done for the Wave 5 launch in Q1 2017. The 2016 expenditure incurred

under the Strategic Goal 1 (Partnership Building and Advocacy, Communication and Resource Mobilization) remained relatively stable comparatively with 2015.

In addition to the annual statement of income and expenditure, a funds flow statement for the year 2016 was prepared to show the cash position. This is particularly important as the free cash resources can be used to generate income. Progress on this aspect has been observed in 2016, as follows: the interest and investment income in 2016 increased to US\$676,610 from interest income of US\$318,299 earned in 2015, an increase of 126%. This was possible due to newly established investment function within UNOPS Treasury. The Partnership's idle funds were invested during 2016 as part of the UNOPS corporate invested pool of funds. The invested UNOPS corporate funds yielded 2.15% gross returns for the year 2016.

Overall STBP has shown good progress in 2016 comparatively with 2015, in particular with regards to:

- increased income earned during the year, including returns on investments and funding contributions for In-House procurement
- increased activities implemented during the year, including the build-up of new Drugs Strategic Rotating Stockpile reflected in higher expenditure incurred in 2016
- 2016 work plan funding gap of US\$ 26.1 million (US\$4.8million gap under SG1TBP and US\$21.3 million gap under SG2 TBREACH) being almost filled with contributions from USAID, Government of Canada and Gates Foundation

Nevertheless, the Partnership continues to have very little unspecified/un-earmarked funds, which in turn provides little flexibility for STBP to address changing needs and for the Board/Executive Committee to provide guidance accordingly. The future goal is to identify income generating sources for the Partnership with a focus on un-earmarked income.