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Programme Alimentaire Mondial

World Food Programme

Programa Mundial de Alimentos

Executive Board
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Rome, 6–10 June 2011

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For approval

AUDITED ANNUAL ACCOUNTS, 2010

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NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for approval

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

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The Secretariat is pleased to submit the Audited 2010 Financial Statements together with the Audit Opinion and the Report by the External Auditor. This is the already the third set of financial statements that have been prepared under the International Public Sector Accounting Standards. The External Auditor has completed the audit in accordance with International Standards on Auditing, and has provided an unqualified audit opinion.

This document (WFP/EB.A/2011/6-A/1) is submitted to the Board in accordance with General Regulation XIV.6 (b) and Financial Regulations 13.1 and 14.8, which provide for the submission to the Board of the audited financial statements of WFP and an associated report of the External Auditor. This is the third time that the statements and the report are presented together as one document.

Since 2008, the WFP Secretariat has presented its responses to the External Auditor's recommendations at the same session at which the External Auditor's report is presented. These responses are reflected in "Report on the Implementation of the External Auditor Recommendations" (WFP/EB.A/2011/6-D/1).

DRAFT DECISION*

The Board:

i) approves the 2010 Annual Financial Statements of WFP, together with the Report of the External Auditor, pursuant to General Regulation XIV.6 (b);

ii) notes the funding from the General Fund of US$550,884 during 2010 for the ex-gratia payments and write-off of cash losses and advances to staff and suppliers; and

iii) notes post-delivery losses of commodities during 2010 forming part of the operating expenses for the same period.

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document issued at the end of the session.

SECTION I

Executive Director's Statement

INTRODUCTION

1. In accordance with Article XIV.6 (b) of the General Regulations and Financial Regulation 13.1, I have the honour to submit for the Board's approval the financial statements of WFP for the year ended 31 December 2010. The External Auditor has given his opinion and report on the 2010 financial statements, both of which are also submitted to the Board as required by Financial Regulation 14.8 and the Annex to the Financial Regulations.

FINANCIAL AND BUDGET ANALYSIS

Summary

2. For WFP, its donors and its beneficiaries, 2010 has been another challenging year. With 900 million people continuing to be affected by hunger, rising food and fuel prices, increasing social and political unrest and more frequent and intense weather-based disasters, WFP is more needed and relevant today than ever before.

3. Throughout 2010, WFP continued its efforts to meet changing needs by providing the right tools and the right food in the right place at the right time. Donors continued to provide strong support with US$4,129.8 million in contributions, allowing WFP to maintain its level of operations and to address unforeseen emergencies in Haiti, Pakistan and the Horn of Africa.

4. For the third successive year, WFP has operated within the International Public Sector Accounting Standards (IPSAS) environment, under which it recognizes contribution revenue when confirmed in writing and expenses when goods and services are received or when food commodities are delivered. There is an inherent time-lag between the recognition of revenue and the recognition of expense. Resources available for use in 2010 therefore consisted of the fund balances at the end of 2009 and new contributions confirmed by donors during 2010. Consequently, expenses in any one-year period may be higher or lower than the contribution revenue in that year as WFP utilizes or replenishes its fund balances.

5. With the balance of resources available at the end of 2009 and the additional resources provided by donors in 2010, WFP spent in total US$4,237.7 million, an increase of US$9.6 million – 0.2 percent – over 2009.

Financial Performance

6. Total revenue in 2010 was US$4,266.2 million, a reduction of US$107.1 million – 2 percent – from US$4,373.3 million in 2009. In 2010, total revenue consisted of:

- monetary and in-kind contributions: US$4,129.8 million;
- currency exchange revenue: US$7.3 million;
- return on investments: US$22.6 million; and
- other revenue: US$106.5 million.

7. Contribution revenue in 2010 included US$3,546.7 million in monetary contributions and US$583.1 million from in-kind contributions. Total contribution revenue of US$4,129.8 million represents a reduction of US$75.4 million – 2 percent – from the US$4,205.2 million contribution revenue confirmed in 2009. Actual contribution revenue in 2010 exceeded the forecast of US$3,700 million in the third update to the 2010–2011 Management Plan.

8. In 2010, WFP spent US$4,237.7 million, an increase of US$9.6 million – 0.2 percent – over 2009. The tonnage of food distributed in 2010 was 4.6 million mt, a decrease of 200,000 mt – 4 percent – from the 4.8 million mt distributed in 2009. The decrease in the volume of food distributed partially reflects the increase in the use of new food assistance tools such as cash and vouchers.

9. The overall surplus of revenue over expenses in 2010 narrowed to US$28.5 million from US$145.2 million in 2009, primarily as a result of:

- a US$75.4 million decrease in contribution revenue, which fell from US$4,205.2 million in 2009 to US$4,129.8 million in 2010;
- a US$9.6 million increase in spending from US$4,228.1 million in 2009 to US$4,237.7 million in 2010;
- a US$21.3 million increase in other revenue, mainly related to increased activity in special accounts; and
- a US$53.0 million decrease in other non-operational revenue items, consisting of a US$36.9 million decrease in currency exchange revenue as the United States dollar strengthened against the Euro, the main non-United States dollar currency held by WFP, and a US$16.1 million decrease in the return on investments held by WFP.

Financial Position

10. At 31 December 2010, WFP had US$4,094.1 million in total fund balances and reserves, of which US$3,051.1 million relate to WFP's projects. The balance relates to the General Fund and special accounts, reserves and bilateral operations and trust funds.

11. On the basis of the programme of work in the third update of the 2010–2011 Management Plan, the fund balance relating to WFP's projects of US$3,051.1 million represents approximately seven months of operational activity.

12. Overall cash and short-term investment balances held to support WFP's requirements decreased by US$415.3 million – 24 percent – from US$1,744.4 million in 2009 to US$1,329.1 million in 2010. The decrease is mainly a result of the timing differences in receipt of several specific contributions, and it is mirrored by a similar increase in contributions receivable.

13. WFP's cash and short-term investments of US$555.6 million in the Programme Category Funds segment cover approximately two months of operational activity. It is important to note, however, that in early 2011 WFP collected higher levels of cash than in the preceding comparative period. Taking this into consideration would give a 2010 adjusted cash and investment coverage of approximately three to four months of operational activity, as in 2009.

14. Total 2010 contributions receivable were US$2,470.5 million, an increase of US$424.9 million – 21 percent – over the US$2,045.6 million of contributions receivable in 2009. The increase in contributions receivable is a result of specific large contributions that were confirmed later in the year as compared with the preceding period. Cash from these contributions will be received in 2011. The average collection period in 2010 was 7.6 months.

15. The value of WFP's food inventory at the end of 2010 decreased by US$40.6 million – 6 percent – from the 2009 value as a result of a reduction in the tonnage held. WFP held a 1.3 million mt food inventory at the end of 2010, which was 7 percent less than the 1.4 million mt balance held at the end of 2009.

16. At the rate of food distribution projected for 2011, the 1.3 million mt of food commodities in the inventory would last for approximately three to four months, a period similar to that at the end of 2009.

Budgetary analysis

Basis of the budget

17. The budget figures for direct project costs and indirect costs – the Programme Support and Administrative (PSA) budget – disclosed in Financial Statement V "Statement of Comparison of Budget and Actual Amounts" are derived from the programme of work in the biennial Management Plan (2010–2011). The Management Plan is needs-based and reflects the total of direct and indirect cost budgets approved by the Board, either directly or by its delegated authority. Resources are made available for direct project costs when contributions are confirmed by donors for approved projects. Resources are made available to meet indirect costs through approval of the Management Plan. Utilization of direct and indirect costs are reflected in Financial Statement V when commitments are made.

18. In the original Management Plan (2010–2011) presented to the Board in November 2009, the total programme of work was US$4,577.7 million; this is disclosed in Financial Statement V as "Original Budget". By the end of 2010, the programme of work had expanded to reflect changes in WFP's project needs resulting mainly from the earthquake in Haiti, floods in Pakistan and droughts in the Sahel and the Horn of Africa. The final 2010 programme of work was US$6,677.7 million, an increase of

US$2,100 million, or 46 percent; this is disclosed in Financial Statement V as "Final Budget".

Utilization of the budget

19. It is important to note that WFP can use resources only when contributions to approved projects are confirmed. Budget utilization is therefore constrained by the timing of the confirmation of such contributions during the year. In 2010 WFP's final direct cost budget was US$6,399.7 million, but utilization of the final direct project cost budget in 2010 was 57 percent, reflecting this constraint.

20. This utilization rate was reflected in the utilization rates for various cost components, as outlined below. The variation in utilization of the different budget cost components reflects a number of operational factors such as the planned origin of commodities versus the actual location where food purchases were conducted. In brief, utilization rates were:

- food budget – 57 percent;
- external transport – 40 percent, resulting from an increase in actual local and regional purchases compared to planned;
- landside transport, storage and handling – 64 percent;
- other direct operational costs (ODOC) – 55 percent; and
- direct support costs (DSC) – 63 percent.

21. The original 2010 PSA indirect cost budget was increased from US$272.7 million to US$278.0 million to include advances made from the 2011 PSA budget for information technology, evaluation and security for use in 2010. The final PSA budget consisted of US$243.3 million for regular PSA and US$34.7 million for the capital and capacity funds.

22. Of the final approved regular PSA budget for 2010, 97 percent had been utilized at 31 December 2010. The variance is a result of WFP's conservative approach in the implementation of PSA resources during the first year of the biennium.

23. Of the final approved capital and capacity budget, 81 percent had been utilized at 31 December 2010. Most of the variance can be attributed to the remaining balances of approved biennial corporate initiatives, United Nations Department of Safety and Security funds and the Security Emergency Fund.

ENHANCING TRANSPARENCY AND ACCOUNTABILITY

24. For the third year running, WFP's financial statements were prepared in accordance with IPSAS requirements. By adopting and implementing IPSAS in 2008 and consolidating its implementation in 2009, WFP enhanced its ability to produce relevant and useful financial information, thereby improving the transparency and accountability with which it manages its resources. In 2010, WFP took significant additional steps to enhance transparency and accountability.

25. WFP continues to support other United Nations agencies in their work to implement IPSAS through its membership of the High Level Committee on Management Task

Force on IPSAS. In 2010, WFP extended its support to United Nations colleagues and others interested in IPSAS by offering to be part of the International Federation of Accountants research on the impact of IPSAS adoption.

26. The scope of IPSAS is constantly updated to reflect best practice. WFP's continued compliance with IPSAS requires it to focus on keeping up to date with professional developments. In 2010, four new IPSAS standards were issued relating to financial instruments and intangibles. These were: i) IPSAS 28: Financial Instruments: Presentation; ii) IPSAS 29: Financial Instruments: Recognition and Measurement; iii) IPSAS 30: Financial Instruments: Disclosures; and iv) IPSAS 31: Intangible Assets. IPSAS 31 must be implemented from 2011, the others from 2013. WFP is committed to implementing them as soon as possible.

27. Continued compliance with IPSAS remains a priority. WFP is also working to maximize the impact of IPSAS on the levels of transparency and accountability in all aspects of its operations. At the Board's 2010 First Regular Session, the report by the External Auditor entitled "IPSAS Dividend: Strengthening Financial Management" highlighted areas where IPSAS can be used to consolidate improvements in financial management and governance.

28. In response to the recommendations made by the External Auditor in this report, WFP has taken the steps described below.

- On a quarterly basis, WFP senior management receive a set of financial statements reflecting WFP's financial performance, financial position and cash flows, with supporting qualitative analysis and financial performance metrics. This ensures that senior management focus on identified financial risks. The senior management team met to discuss the main conclusions of the analysis of the quarterly financial statements and other data and to identify possible improvements in the management of WFP's resources.

- WFP has enhanced internal management oversight assistance. Revised monthly financial reporting requirements have been issued to ensure that all main financial performance indicators and risk areas are transparently reported. Country office monthly reports have been regularly assessed under the various oversight mechanisms, from the regional bureau level up to the senior financial management level in Headquarters. In addition, a number of oversight missions were conducted by Headquarters at regional bureaux throughout the year.

- To enhance the management of project resources, a monthly "DSC dashboard" was created and circulated, highlighting trends in resources available and project and contribution completion dates.

29. The principle of full-cost recovery (FCR), whereby donors meet all the operational and support costs related to their contributions, is well established in WFP. When FCR was adopted, it reflected the food-based assistance on which WFP focused. Although FCR is still relevant, there is increasing demand for WFP to provide assistance that does not involve food: such assistance may be in the form of cash and voucher transfers, local production of nutritionally enhanced food and local capacity development activities. Non-food-based assistance involves incurring costs that can be directly attributed to activities and other costs that are integral to overall project structure. To ensure that the FCR principle can be transparently and equitably applied to all its resources and

activities, WFP carried out the financial framework review. During 2010, the Board approved the necessary changes to WFP's General Rules and Financial Regulations to update the costing model by incorporating non-food-based activities, and to modify the funding model to support the funding of DSC on a percentage basis rather than a tonnage basis. These changes will provide a simple and transparent way to cost and fund non-food-based activities and support the transition from food aid to food assistance.

30. WFP uses advance financing to optimize its operational effectiveness and efficiency and the timeliness of food deliveries to beneficiaries. In 2010, WFP increased the working capital financing facility ceiling from US$180 million to US$557 million: this increase encompasses an increased amount for traditional advance financing, expansion of the forward purchase facility and provision of funding stability for corporate services. The working capital financing facility is backed by the Operational Reserve, which stands at an approved level of US$92.9 million.

Internal Control, Enterprise Risk Management and Financial Risk Management

31. WFP has a well-established framework of internal controls that includes internal audit, inspections and investigations units, and the Audit Committee. The system is designed to maximize the effective and efficient use of resources and to safeguard its assets. This system of internal controls and the results of internal audits were reviewed in 2010.

32. The Financial Regulations require WFP to ensure that its internal controls take into account prevailing best practices in governmental and commercial management. The Management Plan (2010–2011) therefore included funding for a project to review the effectiveness of WFP's internal controls against the Committee of Sponsoring Organizations of the Treadway Commission principles of internal control and improve them where appropriate. The project is known as Strengthening Managerial Control and Accountability (SMCA). Its preliminary findings showed: i) that WFP already had in place all the key elements of an effective system of internal control, but that they could be improved; and ii) that successful implementation of initiatives to improve performance and risk management were a prerequisite for better internal control. Consequently the objectives of SMCA include the coordination of work on performance management, risk management and internal control. Actions under SMCA during 2010 included:

- ➢ development of a framework of internal control principles to be applied to all aspects of WFP's work;
- ➢ a gap analysis of the internal control principles proposed;
- ➢ development of an integrated approach to performance and risk management in line with these principles;
- ➢ a comprehensive update of corporate guidance on financial resource management, which is to be finalized during 2011;
- ➢ a review of the accuracy and effectiveness of the existing structure of delegated authorities for finance and procurement;
- ➢ a review of decision-making structures, including proposals for rationalizing internal committees and the creation of the new Executive Management Council; and

- development of new processes of management follow-up to ensure that the recommendations of internal and external oversight bodies are fully and effectively implemented.

33. During 2011, SMCA will focus on:
    - completion of the Financial Resource Management Manual;
    - further review of delegated authorities;
    - development of guidance on internal controls for managers and staff;
    - training of managers and staff in major aspects of internal control; and
    - development of a process to support a statement of assurance on internal control.

Enterprise Risk Management

34. WFP's risk-management policy was approved by the Board in November 2005. Since then, WFP has taken various actions to embed risk management across all its activities and is continuing to enhance its internal processes following IPSAS and WFP Information Network and Global System (WINGS II) implementation.

35. A Risk Management Implementation Plan was shared with the Audit Committee, which continues to receive regular briefings on implementation progress. A corporate risk management register was developed and reviewed by senior management. And in February 2011 the Secretariat held the first of a series of quarterly operational briefings to consider the contextual, programmatic and institutional risks arising from individual corporate risks such as high food prices and in particular country-level operations such as those in Afghanistan and Somalia.

36. During 2010, WFP continued to embed risk management in all units of the organization. As at January 2011, 56 percent of country offices, regional bureaux and Headquarters divisions had risk assessments and up-to-date risk registers in place. Offices with full risk-management systems in place managed 67 percent of WFP's operations in 2010. A number of performance and risk management "champions" are now driving the adoption of best practices in this area. Direct support and training will be provided by the Performance and Accountability Management Division (RMP) during 2011 for offices that have yet to meet these high standards.

Financial Risk Management

37. WFP's activities expose it to a variety of financial risks such as the effects of changes in debt and equity market prices, foreign currency exchange rates, interest rates and defaults by debtors. WFP's financial risk-management policies take into account the unpredictability of financial markets and are intended to minimize, where feasible, potential adverse effects on WFP's financial performance.

38. Financial risk management is carried out by a central treasury function on the basis of guidelines set out by the WFP Investment Committee, technical advisory services from the World Bank and insights from the new Investment Advisory Panel of external investment experts. Established policies cover areas of financial risk such as foreign exchange, interest rate and credit risk, the use of derivative financial instruments and the

investment of excess liquidity. There is no perceived risk that receivables and payables may not be liquidated when they become due.

39. WFP's employee benefit liabilities, the value of which was established in the light of advice from independent actuaries, totalled US$308.6 million at 31 December 2010. Of this amount, US$173.5 million has to date been funded by charging individual funds and projects; the balance of US$135.1 million has not yet been charged to individual funds and projects. These liabilities are accounted for as liabilities of the General Fund.

40. In 2010 a new asset and liability management study was undertaken for the Employee Benefits Plans. The study reviewed WFP's employee benefit liabilities, developed an updated asset allocation policy for the funds and formulated the funding policy options. On the basis of the study, a revised asset allocation with specific currency exposure was approved in order to match the distribution of future employee benefits liabilities. During its 2010 Annual Session, the Board approved a funding plan to provide for unfunded employee benefit liabilities that included the required annual funding of US$7.5 million in the standard staff cost over a 15-year period starting in 2011 with a view to achieving fully funded status at the end of the period.

41. In my statement on the 2009 Financial Statements I referred to the situation in Somalia, where conflict and lack of governance make normal monitoring and control extremely challenging. I pointed out that WFP had continually reassessed its procedures, carrying out seven audits and three Inspector General investigations over the last 15 years. On 10 March 2010, a report by the United Nations Monitoring Group on Somalia included allegations about WFP's controls and mentioned a high level of food diversions. In response, the Board requested an independent audit by the External Auditor of the effectiveness of internal controls in the Somalia country office. This audit was carried out in October and November 2010, and the audit report and the management response were presented to the Board's 2011 First Regular Session. Neither the External Auditor nor earlier investigations by the Inspector General found evidence of fraudulent or corrupt food diversions. The External Auditor made 26 recommendations for improving internal controls, of which 25 were accepted; in the remaining case, the Secretariat agreed with the finding but considered that it would be addressed in the new inventory management system planned under WINGS II. All the accepted recommendations are being implemented as a matter of priority.

SUSTAINABILITY

42. WFP has evaluated the consequences of any potential reduction in contributions in the context of the global economic and financial situation, and whether it would lead to a consequent reduction in the scale of operations and the numbers of beneficiaries assisted. Having considered WFP's projected activities and the corresponding risks, I am confident that WFP has adequate resources to continue to operate in the medium term. For this reason we will continue to report on the "going concern" basis in preparing WFP's financial statements.

43. This assertion is supported by: i) the requirements I put forward in the Management Plan (2010–2011); ii) the Strategic Plan (2008–2013); iii) the net assets held at the end of the period and contributions received in 2010; iv) the projected level of contributions for 2011; and v) the trend in donor support that has been sustaining WFP's mandate since its inception in 1963.

ADMINISTRATIVE MATTERS

44. WFP's principal place of business and the names and addresses of its legal counsel, actuaries, principal bankers and External Auditor are given in Annex I.

RESPONSIBILITY

45. As required under Financial Regulation 13.1, I am pleased to submit the following financial statements, which have been prepared under IPSAS. I certify that to the best of my knowledge and information all transactions during the period have been properly entered in the accounting records and that these transactions, together with the following financial statements and notes that form part of this document, fairly present the financial position of WFP at 31 December 2010.

Statement I	-	Statement of Financial Position at 31 December 2010
Statement II	-	Statement of Financial Performance for the Year Ended 31 December 2010
Statement III	-	Statement of Changes in Net Assets for the Year Ended 31 December 2010
Statement IV	-	Statement of Cash Flow for the Year Ended 31 December 2010
Statement V	-	Statement of Comparison of Budget and Actual Amounts for the Year Ended 31 December 2010

Notes to the Financial Statements

Signed on original
Josette Sheeran
Executive Director

Rome, 25 March 2011

WORLD FOOD PROGRAMME

STATEMENT I

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2010

(US$ millions)

	Note	2010	2009
ASSETS			
Current assets			
Cash and cash equivalents	2.1	550.5	1 162.2
Short-term investments	2.2	778.6	582.2
Contributions receivable	2.3	2 352.6	1 896.7
Inventories	2.4	700.2	738.4
Other receivables	2.5	186.4	131.8
		4 568.3	**4 511.3**
Non-current assets			
Contributions receivable	2.3	117.9	148.9
Long-term investments	2.6	248.2	204.2
Property, plant and equipment	2.7	85.1	45.7
Intangible assets	2.8	36.5	43.6
		487.7	**442.4**
TOTAL ASSETS		**5 056.0**	**4 953.7**
LIABILITIES			
Current liabilities			
Payables and accruals	2.9	522.0	480.8
Provisions	2.10	19.0	24.4
Employee benefits	2.11	22.2	23.3
		563.2	**528.5**
Non-current liabilities			
Employee benefits	2.11	286.4	255.4
Long-term loan	2.12	112.3	111.7
		398.7	**367.1**
TOTAL LIABILITIES		**961.9**	**895.6**
NET ASSETS		**4 094.1**	**4 058.1**
FUND BALANCES AND RESERVES			
Fund balances	7.1	3 834.7	3 792.0
Reserves	2.14	259.4	266.1
TOTAL FUND BALANCES AND RESERVES		**4 094.1**	**4 058.1**

The accompanying notes form an integral part of these financial statements.

Signed on original
Josette Sheeran
Executive Director

Rome, 25 March 2011

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WORLD FOOD PROGRAMME

STATEMENT II

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2010

(US$ millions)

		2010	**2009**
REVENUE			
Monetary contributions	**3.1**	3 546.7	3 445.0
In-kind contributions	**3.2**	583.1	760.2
Currency exchange differences	**3.3**	7.3	44.2
Return on investments	**3.4**	22.6	38.7
Other revenue	**3.5**	106.5	85.2
TOTAL REVENUE		**4 266.2**	**4 373.3**
EXPENSES			
Cash and vouchers distributed	**4.1**	60.3	15.1
Food commodities distributed	**4.2**	2 254.6	2 380.4
Distribution and related services	**4.3**	659.0	734.5
Wages, salaries, employee benefits and other staff costs	**4.4**	646.4	617.8
Supplies, consumables and other running costs	**4.5**	152.5	115.6
Contracted and other services	**4.6**	374.3	303.5
Finance costs	**4.7**	2.7	2.7
Depreciation and amortization	**4.8**	25.1	12.5
Other expenses	**4.9**	62.8	46.0
TOTAL EXPENSES		**4 237.7**	**4 228.1**
SURPLUS FOR THE YEAR		**28.5**	**145.2**

The accompanying notes form an integral part of these financial statements.

WORLD FOOD PROGRAMME
STATEMENT III
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 31 DECEMBER 2010
(US$ millions)

	Note	Accumulated surpluses/fund balances	Surplus	Reserves	Total net assets
31 December 2009		**3 646.8**	**145.2**	**266.1**	**4 058.1**
Allocation of surplus for 2009		145.2	(145.2)	-	-
Movements in fund balances and reserves in 2010					
Transfer from/to reserves	2.14	6.7	-	(6.7)	-
Net unrealized gains on long-term investments recognized directly within fund balance	2.6 / 2.14	7.5	-	-	7.5
Surplus for the year	7.2	-	28.5	-	28.5
Total movements during the year		**14.2**	**28.5**	**(6.7)**	**36.0**
TOTAL NET ASSETS at 31 December 2010		**3 806.2**	**28.5**	**259.4**	**4 094.1**

The accompanying notes form an integral part of these financial statements.

WORLD FOOD PROGRAMME
STATEMENT IV
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2010
(US$ millions)

	Note	2010	2009
Cash flows from operating activities:			
Surplus for the year		28.5	145.2
Adjustments to reconcile surplus to net cash flows from operating activities			
Depreciation and amortization	**2.7/2.8**	25.1	12.5
Unrealized (gain) on short-term investments	**2.2**	(11.5)	(37.3)
(Increase) in amortized value of long-term investments	**2.6**	(4.6)	(4.5)
Increase in amortized value of long-term loan	**2.12**	0.6	0.6
Interest expense on long-term loan	**2.12**	2.1	2.1
Decrease in inventories	**2.4**	38.2	283.4
(Increase) in contribution receivable	**2.3**	(424.9)	(15.3)
(Increase) in other receivables	**2.5**	(54.2)	(4.8)
(Increase) in property, plant and equipment (donated in kind)	**2.7**	(0.6)	-
(Decrease) increase in payables and accruals	**2.9**	41.2	(87.0)
(Decrease) in provisions	**2.10**	(5.4)	(4.6)
Increase in employee benefits	**2.11**	29.9	38.2
Net cash flows from operating activities		**(335.6)**	**328.5**
Cash flows from investing activities:			
(Increase) in short-term investments	**2.2**	(182.8)	(82.8)
(Increase) decrease in accrued interest receivable	**2.5**	(0.4)	0.8
(Increase) in long-term investments	**2.6**	(34.0)	(2.3)
(Increase) in property, plant and equipment	**2.7**	(55.9)	(35.6)
(Increase) in intangible assets	**2.8**	(0.9)	(16.6)
Net cash flows from investing activities		**(274.0)**	**(136.5)**
Cash flows from financing activities:			
Interest paid on long-term loan	**2.12**	(2.1)	(2.1)
Net cash flows from financing activities		**(2.1)**	**(2.1)**
Net (decrease) increase in cash and cash equivalents		**(611.7)**	**189.9**
Cash and cash equivalents at beginning of the year	**2.1**	**1 162.2**	**972.3**
Cash and cash equivalents at end of the year	**2.1**	**550.5**	**1 162.2**

The accompanying notes form an integral part of these financial statements.

WORLD FOOD PROGRAMME

STATEMENT V

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS*

FOR THE YEAR ENDED 31 DECEMBER 2010

(US$ millions)

	Notes	Budget Amount: Original Budget	Budget Amount: Final Budget	Actual on comparable basis	Difference: final budget and actual
Cost components	6				
Food		2 097.4	3 075.4	1 758.1	1 317.3
External transport		373.4	574.9	230.2	344.7
Landside transport, storage and handling		976.9	1 247.6	792.3	455.3
Other direct operational costs		301.3	665.1	366.7	298.4
Direct support costs		556.0	836.7	528.9	307.8
Subtotal direct costs		**4 305.0**	**6 399.7**	**3 676.2**	**2 723.5**
Regular programme support and administrative costs		238.0	243.3	235.8	7.5
Capital and capacity funds		34.7	34.7	28.2	6.5
Subtotal indirect costs		**272.7**	**278.0**	**264.0**	**14.0**
TOTAL		**4 577.7**	**6 677.7**	**3 940.2**	**2 737.5**

The accompanying notes form an integral part of these financial statements

* Prepared on a commitment basis

Notes to the Financial Statements at 31 December 2010

NOTE 1: ACCOUNTING POLICIES

Basis of Preparation

1. The financial statements of WFP have been prepared on the accrual basis of accounting in accordance with IPSAS using the historic cost convention, modified by the inclusion of investments and loans either at fair value or amortized cost. Where an IPSAS does not address a particular issue, the appropriate International Financial Reporting Standard (IFRS) has been applied.

2. In accordance with IPSAS requirements, and reflecting the nature of WFP's business, revenue from contributions confirmed in writing is recognized as non-exchange transactions as per IPSAS 23, Revenue from Non-Exchange Transactions. WFP considers that while there are restrictions on the use of contributions, these restrictions do not meet the definition of a condition as described under IPSAS 23.

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

4. The functional and reporting currency of WFP is the United States dollar. Transactions in currencies other than the US dollar are translated into dollars at the prevailing United Nations Operational Rates of Exchange (UNORE) at the time of transaction. Assets and liabilities in currencies other than US$ are translated into US$ at the prevailing UNORE year end closing rate. Resulting gains or losses are accounted for in the Statement of Financial Performance.

Cash and Cash Equivalents

5. Cash and cash equivalents comprise cash on hand, cash at banks, money market and short-term deposits, including those held by investment managers.

6. Investment revenue is recognized as it accrues, taking into account the effective yield.

Financial Instruments

7. Financial instruments are recognized when WFP becomes a party to the contractual provisions of the instrument until such time as when the rights to receive cash flows from those assets have expired or have been transferred and WFP has transferred substantially all the risks and rewards of ownership.

8. Financial assets that are held for trading are measured at fair value and any gains or losses arising from changes in the fair value are accounted for through surplus or deficit and included within the Statement of Financial Performance in the period in which they arise. The short-term investments are classified within this category since they are held to support WFP operations and therefore may be divested of in the short term which may generate trading gains or losses. Derivatives are also classified as held for trading.

9. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. Loans and receivables comprise contributions receivable in cash, other receivables and cash and cash equivalents. Loans and receivables are stated at amortized cost.

10. Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that WFP has the intention and ability to hold to maturity. Held-to-maturity investments comprise the United States Treasury Separate Trading of Registered Interest and Principal of Securities (STRIPS) held within the long-term investment portfolio and are stated at amortized cost.

11. Available-for-sale financial assets are non-derivative financial assets that are not designated within any other category. Available-for-sale assets comprise the long-term investments other than the United States Treasury STRIPS. They are carried at fair value, with value changes recognized in the Statement of Changes in Net Assets.

12. All non-derivative financial liabilities are recognized initially at fair value, and subsequently measured at amortized cost using the effective interest method.

Inventories

13. Food commodities and non-food items on hand at the end of the financial period are recorded as inventories and are valued at cost or current replacement cost, whichever is lower.

14. The cost of food commodities includes purchase cost or fair value[1] if donated in-kind and all other costs incurred in bringing the food commodities into WFP's custody at their point of first entry into a recipient country where they become distributable. In addition, any significant costs of conversion such as milling or bagging are included. Cost is determined on the weighted average basis.

15. Food commodities are expensed when distributed directly by WFP or once they are handed over to cooperating partners for distribution.

Contributions and Receivables

16. Contributions are recognized when confirmed in writing by donors.

17. Receivables are presented net of allowances for estimated reductions in contribution revenue and doubtful accounts.

18. In-kind contributions of services that directly support approved operations and activities, which have budgetary impact, and can be reliably measured, are recognized and valued at fair value. These contributions include use of premises, utilities, transport and personnel.

[1] Indicators of the fair value for food commodities donated in-kind include world market prices, the Food Aid Convention price and the donor's invoice price.

19. Donated property, plant and equipment (PP&E) are valued at fair market value and recognized as fixed asset and revenue.

Property, Plant and Equipment

20. Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Depreciation is provided for PP&E over their estimated useful life using the straight line method, except for land which is not subject to depreciation. The estimated useful life for PP&E classes are as follows:

Class	Estimated useful life (years)
Buildings	
Permanent	40
Temporary	5
Computer equipment	3
Office equipment	3
Office fixtures and fittings	5
Security and safety equipment	3
Telecommunication equipment	3
Motor vehicles	5
Workshop equipment	3

21. Leasehold improvements are recognized as assets and valued at cost, and depreciated over the lesser of remaining useful life of the improvements or the lease term.

22. Impairment reviews are undertaken for all assets at least annually.

Intangible Assets

23. Intangible assets are stated at historical cost less accumulated amortization and any impairment losses.

24. Amortization is provided over the estimated useful life using the straight line method. The estimated useful life for intangible asset classes are as follows:

Class	Estimated useful life (years)
Software acquired externally	3
Internally generated software	6
Licenses and rights, copyrights and other intangible assets	3

Employee Benefits

25. WFP recognizes the following employee benefits:

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

26. Certain categories of employees of WFP are members of the United Nations Joint Staff Pension Fund (UNJSPF). The Pension Fund is a multi-employer funded, defined benefit plan. UNJSPF is not in a position to identify its share of the underlying financial position and performance of the plan on an IPSAS 25 basis with sufficient reliability for accounting purposes, and treats this plan as if it were a defined contribution plan.

Provisions and Contingent Liabilities

27. Provisions are made for future liabilities and charges where WFP has a present legal or constructive obligation as a result of past events and it is probable that WFP will be required to settle the obligation.

28. Other material 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 WFP.

Fund Accounting and Segment Reporting

29. A fund is a self-balancing accounting entity established to account for the transactions of a specified purpose or objective. Funds are segregated for the purpose of conducting specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The financial statements are prepared on a fund accounting basis, showing at the end of the period the consolidated position of all WFP funds. Fund balances represent the accumulated residual of revenue and expenses.

30. A segment is a distinguishable activity or group of activities for which financial information is reported separately in order to evaluate an entity's past performance in achieving its objectives and for making decisions about the future allocation of resources. WFP classifies all projects, operations and fund activities into three segments: i) Programme Category Funds; ii) General Fund and Special Accounts; and iii) Bilateral Operations and Trust Funds. WFP reports on the transactions of each segment during the financial period, and the balances held at the end of the period.

31. The Programme Category Funds is an accounting entity established by the Board for the purposes of accounting for contributions, revenue and expenses for all programme categories. Programme categories include development, emergency relief, protracted relief and special operations.

32. The General Fund is the accounting entity established for recording, under separate accounts, indirect support cost (ISC) recoveries, miscellaneous income, operational reserve and contributions received that are not designated to a specific programme

category, project or a bilateral project. Special Accounts are established by the Executive Director under Financial Regulation 5.1 for special contributions or monies earmarked for specific activities, the balances of which may be brought forward to the succeeding financial period.

33. Bilateral Operations and Trust Funds are also identifiable subdivisions of the WFP Fund. These are established by the Executive Director under Financial Regulation 5.1 in order to account for contributions, the purpose, scope and reporting procedures of which have been agreed upon with the donor under specific trust fund agreements.

34. Reserves are maintained within the General Fund for the purpose of operational support. An operational reserve is maintained within the General Fund as required under Financial Regulation 10.5 to ensure continuity of operations in the event of temporary shortfalls of resources. In addition to the Operational Reserve, other reserves have been established by the Board.

35. WFP may enter into third-party agreements (TPAs) to undertake activities which, while consistent with the objectives of WFP, are outside WFP's normal activities. TPAs are not reported as WFP revenue and expenses. At the year end, the net balance owing to or from third parties is reported as a payable or receivable in the Statement of Financial Position under the General Fund. Service fees charged on TPAs are included within indirect support cost revenue.

Budget Comparison

36. WFP's budget is prepared on a commitment basis and the financial statements on an accrual basis. In the Statement of Financial Performance, expenses are classified on the basis of the nature of expenses, whereas in the Statement of Comparison of Budget and Actual Amounts, expenditures are classified by functional classifications into WFP cost components.

37. The Board approves budgets for the direct costs of operations either directly or through its delegated authority. It also approves the biennial Management Plan, including the appropriations for programme support and administrative costs, and capital and capacity funds. Budgets may be subsequently amended by the Board or through the exercise of delegated authority.

38. Statement V: Comparison of Budget and Actual Amounts compares the final budget to actual amounts calculated on the same basis as the corresponding budgetary amounts. As the bases used to prepare the budget and financial statements differ, Note 6 provides reconciliation between the actual amounts presented in Statement V to the actual amounts presented in Statement IV: Cash Flow.

Note 2.1: Cash and Cash Equivalents

	2010	2009
	US$ millions	
Cash and cash equivalents		
Bank and cash at Headquarters	62.4	124.2
Bank and cash at regional bureaux and country offices	46.9	44.5
Money market and deposit accounts at Headquarters	224.2	761.1
Cash and cash equivalents held by investment managers	217.0	232.4
Total cash and cash equivalents	**550.5**	**1 162.2**

39. Cash required for immediate disbursement is maintained in cash and bank accounts. Balances in the money market and deposit accounts are available at short notice.

Note 2.2: Short-Term Investments

	2010	2009
	US$ millions	
Short-term investments		
Short-term investments	776.5	580.1
Current portion of long-term investments (Note 2.6)	2.1	2.1
Total short-term investments	**778.6**	**582.2**

40. Short-term investments are divided into three portfolio tranches with distinct investment horizons and specific investment guidelines and restrictions. The risk profile of short-term investments was slightly reduced in 2010 and remained at very low levels in the context of a market environment of low absolute yields and tentative stabilization of financial markets.

41. Investments that no longer complied with WFP's investment guidelines were maintained in a segregated "legacy" portfolio with the objective of divesting these securities taking into account market conditions and the fundamental value of the underlying securities. Due to the active divestment policy the legacy portfolio has been reduced from US$45.2 million at 31 December 2009 to US$20.2 million at 31 December 2010. During the year unrealized gains on the legacy securities more than offset realized losses which were generated by the reduction of the risk profile of the short-term investments.

42. Short-term investments were valued at US$776.5 million at 31 December 2010 (US$580.1 million at 31 December 2009). Of this amount, US$539.4 million pertains to bonds issued or guaranteed by governments or government agencies (US$359.7 million at 31 December 2009); US$145.2 million pertains to corporate bonds (US$120.9 million at 31 December 2009) and US$91.9 million pertains to non-agency mortgage-backed securities and asset-backed securities (US$99.5 million at 31 December 2009). These investments are stated at fair value based on valuation

provided by the independent custodian bank responsible for the administration and safekeeping of the securities.

43. At 31 December 2010, derivatives usage in short-term investments was limited to bond futures and derivatives exposure was considered not to be material. The notional amount of the derivatives financial instruments held in the investment portfolio is US$85.3 million (US$87.9 million at 31 December 2009) with a corresponding derivative offset which gets liquidated at the same time. This brings the book value of these derivatives to zero.

44. The movements in short-term investment accounts during the year are as follows:

	2009	Net additions/ (deductions)	Interest received/ amortized	Net realized gains/ (losses)	Net unrealized gains/ (losses)	2010
	US$ millions					
Short-term investments	580.1	185.5	9.7	(10.3)	11.5	**776.5**
Current portion of long-term investments	2.1	(0.1)	0.1	-	-	**2.1**
Total short-term Investments	**582.2**	**185.4**	**9.8**	**(10.3)**	**11.5**	**778.6**

45. During 2010, short-term investments increased by US$196.4 million. This increase consists in part of net unrealized gains of US$11.5 million presented in the Statement of Cash Flow under operating activities and amortized interest on the current portion of the long-term investment of US$0.1 million, also presented under operating activities as part of the increase in amortized value of the long-term investment of US$4.6 million. The remaining balance, net of reclassification from long-term to short-term, amounting to US$182.8 million is presented in the Statement of Cash Flow under investing activities.

Note 2.3: Contributions Receivable

	2010	2009
	US$ millions	
Composition:		
Current	2 352.6	1 896.7
Non-current	117.9	148.9
Total net contributions receivable	**2 470.5**	**2 045.6**

	2010	2009
	US$ millions	
Monetary contributions	2 456.2	1 925.0
In-kind contributions	159.8	282.4
Total contributions receivable before allowance	**2 616.0**	**2 207.4**
Allowance for reductions in contribution revenue	(136.2)	(151.9)
Allowance for doubtful accounts	(9.3)	(9.9)
Total net contributions receivable	**2 470.5**	**2 045.6**

46. Current contributions receivable are for confirmed contributions that are due within twelve months while non-current contributions receivable are those that are due after 12 months from the date of the financial statements.

47. Contributions receivable relate to donor contributions for programme categories, bilateral operations, trust funds or to the General Fund and Special Accounts. Donor contributions may include restrictions that require WFP to use the contribution for a specific project, activity or country within a specified timeframe.

48. Contributions receivable are shown net of allowances related to reductions in contribution revenue and doubtful accounts.

- ➢ allowance for reductions in contribution revenue is based on historical experience. These are reductions of contributions receivable and revenue when the funding is no longer needed by the project to which the contributions were related; and
- ➢ allowance for doubtful accounts is estimated at the following percentages of outstanding contributions receivable except for the outstanding contributions receivable between two and three years, which excludes the receivable from a specific donor because WFP estimates that no doubtful account from that donor is expected.

Contributions receivable outstanding for:	**%**
More than 4 years	100
Between 3 and 4 years	50
Between 2 and 3 years	10

49. The following table illustrates the composition of contributions receivable by year of confirmation:

	2010		**2009**	
	US$ millions	**%**	***US$ millions***	**%**
Year of confirmation				
2010	1 862.1	72	-	-
2009	567.4	22	1 742.8	79
2008 and earlier	172.8	6	455.2	21
Subtotal	**2 602.3**	**100**	**2 198.0**	**100**
Revaluation adjustments (non-US$ contributions receivable)	13.7	-	9.4	-
Total contributions receivable before allowance	**2 616.0**	**100**	**2 207.4**	**100**

50. The movements of the allowance for reductions in contribution revenue during 2010 are as follows:

	2009	Utilization	Increase/ (Decrease)	2010
	US$ millions			
Total allowance for reductions in contribution revenue	**151.9**	**(39.0)**	**23.3**	**136.2**

51. During 2010, utilization of the allowance for reductions in contribution revenue totalled US$39.0 million and is reported in the Statement of Financial Position. The increase in the allowance for reductions in contribution revenue represents an expense for the period and is reported in the Statement of Financial Performance.

52. Allowances for doubtful accounts are for the expected write-offs of contributions receivable where expenses have already been incurred but donors are not expected to provide funding. Actual write-offs require a transfer from the General Fund and approval by the Executive Director for amounts in excess of US$5,000.

53. The movements of the allowance for doubtful accounts during 2010 are as follows:

	2009	Utilization	Increase/ (Decrease)	2010
	US$ millions			
Total allowance for doubtful accounts	**9.9**	**-**	**(0.6)**	**9.3**

54. There were no write-offs of contributions receivable during 2010. The decrease in the allowance for doubtful accounts represents an adjustment for the period and is reported in the Statement of Financial Performance.

Note 2.4: Inventories

55. The following tables show the movements of food and non-food items during the year. The first table shows the total value of inventories – food and non-food – as presented in the Statement of Financial Position. The second table shows a reconciliation of food inventories, which reflects the opening balance and the additions during the year reduced by the value of food distributed and impairment allowance made during the year.

	2010	2009
	US$ millions	
Food on hand	573.4	598.1
Food in transit	109.7	125.5
Subtotal food	**683.1**	**723.6**
Less allowance for impairment - Food	(3.0)	(2.9)
Total food	**680.1**	**720.7**
Non-food items	20.3	17.9
Less allowance for impairment - non-food	(0.2)	(0.2)
Total non-food items	**20.1**	**17.7**
Total inventories	**700.2**	**738.4**

Food reconciliation	**2010**	**2009**
	US$ millions	
Opening inventory	720.7	1 000.4
Add back: impairment allowance	2.9	4.0
Food purchased	1 142.8	1 052.1
In-kind commodities received	655.7	694.8
Transport and related costs	405.2	344.7
Total inventory available for distribution	**2 927.3**	**3 096.0**
Less: Food distributed	(2 244.2)	(2 372.4)
Allowance for impairment - food	(3.0)	(2.9)
Total food	**680.1**	**720.7**

56. For 2010, food and non-food items distributed totalled US$2,254.6 million, as reported in the Statement of Financial Performance. Of this amount, US$2,244.2 million relates to food commodities and US$10.4 million relates to non-food items.

57. For food, costs incurred up to the first point of entry in the recipient country are included in inventories. These include costs of procurement, ocean transport, port costs and, for food destined for landlocked countries, the overland transport cost across transit countries.

58. Food quantities, derived from WFP's food tracking systems, are validated by physical stock counts and valued at weighted average basis.

59. During 2010, WFP conducted a review of the movement in market prices for the main types of food that WFP holds in inventory for the average period that WFP food is held in stock. The review led to WFP maintaining all food inventory values at historic cost as opposed to replacement cost because the historic cost was lower than the replacement cost.

60. Inventories include non-food items held at WFP warehouses in Dubai and at various strategic storage depots, including the Latin America and the Caribbean Emergency Response Network, and the United Nations Humanitarian Response Depot network.

61. Non-food items include the following: prefabricated building/warehouse, storage tents, water treatment units, solar power packs, satellite phones, ballistic blankets, tyres, motor vehicles and spare parts.

62. Food commodity stocks at 31 December 2010 were 1.3 million mt, valued at US$683.1 million. At 31 December 2009, stocks were 1.4 million mt valued at US$723.6 million.

63. An allowance for impairment has been made for possible loss or damage to inventories. The allowance is based on past experience and has been set at 0.4 percent of total food and 0.9 percent for non-food items. Inventories are valued net of any impairments or obsolescence. During 2010, US$1.1 million represents the total value of food impaired and is reported in the Statement of Financial Position. The increase or decrease in the allowance for impairment represents an expense for the year and is reported in the Statement of Financial Performance. There was no utilization of allowance nor an increase or decrease thereof for non-food items in 2010.

64. During 2010, movements of impairments are as follows:

	2009	**Utilization**	**Increase/(Decrease)**	**2010**
	US$ millions			
Allowance for impairment – food	2.9	(1.1)	1.2	3.0
Allowance for impairment – non-food	0.2	-	-	0.2
Total allowance	**3.1**	**(1.1)**	**1.2**	**3.2**

Note 2.5: Other Receivables

	2010	**2009**
	US$ millions	
Advances to vendors	112.4	39.5
Advances to staff	26.1	21.7
TPA receivables (Note 11)	10.4	9.9
Miscellaneous receivables	82.9	86.0
Total Other receivables before allowance	**231.8**	**157.1**
Allowance for doubtful accounts	**(45.4)**	**(25.3)**
Total net other receivables	**186.4**	**131.8**

65. Advances to vendors are for payments in advance of goods and service delivery.

66. Advances to staff are for education grants, rental subsidies, travel and other staff entitlements.

67. Miscellaneous receivables include amounts due from clients for services provided, accrued interest receivable and value-added tax (VAT) receivables whereby outright tax exemptions have not been obtained from governments.

68. Other receivables are reviewed to determine whether any allowance for doubtful accounts is required. As at 31 December 2010, an allowance of US$45.4 million was established for VAT paid and awaiting recovery.

69. The movements of the allowance for doubtful accounts during 2010 are as follows:

	2009	Utilization	Increase/ (Decrease)	2010
	US$ millions			
Total allowance for doubtful accounts	**25.3**	**-**	**20.1**	**45.4**

Note 2.6: Long-Term Investments

	2010	2009
	US$ millions	
US Treasury STRIPS	85.8	83.3
Current portion (Note 2.2)	(2.1)	(2.1)
Long-term portion, US Treasury STRIPS	**83.7**	**81.2**
Bonds	76.9	74.5
Equities	87.6	48.5
Total bonds and equities	**164.5**	**123.0**
Total long-term investments	**248.2**	**204.2**

70. Long-term investments consist of investments in STRIPS and investments in bonds and equities. The US Treasury STRIPS were acquired in September 2001 and are held to maturity. The maturities of the securities are phased over 30 years to fund payment of interest and principal obligations on a long-term commodity loan from a donor government agency (Note 2.12), denominated in the same currency as the STRIPS over the same period. The STRIPS bear no nominal interest and were purchased at a discount to their face value; the discount was directly related to prevailing interest rates at the time of purchase of 5.50 percent and to the maturities of the respective STRIPS. The current portion of the STRIPS is equal to the amount required to settle current obligations on the long-term loan.

71. Changes in market value of the investment in STRIPS are not recognized. At 31 December 2010, the market value of this investment was US$100.9 million (US$94.1 million at 31 December 2009).

72. The increase in the value of the long-term bond and equity investments of US$41.5 million resulted primarily from the investment of cash into bonds and equities of amounts charged to funds and projects in relation to the employee benefit liabilities. This cash transfer of US$31.3 million is invested in line with the WFP asset allocation policy of investing 50 percent in global bonds and 50 percent in global equities of funds set aside to meet employee benefit liabilities. The balance of the increase is from changes in market values and from reinvestment of interest received in 2010.

73. Investments in equities are made through five regional funds which track the composition and performance of the Morgan Stanley Capital International (MSCI) World Index, a recognized index of stocks to all developed world markets. This investment structure provides exposure to global equities markets on a passive basis with risks and returns that mirror the MSCI World Index.

74. The movements of long-term investments accounts during 2010 are as follows:

	2009	Additions/ (deductions)	Interest received/ amortized	Net realized gains/ (losses)	Net unrealized gains/ (losses)	2010
	US$ millions					
Bonds and equities	123.0	31.2	2.9	(0.1)	7.5	**164.5**
Investment in STRIPS	81.2	(2.0)	4.5	-	-	**83.7**
Total long-term investment	**204.2**	**29.2**	**7.4**	**(0.1)**	**7.5**	**248.2**

75. During 2010, long-term investments increased by US$44.0 million. Long-term bonds and equities are treated as available-for-sale. Accordingly, under IFRS, the net unrealized gains of US$7.5 million are transferred to net assets and presented in the Statement of Changes in Net Assets. The amortized interest on the investment in STRIPS of US$4.5 million is presented in the Statement of Cash Flow under operating activities as part of the increase in amortized value of the long-term investment of US$4.6 million. The remaining balance, net of a reclassification from long-term to short-term, amounting to US$34.0 million is presented in the Statement of Cash Flow under investing activities.

Note 2.7: Property, Plant and Equipment

	2009	Additions	Disposals/ Transfers	Accumulated depreciation	2010
	US$ millions				
Property, plant and equipment					
Buildings					
Permanent	3.1	0.4	-	(0.8)	2.7
Temporary	6.5	15.2	(0.3)	(3.8)	17.6
Computer equipment	2.2	1.7	-	(1.7)	2.2
Office equipment	6.5	5.1	(0.2)	(4.9)	6.5
Office fixtures and fittings	0.2	-	-	(0.1)	0.1
Security and safety equipment	0.5	1.4	-	(0.5)	1.4
Telecommunication equipment	1.4	1.2	-	(1.1)	1.5
Motor vehicles	30.7	25.8	(0.7)	(13.2)	42.6
Workshop equipment	0.7	0.3	-	(0.4)	0.6
Leasehold improvements	3.3	6.3	(0.1)	(2.0)	7.5
Fixed assets under construction	2.2	2.1	(1.9)	-	2.4
Total property, plant and equipment	**57.3**	**59.5**	**(3.2)**	**(28.5)**	**85.1**

76. During 2010, major additions to PP&E were for temporary buildings, office equipment, motor vehicles as well as leasehold improvements. Net acquisitions (after disposals) for the year ended 31 December 2010 totalled US$56.3 million (US$35.6 million at

31 December 2009) of which US$0.6 million relate to donated in-kind property, plant and equipment. Additions or disposals in PP&E are reported in the Statement of Financial Position and the depreciation expense for the year of US$17.1 million is reported in the Statement of Financial Performance.

77. Property, plant and equipment are capitalized if their cost is greater or equal to the threshold limit set at US$5,000. They are depreciated over the asset's estimated useful life using the straight line method. The threshold level is reviewed periodically.

78. Assets are reviewed annually to determine if there is any impairment in their value. The review that was undertaken in 2010 did not result in any of the PP&E being impaired in value nor has the review of asset disposals indicated that PP&E were disposed due to these assets being unusable or unserviceable.

Note 2.8: Intangible Assets

	2009	Additions	Disposals	Accumulated amortization	2010
	US$ millions				
Internally generated software	47.5	-	-	(11.9)	35.6
Licenses and rights	-	0.1	-	-	0.1
Intangible assets under construction	-	0.8	-	-	0.8
Total intangible assets	**47.5**	**0.9**	**-**	**(11.9)**	**36.5**

79. Intangible assets are capitalized if their cost exceeds the threshold of US$5,000 except for internally generated software where the threshold is US$100,000. The capitalized value of the internally generated software excludes those costs related to research and maintenance costs.

80. The internally generated software relates to the WINGS II project – the customization and implementation of an integrated enterprise resource planning application. At 31 December 2010, total capitalized costs of the WINGS II project amounted to US$35.6 million, net of accumulated amortization of US$11.9 million. These capitalized costs comprise the system design and realization phase of the WINGS II project. Additions or disposals in intangible assets are reported in the Statement of Financial Position while the amortization expense during the year of US$8.0 million is reported in the Statement of Financial Performance.

Note 2.9: Payables and Accruals

	2010	2009
	US$ millions	
Vendor payables	123.2	143.1
Donor payables	50.4	91.2
Miscellaneous	23.6	9.2
Subtotal payables	**197.2**	**243.5**
Accruals	324.8	237.3
Total payables and accruals	**522.0**	**480.8**

81. Payables to vendors relate to amounts due for goods and services for which invoices have been received.

82. Payables to donors represent balance of unspent contributions for closed projects pending refund or reprogramming.

83. Accruals are liabilities for goods and services that have been received or provided to WFP during the year and which have not been invoiced by suppliers.

84. Miscellaneous payables include amounts due to other United Nations agencies for services received and the fair value of foreign exchange forward contracts. At 31 December 2010, these foreign exchange forward contracts were in an unrealized loss position amounting to US$4.9 million.

Note 2.10: Provisions

	2010	2009
	US$ millions	
Provision for refunds to donors	18.1	21.0
Miscellaneous provisions	0.9	3.4
Total provisions	**19.0**	**24.4**

85. The movements of the provision for refunds to donors during 2010 are as follows:

	2009	Utilization	Increase/ (Decrease)	2010
	US$ millions			
Provision for refunds to donors	**21.0**	**(3.5)**	**0.6**	**18.1**

86. The provision for refunds estimates the level of refunds that are expected to be given back to donors for unused contributions to projects that are financially closed. The increase in provision for refunds of US$0.6 million in 2010 reduces monetary contribution revenue as reported in the Statement of Financial Performance. During 2010, refunds made to donors totalled US$3.5 million and represents a reduction in the provision as reported in the Statement of Financial Position.

87. There is no firm relationship between the refunded amounts and the balance of outstanding contributions receivable. Refunds can only take place when there are no receivables outstanding.

88. Miscellaneous provisions are to meet legal liabilities, advances and payments to be made to the deceased and injured WFP staff who were victims of the 2009 bombing of a WFP country office. Also included is a potential liability due to the expulsion of a non-governmental organization (NGO) in another WFP operation in which the host government had decreed for the payment of extraordinary severance payment of former staff of the NGOs which WFP had contracted.

Note 2.11: Employee Benefits

	2010	2009
	US$ millions	
Composition:		
Current	22.2	23.3
Non-current	286.4	255.4
Total employee benefits liabilities	**308.6**	**278.7**

	2010			2009
	Actuarial valuation	WFP valuation	Total	
	US$ millions			
Short-term employee benefits	-	22.2	22.2	23.3
Post-employment benefits	232.2	2.1	234.3	209.1
Other long-term employee benefits	47.5	4.6	52.1	46.3
Total employee benefit liabilities	**279.7**	**28.9**	**308.6**	**278.7**

2.11.1 Valuation of Employee Benefit Liabilities

89. Employee benefit liabilities are determined by professional actuaries or calculated by WFP based on personnel data and past payment experience. At 31 December 2010, total employee benefits liabilities amounted to US$308.6 million, of which US$279.7 million was calculated by the actuaries and US$28.9 million was calculated by WFP (US$250.0 million and US$28.7 million, respectively, at 31 December 2009).

90. Of the total liabilities of US$308.6 million the amount of US$173.5 million has been charged against relevant funds and projects (US$143.4 million at 31 December 2009). The balance of liabilities in the amount of US$135.1 million has been charged against the General Fund.

2.11.2 Actuarial Valuations of Post-Employment and Other Separation-Related Benefits

91. Liabilities arising from post-employment benefits and other separation-related benefits are determined by consulting professional actuaries. These employee benefits are established for staff members who are in the professional category and general service in Headquarters who are covered by the Food and Agriculture Organization of the United Nations (FAO) Staff Rules and the United Nations Staff Rules.

92. Post-employment benefits and other separation-related benefits liabilities which are calculated by actuaries totalled US$279.7 million at 31 December 2010 net of actuarial gains and losses. In the 2010 valuation, WFP's gross defined benefit obligations totalled US$314.1 million, of which US$266.6 million represents post-employment benefits and US$47.5 million represents other separation-related benefits.

93. Under IPSAS 25, actuarial gains and losses for post-employment benefits can be recognized over time using the corridor approach. Under this approach, amounts up to 10 percent of the defined benefit obligations are not recognized as revenue or expense so as to allow the reasonable possibility of offsetting gains and losses over time. Gains and losses over 10 percent of the defined benefit obligation (DBO) are amortized over the average remaining service of active staff for each benefit. For other separation-related benefits, actuarial gains and losses are recognized immediately and no corridor approach is applied.

94. In the 2010 valuation of employee benefits liabilities, the actuaries have determined actuarial losses under post-employment benefits and other separation-related benefits in the amounts of US$34.4 million and US$3.7 million, respectively (US$21.0 million for post-employment benefits and US$12.8 million for other separation-related benefits at 31 December 2009).

95. Of the total actuarial gains/(losses) of (US$34.4 million), (US$36.5 million) relates to After Service Medical Plan, US$1.5 million relates to Separation Payments Scheme, and US$0.6 million pertains to Compensation Plan Reserve Fund (Note 2.11.5.4). Actuarial gains/(losses) for the After Service Medical Plan and Compensation Plan Reserve Fund exceeded 10 percent of the DBO. Under the corridor method, gains/(losses) over 10 percent will be amortized over the average remaining service of active staff for each benefit. For the After Service Medical Plan, the average remaining service of active staff is 14.22 years and 10.03 years for the Compensation Plan Reserve Fund.

96. The annual expense for employee benefits liabilities as determined by the actuaries includes amortization of actuarial gains/(losses).

97. The movements of employee benefits liabilities during 2010 are as follows:

	2009	Utilization	Increase/ (Decrease)	2010
	US$ millions			
After Service Medical Plan	181.8	(2.7)	24.5	203.6
Separation Payments Scheme	20.6	(0.6)	2.6	22.6
Compensation Plan Reserve Fund	5.9	(0.3)	0.4	6.0
Other separation-related benefits	41.7	(3.2)	9.0	47.5
Total employee benefits liabilities	**250.0**	**(6.8)**	**36.5**	**279.7**

2.11.3 Short-Term Employee Benefits

98. Short-term employee benefits consist of annual leave and education grants.

2.11.4 Post-Employment Benefits

99. Post-employment benefits are defined benefit plans consisting of the After-Service Medical Plan, Separation Payments Scheme and Compensation Plan Reserve Fund.

100. The After-Service Medical Plan is a plan that allows eligible retirees and their eligible family members to participate in the Basic Medical Insurance Plan (BMIP).

101. The Separation Payments Scheme is a plan to fund severance pay for WFP general service staff at the Rome duty station upon separation from service.

102. The Compensation Plan Reserve Fund is a plan that provides compensation to all staff members, employees and dependents in case of death, injury or illness attributable to the performance of official duties.

103. The liabilities include the service costs for 2010 less benefit payments made.

2.11.5 Other Long-Term Employee Benefits

104. Other long-term employee benefits consist of home leave travel and other separation-related benefits which comprise accrued leave, death grants, repatriation grants and repatriation travel and removal expenses and are payable when staff are no longer in service.

2.11.5.1 Actuarial Assumptions and Methods

105. Each year, WFP reviews and selects assumptions and methods that will be used by the actuaries in the year-end valuation to determine the expense and contribution requirements for WFP's after-service benefit plans (post-employment benefits and other separation-related benefits). For the 2010 valuation, the assumptions and methods used are as described in the following table which also indicates the changes in the assumptions and methods used in comparison with the 2009 valuation.

106. The assumptions and methods adopted for the 2010 actuarial valuation resulted in an increase in the post-employment and other separation-related benefits liabilities in the total amount of US$29.7 million (US$31.2 million at 31 December 2009).

107. 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.

108. The following assumptions and methods have been used to determine the value of post-employment and other separation-related employee liabilities for WFP at 31 December 2010. Assumptions relating only to certain employee benefits are specifically identified:

Discount rate	5.00 percent for accounting and funding (5.40 percent in 2009 valuation)
Medical cost increases (ASM* only)	5.00 percent for 2011 (6.00 percent in 2010)
Expected return on assets	Funding – 6.81 percent; Accounting - Not applicable as plans are treated as unfunded
Annual salary scale	3.00 percent plus Merit Component
Annual cost of living increases	2.50 percent (minimum death grant benefit for the Staff Compensation Plan remains unchanged)
Future exchange rates	United Nations rates at 31 December 2010
Medical claims cost (ASM only)	Average claims in 2011 is US$5,287 for each adult (US$5,534 in 2009 valuation).
Age variation of medical cost (ASM only)	Average claims of US$5,287 in 2011 for the inactive adult participants (US$5,534 in 2009 valuation)
Annual administrative costs (ASM only)	$160.08 for the Dollar Plan and €123.96 for the Euro Plan
Insurer's retention (ASM only)	2.45 percent of the claims in 2011 (same as in 2009 valuation)
Future participant contributions (ASM only)	Accounting and Funding - 26.06 percent
Mortality rates	Mortality for all plans matches the 31 December 2009 valuations of the United Nations Joint Staff Pension Fund
Disability rates	Vary according to age and gender and categories of staff
Withdrawal rates	Based on a study of withdrawal rates from 2004 to 2008 for WFP
Retirement rates	Based on a study of withdrawal rates from 2004 to 2008 for WFP
Participation (ASM only)	95 percent of future retirees will elect coverage in the BMIP (90 percent in 2009 valuation). Based on a study of recent experience for the Rome-based United Nations organizations, 0.1 percent of people covered by the BMIP will withdraw from coverage each year after retirement (same as in 2009 valuation).
Medical plan of future retirees (ASM only)	Currently receiving pay in Euro currency – Euro Plan Currently receiving pay in currency other than Euro – Dollar Plan
Coverage of spouses (ASM only)	85 percent of male and 55 percent of female retirees have a spouse who elects coverage in the Basic Medical Insurance Plan (80 percent of male and 45 percent of female in 2009 valuation). Wives are assumed to be four years younger than their male spouse.
Proportion of future deaths and disablements attributable to performance of official duties (CPRF** only)	10.00 percent of deaths and 4.00 percent of disablements (same as in 2009 valuation)
Nature of disablements (CPRF only)	All disablements are assumed to be total and permanent
Eligibility of benefits offsets (CPRF only)	Deaths or disablements under CRPF are assumed to receive UNJSPF benefits
Benefits excluded due to lack of materiality (CPRF only)	Preparation of remains and funeral expenses; children's benefit for future deaths and disablements, etc.
Benefits excluded due to Inclusion in other valuations (CPRF only)	Medical and hospital expenses Return transportation of the deceased and family members
Members receiving repatriation benefits (OSRB*** only)	80 percent of those who retire or withdraw from service (same as in 2009 valuation)
Repatriation grant (OSRB only)	Repatriation benefits were assumed to be payable to 80.00 percent of those staff members who retire or withdraw from service (was 65.00 percent in 2009 valuation). 80.00 percent of eligible males were assumed to be married and 45.00 percent of female staff members were assumed to be married.
Repatriation travel and removal costs (OSRB only)	US$10,968 for unmarried staff and US$15,580 for married staff in 2011, growing with inflation thereafter. (In 2009 valuation was US$10,700 for unmarried staff and US$15,200 for married staff in 2010).
Accrued leave payable at separation (OSRB only)	Average accrued leave benefit was assumed to be 26 days' pay (same as in 2009 valuation)
Actuarial method	After Service Medical Plan, Separation Payments Scheme, and Staff Compensation Plan: Projected unit credit with an attribution period from the entry on duty date to the date of full eligibility for benefits. (One-year term cost for Staff Compensation Plan). Other Separation-Related Payments Schemes: For accrued leave, projected unit credit with all liability attributed to past service. For other benefits, included in the valuation, projected unit credit with an attribution period from the entry on duty date to separation.
Value of assets	Funding - Market value Accounting - Plans treated as unfunded

* ASM After Service Medical Plan ** Compensation Plan Reserve Fund *** Other separation-related benefits

109. The following tables provide additional information and analysis in relation to employee benefit liabilities, as calculated by the actuaries.

2.11.5.2 Reconciliation of Defined Benefit Obligation

	After-Service Medical Plan	Other separation-related payment schemes	Separation payment scheme	Staff compensation plan	Total
			US$ millions		
Net defined benefit obligation at 31 December 2009	**206.4**	**41.6**	**18.0**	**5.0**	**271.0**
Service cost for 2010	13.1	3.1	1.8	0.2	18.2
Interest cost for 2010	11.1	2.2	0.9	0.2	14.4
(Actual gross benefit payments for 2010)	(3.8)	(3.1)	(0.6)	(0.3)	(7.8)
Participant contributions	1.0	-	-	-	1.0
Exchange rate movements	(14.9)	(0.3)	(2.1)	-	(17.3)
Other actuarial loss	27.2	4.0	3.1	0.3	34.6
Defined benefit obligation at 31 December 2010	**240.1**	**47.5**	**21.1**	**5.4**	**314.1**

2.11.5.3 Annual Expense for Calendar Year 2010

	After-Service Medical Plan	Other separation-related payment schemes	Separation payments scheme	Staff compensation plan	Total
			US$ millions		
Service cost	13.1	3.1	1.8	0.2	18.2
Interest cost	11.1	2.2	0.9	0.2	14.4
(Gain)/loss amortization	0.3	3.7	(0.1)	-	3.9
Total expense recognized in 2010	**24.5**	**9.0**	**2.6**	**0.4**	**36.5**

2.11.5.4 Reconciliation of Present Value of Defined Benefit Obligation

	After-Service Medical Plan	Other separation-related payments schemes	Separation payments scheme	Staff compensation plan	Total
			US$ millions		
Defined benefit obligation					
Inactive	79.8	-	-	4.1	83.9
Active	160.3	47.5	21.1	1.3	230.2
Total	**240.1**	**47.5**	**21.1**	**5.4**	**314.1**
(Surplus)/deficit	240.1	47.5	21.1	5.4	314.1
Unrecognized gain/(loss)	(36.5)	-	1.5	0.6	(34.4)
Net balance sheet (asset)/ liability	**203.6**	**47.5**	**22.6**	**6.0**	**279.7**

2.11.5.5 After-Service Medical Plan - Sensitivity Analysis

110. Three of the principal assumptions in the valuation of the After-Service Medical Plan are: i) the rate at which medical costs are expected to increase in the future; ii) the exchange rate between the U.S. dollar and the Euro; and iii) the discount rate used to determine the present value of benefits that will be paid from the plan in the future.

111. In the 2010 valuation, it was assumed that medical costs will increase at 5.00 percent for 2011 and each year thereafter. It was also assumed that the future exchange rates between the Euro and US dollar will average about 1.314 US dollars per Euro, which was the United Nations operational rate of exchange at 31 December 2010. Further assumed was a discount rate of 5.00 percent, the spot discount rate at 31 December 2010.

112. A sensitivity analysis was undertaken to determine the impact of the above assumptions on the liability and service cost under IPSAS 25. The results indicate that claims costs and premium rates would increase by the same percentage as the medical inflation, but that all other assumptions would be unaffected. For the exchange rate, the sensitivity analysis reflects the impact of a 10-cent increase in the value of the Euro in US dollars. For medical inflation and the discount rates, the sensitivity analysis reflects the impact of 1.00 percent changes.

113. For the liability sensitivity analysis, an exchange rate of 1.314 US dollars per Euro, discount rate of 5.00 percent and inflation rate of 5.00 percent per year resulted in a gross defined benefit obligation of US$240.1 million. For the service cost sensitivity analysis and using the same principal assumptions used for the liability sensitivity analysis, the service cost for 2011 was calculated at US$16.3 million.

2.11.5.6 Expected Costs during 2011

114. The expected contribution of WFP in 2011 to the defined benefits plans is US$8.4 million which is determined based on expected benefit payments for that year.

2.11.6 United Nations Joint Staff Pension Fund

115. WFP is a member organization participating in the UNJSPF, which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits. 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.

116. The actuarial method adopted for the UNJSPF is the Open Group Aggregate method to determine whether the present and estimated future assets of the Fund will be sufficient to meet its present and estimated future liabilities, using various sets of assumptions as to future economic and demographic developments. The actuarial study is carried out at least once every three years; a review of the 2008 annual report of the UNJSPF reveals that an actuarial valuation has been carried out every two years from as early as 1997. The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the United Nations Joint Staff Pension Board on the audit every two years.

The most recent actuarial valuation at the time of preparing these accounts was the one carried out at 31 December 2009.

117. Paragraph 52 of the 2009 actuarial valuation indicates that in order to assist the UNJSPF Board in its assessment of the position of the Fund on a current rather than a projected basis, a calculation was made of the actuarial value of accrued benefits on the valuation date (i.e., the liabilities of the Fund for the benefits which have already been earned by present active and retired participants). This value represents the amount of assets which the Fund would have to have on hand in order to meet its present obligations. These obligations consist of: i) the continuation of the existing pensions to current pensioners and beneficiaries, and ii) the establishment of the necessary reserve to meet benefit payments on behalf of present participants on the assumption that they would terminate employment on the valuation date and select the available option (as between a withdrawal settlement, a deferred retirement benefit, an early retirement benefit, or a retirement benefit) most valuable to them (i.e., with the highest actuarial cost).

118. At 31 December 2009 and as outlined under paragraph 57 of the same actuarial valuation report, the funded ratio assuming zero pension adjustments was 139.6 percent (146.9 percent in the 2007 valuation) while the funded ratio that takes rates of pension adjustment into account, the ratios based on a real interest rate (i.e. net of nominal interest assumption and assumed rate of pension adjustment) of 3.5 percent was 91.0 percent (95.3 percent in the 2007 valuation).

119. The UNJSPF publishes quarterly reports on its investments and these can be viewed by visiting the UNJSPF at www.unjspf.org.

120. WFP's financial obligation to the UNJSPF consists of its mandated contribution at the rate established by the United Nations General Assembly, currently at 7.9 percent for the participants and 15.8 percent for member organizations, respectively, of the applicable pensionable remuneration, together with its share of any actuarial deficiency payments under Article 26 of the Regulations of the Pension Fund.

121. Such deficiency payments are payable only 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. At the time of this report, the United Nations General Assembly had not invoked this provision.

122. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations, with the result that there is no consistent and reliable basis for allocating the obligation, or plan assets to participating organizations in the plan. WFP, as well as other participating organizations, is not in a position to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes, and hence has accounted for this plan as if it were a defined contribution plan in line with IPSAS 25, Employee Benefits.

123. During 2010, contributions paid to UNJSPF amounted to US$58.4 million. Expected contributions due in 2011 are US$62.0 million (US$54.7 million at 31 December 2009 and US$57.1 million at 31 December 2010).

2.11.7 Social Security Arrangements for Employees under Service Contracts

124. WFP employees under service contracts are entitled to social security based on local conditions and norms. WFP, however, has not undertaken any global arrangement for social security under service contracts. Social security arrangements can either be obtained from the national security system, private local schemes or as cash compensation for own scheme. The provision of proper social security in line with local labour legislation and practice is a key requirement of the service contract. Service contract holders are not WFP staff members and are not covered by the FAO and United Nations Staff Rules and Regulations.

Note 2.12: Long-Term Loan

	2010	2009
	US$ millions	
Long-term loan	**112.3**	**111.7**

125. In December 2000, an agreement was reached between a major donor and WFP regarding a scheme to facilitate the provision of food assistance to two country projects. Under the scheme, the donor gave a contribution in cash of US$164.1 million, of which US$106.0 million was used to purchase food commodities against a long-term loan contract with a government agency of the donor country.

126. The loan is payable over 30 years and interest on the loan is at the rate of two percent per year for the first ten years and three percent per year on the declining balance each year thereafter. Investment in US Treasury STRIPS (Note 2.6) acquired in 2001 are held to maturity up to 2031 for the payment of interest and principal of the commodity loan of US$106.0 million.

127. The loan is reflected at amortized cost using the effective interest rate of 2.44 percent. At 31 December 2010, amortized cost was US$112.3 million (US$111.7 million at 31 December 2009). Interest paid for the year is US$2.1 million.

128. Interest expense during 2010 totalled US$2.7 million (US$2.7 million at 31 December 2009) as reflected in the Statement of Financial Performance, of which US$2.1 million represents the annual interest payable in May of each year and US$0.6 million represents the amortized cost resulting from the recognition of the long-term loan to its net present value.

129. In the Statement of Cash Flow, interest expense paid during the year in the amount of US$2.1 million is presented under financing activities while amortized interest of US$0.6 million is presented under operating activities.

Note 2.13: Financial Instruments

2.13.1 Nature of Financial Instruments

130. Details of the significant accounting policies and methods adopted, including the criteria for recognition and derecognition, the basis of measurement and the basis on which gains and losses are recognized in respect of each class of financial asset and financial liability are set out in Note 1.

131. The financial assets of WFP are categorized as follows:

	2010	2009
	US$ millions	
Financial assets at fair value through surplus or deficit	776.5	580.1
Held-to-maturity investments	85.8	83.3
Loans and receivables	3 058.4	3 057.2
Available-for-sale financial assets	164.5	123.0
Subtotal	**4 085.2**	**3 843.6**
Non-financial assets	970.8	1 110.1
Total	**5 056.0**	**4 953.7**

132. All material financial liabilities are stated at amortized cost.

2.13.2 Credit Risk

133. WFP's credit risk is spread widely and WFP's risk management policies limit the amount of credit exposure to any one counterparty and include minimum credit quality guidelines. The short-term investments have credit quality at year end of AAA/AA+ and the long-term investments have credit quality at year end of AA+.

134. Credit risk and liquidity risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are placed in highly liquid and diversified money market funds with AAA credit ratings and/or with major financial institutions that have been accorded strong investment grade ratings by a primary rating agency and/or with other creditworthy counterparties.

135. Contributions receivable comprise primarily amounts due from sovereign nations. Details of contributions receivable, including allowances for reductions in contribution revenue and doubtful accounts, are provided in Note 2.3.

2.13.3 Interest Rate Risk

136. WFP is exposed to interest rate risk through short-term investments and long-term bonds. At 31 December 2010, the effective interest rates of these two investment portfolios were 0.75 percent and 2.35 percent respectively (1.46 percent and 3.00 percent respectively in 2009). A measurement of interest rate sensitivity indicates that the effective duration is 0.44 years for the short-term investments and 5.94 years for

the long-term bonds (0.49 years and 5.1 years respectively in December 2009). Fixed income derivatives are used by external investment managers to manage interest rate risk under strict investment guidelines.

2.13.4 Foreign Currency Risk

137. At 31 December 2010, 91 percent of cash, cash equivalent and investments are denominated in the US dollar base currency and 9 percent are denominated in Euros (85 percent in the US dollar base currency and 13 percent in Euros at 31 December 2009). Non-US dollar holdings have the primary objective of supporting operating activities. In addition, 83 percent of contributions receivable is denominated in the US dollar base currency, 7 percent is denominated in Euros and 10 percent is denominated in other currencies (80 percent in the US dollar base currency, 11 percent in Euros and 9 percent in other currencies at 31 December 2009).

138. Foreign exchange forward contracts are used to hedge the Euro versus US dollar exchange exposure on Programme Support and Administrative staff costs incurred at Headquarters. At its Annual Session in 2009, the Board noted WFP´s intention to continue hedging Euro expenditure for 2010 and 2011 by entering into 24 foreign exchange forward contracts to buy €5.0 million each month at fixed rates versus the US dollar from mid-2009 (decision 2009/EB.A/9). During the year ended 31 December 2010, 12 contracts were executed at a realized loss of US$4.9 million. The remaining 12 contracts have a notional value of US$85.0 million and a mark-to-market unrealized loss of US$4.9 million using the forward rate at 31 December 2010. At 31 December 2009 the 24 contracts had a notional value of US$169.5 million and a mark-to-market unrealized gain of US$3.2 million using the forward rate at 31 December 2009. The realized and unrealized losses are included in currency exchange differences presented in the Statement of Financial Performance.

2.13.5 Price Risk

139. WFP is subject to market price risk through equities held as part of the long-term investments. The equity investments track the MSCI World Index, a recognized index of stocks of all developed world markets.

Note 2.14: Fund Balances and Reserves

	2010					2009
	Programme category funds (fund balance)	Bilateral operations and trust funds (fund balance)	General Fund and Special Accounts		Total	
			(Fund balance)	Reserves		
	US$ millions					
Opening balance at 01 January	**3 042.7**	**287.0**	**462.3**	**266.1**	**4 058.1**	**3 900.1**
Surplus (deficit) for the year	**(152.1)**	**115.8**	**64.8**	**-**	**28.5**	**145.2**
Subtotal	**2 890.6**	**402.8**	**527.1**	**266.1**	**4 086.6**	**4 045.3**
Movements during the year:						
Advances to projects	161.4	-	3.5	(164.9)	-	-
Repayments by projects	(117.5)	-	(13.8)	131.3	-	-
Approved Board allocations	-	-	37.4	(37.4)	-	-
Replenishments	-	-	(33.5)	33.5	-	-
Surplus of ISC revenue over PSA expenses	-	-	(30.8)	30.8	-	-
Transfers between funds	116.6	-	(116.6)	-	-	-
Net unrealized gains on long-term investments	-	-	7.5	-	7.5	12.8
Total movements during the year	**160.5**	**-**	**(146.3)**	**(6.7)**	**7.5**	**12.8**
Closing balance at 31 December 2010	**3 051.1**	**402.8**	**380.8**	**259.4**	**4 094.1**	**4 058.1**

140. Fund balances represent the unexpended portion of contributions that are intended to be utilized in future operational requirements of the Programme. These are WFP's residual interest in the assets after deducting all its liabilities.

141. There are cash contributions provided by donors which, at the time of confirmation, have not been designated to a specific programme category or bilateral projects. These contributions have been designated as multilateral and unallocated funds and are reported under the General Fund. When these contributions are allocated to specific projects, the resulting expenses are reflected in the appropriate programme category or bilateral project funds.

142. Replenishments represent donor contributions which are specifically directed to the Immediate Response Account (IRA).

	2010					2009
	2.14.1 Operational Reserve (OR)	2.14.2 Immediate Response Account (IRA)	2.14.3 DSC/ODOC Advance Facility (DSCAF*)	2.14.4 PSA Equalization Account (PSAEA)	Total	
	US$ millions					
Opening balance at 01 January	**57.0**	**47.1**	**10.0**	**152.0**	**266.1**	**278.5**
Advances to projects	-	(151.4)	(13.5)	-	(164.9)	(147.8)
Repayments by projects	-	118.2	13.1	-	131.3	100.0
Approved Board allocations	-	-	-	(37.4)	(37.4)	(38.9)
Replenishments	-	33.5	-	-	33.5	52.7
Surplus of ISC revenue over PSA expenses	-	-	-	30.8	30.8	21.6
Transfer between reserves	9.6	-	(9.6)	-	-	-
Closing balance at 31 December 2010	**66.6**	**47.4**	**0.0**	**145.4**	**259.4**	**266.1**

* Direct Support Cost Advance Facility

143. Reserves are established by the Board as facilities for funding and/or financing specific activities under specific circumstances. During 2010, WFP had 4 active reserves: i) Operational Reserve; ii) Immediate Response Account; iii) Direct Support Cost Advance Facility; and the iv) PSA Equalization Account.

144. At its 2010 Second Regular Session, the Board approved the increase of the Working Capital Financing Facility ceiling from US$180.0 million to US$557.0 million and authorized the transfer of the DSCAF reserve of US$35.9 million to the Operational Reserve of US$57.0 million, creating a single advance financing reserve of US$92.9 million (Decision 2010/EB.2/7, paragraphs i and ii). This financing reserve is used to manage the risk associated with the increased Working Capital Financing Facility.

145. Movements in the reserves are charged directly against the reserve accounts.

2.14.1 Operational Reserve

146. Financial Regulation 10.5 calls for the maintenance of an Operational Reserve for the purpose of ensuring the continuity of operations in the event of a temporary shortfall of resources. The Operational Reserve was initially established at a level of US$57.0 million. In November 2010, the established level was increased to US$92.9 million as a result of the transfer of the DSCAF reserve to the Operational Reserve.

147. During 2010, the actual Operational Reserve balance increased to US$66.6 million as a result of the transfer of US$9.6 million from DSCAF. At 31 December 2010, US$26.3 million of advances to projects from the DSCAF remained outstanding. The repayments related to DSCAF outstanding advances will be transferred to the Operational Reserve bringing its level to the established level.

2.14.2 Immediate Response Account

148. The IRA was established as a flexible resource facility to enable WFP to respond quickly to emergency needs for food and for non-food-related purchase and delivery costs.

149. In 2010, the IRA received US$33.5 million in replenishments. Advances made to projects totalled US$151.4 million of which US$118.2 million was repaid during 2010. The IRA balance at 31 December 2010 is US$47.4 million which is below the target level of US$70.0 million. Outstanding advances to projects made by the IRA at 31 December 2010 totalled US$207.8 million.

2.14.3 Direct Support Cost Advance Facility

150. The purpose of the DSCAF is to ensure continued financing of DSC and ODOC pending confirmation of contributions. DSCAF approved level is US$35.9 million.

151. During 2010, advances to projects and the Global Vehicle Leasing Programme amounted to US$13.5 million. Repayments by the projects in 2010 were US$13.1 million. Outstanding advances to projects made by the DSCAF at 31 December 2010 totalled US$26.3 million.

152. The DSCAF remaining balance at 31 December 2010 of US$9.6 million was transferred to the Operational Reserve.

2.14.4 Programme Support and Administrative Budget Equalization Account

153. The PSAEA is a reserve set up to record the difference between Indirect Support Costs revenue and PSA expenses for the financial period.

154. During the Second Regular Session of the Board in November 2009, the Board approved one-time capacity investments from PSAEA (Decision 2009/EB.2/5 v)) totalling US$25.9 million of which US$14.0 million was allocated from PSAEA as at 31 December 2010. During the Annual Session in June 2010, the Board approved the use of PSAEA (Decision 2010/EB.A/6 iv)) as the source of funding to cover expenditures totalling US$38.9 million for field security upgrades of which US$23.4 million was allocated from PSAEA as at 31 December 2010.

155. Of the total amount of US$37.4 million that has been allocated from the PSAEA, US$14.5 million was allocated to the Security Emergency Fund meant for the required on-site support, measures to ensure premises compliance, office relocation (where needed) and security equipment. US$8.9 million were allocated to the United Nations Security Management System. The balance of US$14.0 million pertains to allocations made to cluster leadership, learning and development, IT initiatives that aim to modernize WFP's IT capability, leverage technology to focus on core business and implementation of the SMCA project to enhance internal control and the Enterprise Risk Management framework.

156. The surplus of ISC revenue over PSA expenses totalling US$30.8 million was transferred to PSAEA. The PSAEA balance at 31 December 2010 is US$145.4 million.

NOTE 3: REVENUE

		2010	2009
		US$ (millions)	
3.1	**Monetary contributions**		
	Contributions for direct costs	3 316.0	3 242.7
	ISC contributions	266.2	265.1
	Subtotal	**3 582.2**	**3 507.8**
	Less:		
	Refunds, reprogrammes and reductions in contribution revenue	(35.5)	(62.8)
	Total monetary contributions	**3 546.7**	**3 445.0**
3.2	**In-kind contributions**		
	Commodities in-kind contributions	548.5	751.0
	Service in-kind contributions	27.7	13.1
	Subtotal	**576.2**	**764.1**
	Add (deduct):		
	Increase (decrease) in contribution revenue	6.9	(3.9)
	Total in-kind contributions	**583.1**	**760.2**
3.3	**Currency exchange differences**	**7.3**	**44.2**
3.4	**Return on investments**		
	Net realized (losses) on investments	(10.4)	(23.5)
	Net unrealized gains on investments	11.5	37.3
	Interest earned	21.5	24.9
	Total return on investments	**22.6**	**38.7**
3.5	**Other revenue**	**106.5**	**85.2**
	Total revenue	**4 266.2**	**4 373.3**

157. Contribution revenue is adjusted by changes in the levels of the allowance for reductions in contribution revenue (Note 2.3) and in the level of the provisions for refunds to donors (Note 2.10). Actual refunds and reductions in contribution revenue are made against specific contributions.

158. In-kind contributions represent confirmed contributions of food commodities or services during the year.

159. Other revenue relates mainly to special accounts activities including air operations, provision of goods and services by United Nations Humanitarian Response Depot, Field Emergency Support Office, service fees from third-party agreements as well as proceeds from sale of damaged commodities and other unserviceable properties.

NOTE 4: EXPENSES

		2010	2009
		US$ (millions)	
4.1	**Cash and Vouchers distributed**	**60.3**	**15.1**
4.2	**Commodities distributed**	**2 254.6**	**2 380.4**
4.3	**Distribution and related services**	**659.0**	**734.5**
4.4	**Wages, salaries, employee benefits and other staff costs**		
	International and national staff	545.8	518.4
	Consultants	38.3	43.8
	United Nations volunteers	6.6	5.7
	Temporary staff	35.0	24.1
	Other personnel costs	20.7	25.8
	Total wages, salaries, employee benefits and other staff costs	**646.4**	**617.8**
4.5	**Supplies, consumables and other running costs**		
	Telecommunications and Information Technology	17.2	17.8
	Equipment	75.2	35.3
	Office supplies and consumables	26.8	31.2
	Utilities	8.0	6.7
	Vehicle maintenance and running costs	25.3	24.6
	Total supplies, consumables and other running costs	**152.5**	**115.6**
4.6	**Contracted and other services**		
	Air operations	147.0	115.1
	ODOC contracted services	15.5	40.9
	Other contracted services	136.3	77.2
	Telecommunications/IT related services	28.9	29.7
	Security and other services	24.4	19.3
	Leases	22.2	21.3
	Total contracted and other services	**374.3**	**303.5**
4.7	**Finance Costs**	**2.7**	**2.7**
4.8	**Depreciation and amortization**	**25.1**	**12.5**
4.9	**Other expenses**		
	Maintenance services	4.6	7.0
	Insurance	9.2	7.4
	Bank charges/investment manager and custodian fees	3.1	2.7
	Doubtful accounts and impairment	25.5	9.9
	Trainings and meetings	17.0	10.2
	Other	3.4	8.8
	Total other expenses	**62.8**	**46.0**
	Total expenses	**4 237.7**	**4 228.1**

160. During 2010, cash and vouchers distributed totalled US$60.3 million (US$15.1 million at 31 December 2009).

161. During 2010, food commodities and non-food items distributed totalled US$2,254.6 million, as reported in the Statement of Financial Performance (US$2,380.4 million at 31 December 2009).

162. Commodities distributed include cost of commodities as well as transport and related costs between the country in which WFP takes possession and the recipient country. Included in the cost of commodities distributed are post-delivery losses of US$12.9 million (US$9.4 million at 31 December 2009) (Note 9).

163. Given WFP's accounting policy to expense when food is handed over to the CP, at 31 December 2010, there remains food commodities that have yet to be distributed to beneficiaries.

164. Distribution and related services represent cost of moving commodities in-country up to and including final distribution.

165. Wages, salaries, employee benefits and other staff costs are for WFP staff, consultants and service contracts. Other personnel costs include employee and consultant travel, training and staff workshops, and incentives.

166. Supplies, consumables and other running costs used are cost of goods and services used for both direct project implementation and administration and support.

167. Other expenses of US$62.8 million include maintenance of facilities, insurance, meeting related costs, allowances for doubtful accounts and inventory impairment.

NOTE 5: STATEMENT OF CASH FLOW

168. Cash flows from operating activities are not adjusted for donations of commodities-in-kind or services-in-kind as these have no impact on cash movements. Cash flows from investing activities are shown net of items where the turnover is rapid, the amounts are large and the maturities are short.

NOTE 6: STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

169. WFP's budget and financial statements are prepared using a different 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 using a classification based on the nature of expenses in the Statement of Financial Performance, whereas the Statement of Comparison of Budget and Actual Amounts is prepared on a commitment accounting basis.

170. As required under 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 and entity differences. There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget.

171. Explanations of material differences between the original budget and final budget and, final budget and the actual amounts are presented under the Financial and Budget Analysis section of the Executive Director's Statement and form part of these financial statements.

172. Basis differences occur when the approved budget is prepared on a basis other than the accounting basis. For WFP, the budget is prepared on the commitment basis and the financial statements are prepared on the accrual basis.

173. Timing differences occur when the budget period differs from the reporting period reflected in the financial statements. There are no timing differences for WFP for purposes of comparison of budget and actual amounts.

174. Entity differences occur when the budget omits programmes or entities that are part of the entity for which the financial statements are prepared.

175. Presentation differences are due to differences in the format and classification schemes adopted for presentation of Statement of Cash Flow and Statement of Comparison of Budget and Actual Amounts.

176. 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 Cash Flow (Statement IV) for the year ended 31 December 2010 is presented below:

	2010			
	Operating	**Investing**	**Financing**	**Total**
	US$ millions			
Actual amount on comparable basis (Statement V)	**(3 940.2)**	**-**	**-**	**(3 940.2)**
Basis differences	(412.3)	(274.0)	(2.1)	(688.4)
Presentation differences	4 167.2	-	-	4 167.2
Entity differences	(150.3)	-	-	(150.3)
Actual amount in the Statement of Cash Flow (Statement IV)	**(335.6)**	**(274.0)**	**(2.1)**	**(611.7)**

177. Open commitments including open purchase orders and net cash flows from operating, investing and financing activities are presented as Basis differences. Revenue and non-fund relevant expenses that do not form part of the Statement of Comparison of Budget and Actual Amounts are reflected as Presentation differences. Under Entity differences, bilateral operations and trust funds form part of WFP activities and are reported in the financial statements but, as they are considered extra-budgetary resources, are excluded from the budget.

178. Budget amounts have been presented on a functional classification basis in accordance with the Biennial Management Plan (2010–2011) which presents a breakdown of the budget by year for purposes of the above comparison.

NOTE 7: SEGMENT REPORTING

Note 7.1: Statement of Financial Position by Segment

	2010					2009
	Programme Category Funds	General Fund and Special Accounts	Bilateral Operations and Trust Funds	Inter-Segment Transac-tions	Total	
	(US$ millions)					
ASSETS						
Current Assets						
Cash and short-term investments	555.6	543.4	230.1	-	1 329.1	1 744.4
Contributions receivable	2 077.2	111.5	163.9	-	2 352.6	1 896.7
Inventories	671.7	20.5	8.0	-	700.2	738.4
Other receivables	133.7	168.6	6.4	(122.3)	186.4	131.8
	3 438.2	**844.0**	**408.4**	**(122.3)**	**4 568.3**	**4 511.3**
Non-current Assets						
Contributions receivable	21.1	66.8	30.0	-	117.9	148.9
Long-term investments	-	248.2	-	-	248.2	204.2
Property, plant and equipment	60.2	23.6	1.3	-	85.1	45.7
Intangible assets	-	36.5	-	-	36.5	43.6
	81.3	**375.1**	**31.3**	**-**	**487.7**	**442.4**
TOTAL ASSETS	**3 519.5**	**1 219.1**	**439.7**	**(122.3)**	**5 056.0**	**4 953.7**
LIABILITIES						
Current Liabilities						
Payable and accruals	459.1	157.3	27.9	(122.3)	522.0	480.8
Provisions	9.3	0.7	9.0	-	19.0	24.4
Employee benefits	-	22.2	-	-	22.2	23.3
	468.4	**180.2**	**36.9**	**(122.3)**	**563.2**	**528.5**
Non-current Liabilities						
Employee benefits	-	286.4	-	-	286.4	255.4
Long-term loan	-	112.3	-	-	112.3	111.7
	-	**398.7**	**-**	**-**	**398.7**	**367.1**
TOTAL LIABILITIES	**468.4**	**578.9**	**36.9**	**(122.3)**	**961.9**	**895.6**
NET ASSETS	**3 051.1**	**640.2**	**402.8**	**-**	**4 094.1**	**4 058.1**
FUND BALANCES AND RESERVES						
Fund balances	3 051.1	380.8	402.8	-	3 834.7	3 792.0
Reserves	-	259.4	-	-	259.4	266.1
TOTAL FUND BALANCES AND RESERVES, 31 December 2010	**3 051.1**	**640.2**	**402.8**	**-**	**4 094.1**	**4 058.1**
TOTAL FUND BALANCES AND RESERVES, 31 December 2009	**3 042.7**	**728.4**	**287.0**	**-**	**4 058.1**	

Note 7.2: Statement of Financial Performance by segment

	2010					2009
	Programme Category Funds	General Fund and Special Accounts	Bilateral Operations and Trust Funds	Inter-Segment Transactions	Total	
	(US$ millions)					
REVENUE						
Monetary contributions	2 953.9	331.2	261.6	-	3 546.7	3 445.0
In-kind contributions	565.6	13.4	4.1	-	583.1	760.2
Currency exchange differences	(3.7)	10.8	0.2	-	7.3	44.2
Return on investments	-	22.6	-	-	22.6	38.7
Other revenue	61.5	125.8	0.2	(81.0)	106.5	85.2
TOTAL REVENUE	**3 577.3**	**503.8**	**266.1**	**(81.0)**	**4 266.2**	**4 373.3**
EXPENSES						
Cash and vouchers distributed	60.3	-	-	-	60.3	15.1
Commodities distributed	2 173.6	21.5	69.2	(9.7)	2 254.6	2 380.4
Distribution and related services	649.3	4.7	4.3	0.7	659.0	734.5
Wages, salaries, employee benefits and other staff costs	389.3	223.8	42.3	(9.0)	646.4	617.8
Supplies, consumables and other running costs	112.1	34.5	13.5	(7.6)	152.5	115.6
Contracted and other services	270.4	121.2	16.6	(33.9)	374.3	303.5
Finance costs		2.7			2.7	2.7
Depreciation and amortization	11.6	13.1	0.4	-	25.1	12.5
Other expenses	62.8	17.5	4.0	(21.5)	62.8	46.0
TOTAL EXPENSES	**3 729.4**	**439.0**	**150.3**	**(81.0)**	**4 237.7**	**4 228.1**
SURPLUS FOR THE YEAR, 2010	**(152.1)**	**64.8**	**115.8**	**-**	**28.5**	**145.2**
SURPLUS FOR THE YEAR, 2009	**(135.8)**	**314.8**	**(33.8)**	**-**	**145.2**	

179. Cash and cash equivalents and short-term investments are presented as separate line items on the face of the Statement of Financial Position and presented together under segment reporting. The below table reconciles the amounts reported in the Statement of Financial Position and segment reporting.

	2010	2009
	US$ millions	
Cash and cash equivalents	550.5	1 162.2
Short-term investments	778.6	582.2
Total cash and cash equivalents and short-term investments	**1 329.1**	**1 744.4**

180. Some internal activities lead to accounting transactions that create inter-segment revenue and expense balances in the financial statements. Inter-segment transactions are reflected in the above tables to accurately present these financial statements.

181. During the year ended 31 December 2010, activities have created inter-segment balances in the amount of US$122.3 million in the Statement of Financial Position and US$81.0 million in the Statement of Financial Performance.

182. Of the total PP&E of US$85.1 million at 31 December 2010 (US$45.7 million at 31 December 2009), US$39.4 million relates to acquisitions, net of disposals in 2010 (US$27.0 million at 31 December 2009).

183. Contributions for operations and other activities are recognized as revenue when these contributions are confirmed in writing. Expenses are incurred gradually over time according to projects and beneficiaries needs.

184. Fund balances under Programme Category Funds and Bilateral Operations and Trust Funds represent the unexpended portion of contributions that are intended to be utilized in future operational requirements of the Programme.

NOTE 8: COMMITMENTS AND CONTINGENCIES

Note 8.1: Commitments

8.1.1 Property Leases

	2010	2009
	US$ millions	
Obligations for property leases:		
Under 1 year	24.7	23.2
1 – 5 years	34.9	35.9
Beyond 5 years	6.4	4.8
Total property leases obligations	**66.0**	**63.9**

185. At 31 December 2010, property lease obligations for the WFP Headquarters building in Rome represent 32 percent of the total obligations under the 1 year category and 22 percent under the 1 to 5 years category (35 percent and 46 percent, respectively, at 31 December 2009). The lease can be renewed at WFP's option. Costs incurred in leasing the Headquarters building are reimbursed by the host government.

186. Costs related to non-property leases amounted to US$1.6 million (US$0.2 million at 31 December 2009). The non-property leases represent rental of vehicles and photocopiers.

8.1.2 Other Commitments

187. At 31 December 2010, WFP had commitments for the acquisition of food commodities, non-food items, transportation, services and capital commitments contracted but not delivered as follows:

	2010	2009
	US$ millions	
Food commodities	372.3	455.2
Non-food items	45.2	44.2
Transportation	81.0	120.6
Services	77.6	93.9
Capital commitments	7.8	7.3
Total open commitments	**583.9**	**721.2**

188. Under IPSAS 1 on accrual accounting and on the basis of the delivery principle, commitments for future expenses are not recognized in the financial statements. Such commitments will be settled from the unexpended portion of contributions after receipt of the related goods or services.

Note 8.2: Legal or Contingent Liabilities and Contingent Assets

189. There are no material contingent liabilities arising from legal actions and claims that are likely to result in a significant liability to WFP.

190. There is one material contingent asset resulting from an arbitration award in 2010. In 2005, cases of fraud by two WFP employees were discovered in the WFP Regional Bureau in the Republic of South Africa. The loss was estimated at US$6.0 million. Criminal action is ongoing before South African jurisdictions. Separately, a civil action was initiated in 2008 to recover the bulk of the funds. On 12 January 2010, the Arbitral Tribunal issued a default award in favour of WFP on all claims. The total award amounts to approximately US$6.0 million, plus interest and costs. WFP is seeking enforcement of this award against assets held by a court-appointed Curator Bonis. The matter is pending before the High Court of South Africa. WFP is working with its local counsel in the Republic of South Africa towards enforcement of the arbitration award.

NOTE 9: LOSSES, EX-GRATIA PAYMENTS AND WRITE-OFFS

191. WFP Financial Regulation 12.3 provides that "The Executive Director may make such *ex-gratia* payments as the Executive Director deems necessary in the interest of WFP. The Executive Director shall report all such payments to the Board with the financial statements". In addition Financial Regulation 12.4 provides that "The Executive Director may, after full investigation, authorize the writing off of losses of cash,

commodities and other assets, provided that a statement of all amounts written off shall be submitted to the External Auditor with the financial statements."

192. The following table details the ex-gratia payments and losses of cash, commodities and other assets for 2010.

	2010	2009
	US$ millions	
Ex-gratia payments	0.2	0.8
Commodity losses	12.9	9.4
Non-food item losses	-	1.4
Other assets and cash losses	1.0	0.1
	In Metric Tonnes	
Commodity losses (quantity)	31 727	21 960

193. The ex-gratia payments mainly pertain to medical costs of WFP staff who were victims of the suicide bombing in one of the WFP country offices. The commodity losses occurred after the related food arrived at the recipient country. The other assets and cash losses related mainly to write-offs of receivables from customers and service providers.

194. Fraud and presumptive fraud in 2010 comprised of theft and misappropriation of commodities, non-food items, and cash involving WFP staff and third parties valued at US$382,458, of which US$50,200 has been recovered (US$1,349,724 and US$84,007 respectively in 2009).

NOTE 10: RELATED PARTY AND OTHER SENIOR MANAGEMENT DISCLOSURE

Note 10.1: Key Management Personnel

	Number of individuals	Number of positions	Compensation and post adjustment	Entitlements	Pension and health plans	Total remuneration	Outstanding advances against entitlements	Outstanding loans
			US$ millions					
Key management personnel, 2010	**6**	**5**	**1.0**	**0.4**	**0.2**	**1.6**	**0.2**	**-**
Key management personnel, 2009	**6**	**5**	**1.0**	**0.6**	**0.2**	**1.8**	**0.2**	**-**

195. Key management personnel are the Executive Director and the Deputy Executive Directors, as they have the authority and responsibility for planning, directing and controlling the activities of WFP. The table above details the number of key management personnel positions and the number of key management staff who held these positions over the course of the year. The Executive Board consists of 36 Member States without personal appointment.

196. The aggregate remuneration paid to key management personnel includes: net salaries, post adjustment, entitlements such as representation allowance and other allowances, assignment and other grants, rental subsidy, personal effect shipment costs, and employer pension and current health insurance contributions.

197. Key management personnel are also qualified for post-employment benefits (Note 2.11) at the same level as other employees. These benefits cannot be reliably quantified.

198. Key management personnel are ordinary members of UNJSPF.

Note 10.2: Other Senior Management

	Number of individuals	Number of positions	Compensation and post adjustment	Entitlements	Pension and health plans	Total remuneration	Outstanding advances against entitlements	Outstanding loans
			US$ millions					
Other senior management, 2010	**28**	**24**	**4.2**	**1.7**	**1.0**	**6.9**	**0.9**	**0.1**
Other senior management, 2009	**24**	**24**	**4.2**	**1.0**	**1.0**	**6.2**	**0.8**	**0.1**

199. In addition to key management personnel whose remuneration, advances and loans which are required to be disclosed under IPSAS 20, similar disclosure is also made for other senior management of WFP for the sake of completeness and transparency. Other senior management include Regional Directors and Headquarters divisional directors.

200. The table above details the number of other senior management positions and the number of other senior management staff who held these positions over the course of the year.

201. During 2010, compensation provided to close members of the family of other senior management amounted to US$0.2 million.

202. Advances are those made against entitlements in accordance with staff rules and regulations.

203. Loans granted to other senior management are those granted under staff rules and regulations. Included are car loans, house rental advances and salary loans. These were granted free of interest and are recovered either in lump sum or in instalments through salary deductions.

204. Advances against entitlements and loans are widely available to all WFP staff.

NOTE 11: THIRD-PARTY AGREEMENTS

Third- party agreements reconciliation	**2010**		**2009**	
	US$ millions			
Opening balance at 01 January		**9.9**		**33.0**
New third-party agreements set up in the year	56.9		93.5	
Less: receipts/additions during the year	(83.3)	(26.4)	(109.7)	(16.2)
Third-party agreements payables during the year	(71.3)		(151.8)	
Less: disbursements/deductions during the year	98.2	26.9	144.9	(6.9)
Closing balance at 31 December		**10.4**		**9.9**

205. A TPA is a legally binding contract between WFP and another party in which WFP acts as an agent to provide goods or services at an agreed price. Transactions relating to TPA are treated as receivables and payables in the Statement of Financial Position. TPA receivables and payables are offset against each other in order to reflect the net position with the third parties.

206. The above table shows the movement of TPA transactions during 2010 showing a net receivable from third parties of US$10.4 million (US$9.9 million at 31 December 2009) (Note 2.5).

NOTE 12: EVENTS AFTER REPORTING DATE

207. WFP's reporting date is 31 December 2010. On the date of signing of these accounts by the External Auditor, there have been no material events, favourable or unfavourable, incurred between the balance sheet date and the date when the financial statements have been authorized for issue that would have impacted these statements.

ANNEX I

Name		Address
WFP	World Food Programme	Via Cesare Giulio Viola 68/70 Parco de' Medici 00148 Rome, Italy
General Counsel and Director, Legal Office	Bartolomeo Migone	Via Cesare Giulio Viola 68/70 Parco de' Medici 00148 Rome, Italy
Actuaries	AON Hewitt Associates	45 Glover Avenue Norwalk Connecticut 06850 United States
Principal Bankers	Citibank N.A.	Via dei Mercanti, 12 20121 Milan, Italy
	Intesa SanPaolo S.p.A.	Piazza San Carlo 156, 10121 Turin, Italy
	Standard Chartered Plc	6th Floor, 1 Basinghall Avenue London, EC2V 5DD, U.K.
Auditor	Office of the Comptroller and Auditor General of India	9, Deen Dayal Upadhyay Marg,New Delhi 110124

SECTION II

INDEPENDENT AUDITOR'S REPORT

To

The Executive Board
World Food Programme

Report on the Financial Statements

We have audited the accompanying financial statements of the World Food Programme (WFP), which comprise the statement of financial position at 31 December 2010, and the statement of financial performance, statement of changes in net assets, statement of cash flow, statement of comparison of budget and actual amounts for the year ended 31 December 2010 and notes to the financial statements.

Management's Responsibility for the Financial Statements

As stated in the Notes to the Financial Statements, these financial statements are prepared on accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS). Management is responsible for the preparation and fair presentation of these financial statements. 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. 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 World Food Programme at 31 December 2010, and its financial performance and of its cash flows for the year ended 31 December 2010 in accordance with IPSAS.

Report on Other Legal and Regulatory Requirements.

Further, in our opinion, the transactions of the World Food Programme 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 WFP Financial Regulations.

In accordance with the Regulation 14.4 of the Financial Regulations, we have also issued a long-form Report on our audit of the World Food Programme.

Vinod Rai
Comptroller and Auditor General of India
External Auditor

New Delhi, India
8 April 2011

Report of the External Auditor on the Financial Statements

World Food Programme

For the year ended December 2010

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COMPTROLLER AND AUDITOR GENERAL OF INDIA

The Comptroller and Auditor General of India (CAG) was appointed as the external auditor for the period from July 2010 to June 2016 of the World Food Programme (WFP).

CAG's audit aims to provide independent assurance to the Executive Board of the World Food Programme and to add value to WFP's management by making constructive recommendations.

For further information please contact:

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Report of the External Auditor for the year ended 31 December 2010

RESULTS OF AUDIT

1. We have audited the financial statements of the World Food Programme (WFP) in accordance with the Financial Regulations and in conformity with International Standards on Auditing.

2. We started our work in August 2010. During this period, we have completed the field audit in eight country offices (CO); two regional bureaux (RB); and the Headquarters at Rome. We also presented to the Executive Board the report on the special audit of WFP's operations in Somalia.

3. Our work on the financial statements was conducted through the two relevant IT applications used in WFP: WFP Information Network and Global System II (WINGS II) - a SAP IT Application used for accounting purposes and Commodity Movement Processing and Analysis System (COMPAS), an IT Application for tracking food inventory. Test-checks of selected accounting and operating transactions were carried out both by drilling down from the balances indicated in the Financial Statements and by checking the aggregation of figures from basic records. We also drew assurance from the report of Office of Internal Oversight on WINGS II: Post implementation.

4. Findings impacting the integrity of financial transactions observed in our field audit in COs and RBs were also integrated into our work. These were also communicated to the Management through Management Letters. The views of the Management received at various stages of audit were considered while finalizing this report.

I Performance against key indicators

5. The key financial and operational performance indicators that merit the attention of the Board are:

Operating surplus

6. The downward trend in operating surplus that started in 2009 continued in 2010. The surplus in 2010 was 1/5th of the level in 2009 and around 1/50th of the 2008 surplus. The operating surplus represents the difference between the recognized revenue and the expenses during the year. A fall in the revenue by 2.5 per cent and no change in the expenses in 2010 as compared to the corresponding figures in 2009, led to the dip in operating surplus.

Year	Operating surplus (in million US$)
2008	1390
2009	145
2010	29

7. The expenses remained almost at the same level in 2010 (as compared to 2009) despite increase in the price of food commodities and cost of logistics. The result was a reduced capacity for programme implementation. There is a need to work with the donors to maintain an appropriate level of resourcing to meet the needs of the programme of work.

Fund balances

8. The Fund Balances were US$3,835 million as at 31 December 2010. These balances represent the unexpended portion of contributions which are available to fund future operations, although subject to such restrictions as may be imposed by the respective donors. The balance can meet approximately seven months' operational activity as per the programme of work in the third update of the 2010–2011 Management Plan. The Fund balances have not been adjusted for WFP's open commitments of US$584 million which represent goods and services contracted but not delivered and hence not reckoned as a liability under IPSAS. The Executive Board can draw comfort from the fact that the fund balances are sufficient to meet the open commitments of WFP.

9. The employee benefits liabilities were US$309 million on 31 December 2010. Of this, US$174 million has already been charged against relevant funds and projects; the remaining US$135 million has been charged currently against the General Fund but will be charged against project costs in future financial periods through the standard staff cost.

Reserves

10. Reserves stood at US$259 million on 31 December 2010. Of this, 44 per cent (US$114 million) represent reserves that are available to WFP to ensure continuity in operations pending confirmation of donor contributions to projects. The balance is the PSA Equalization Account:[1] US$145 million, which is the reserve available to fund non-project activities but as directed by the Board.

11. The Executive Board had authorised transfer of US$35.9 million from the Direct Support Cost Advance Facility Reserve (DSCAFR) to the Operational Reserve (OR).[2] However, the balance available in DSCAFR and hence transferred to OR during the year was only US$9.6 million. Our analysis of outstanding advances to projects made by DSCAFR showed that the amount of US$26.3 million would be available for transfer to the OR.

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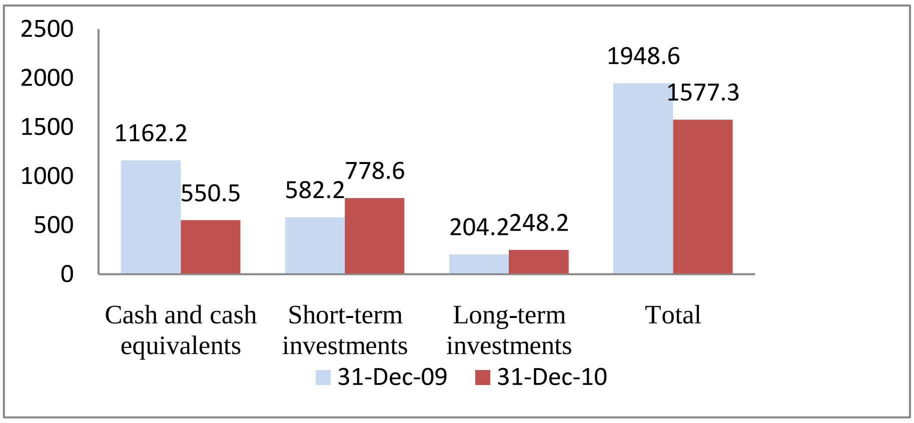
[1] Programme Support and Administrative (PSA) budget is used for covering WFP's indirect support costs which are not linked to any specific operation. It consists of ISC revenue received from donors for PSA expenses. At the end of the year, the surplus of ISC revenue over PSA expenses is transferred to the PSA Equalization Account.

[2] The transfer was to allow greater space for use of advance financing facility. The Working Capital Financing (WCF) facility was leveraged on a 3:1 ratio on the OR; this has been increased to 6:1 to raise the ceiling on utilization to US$557 million. Projects can be provided loans for specified purposes, against forecast contributions from donors.

Cash and investments

12. The value of cash and investments reduced from US$1,949 million at 31 December 2009 to US$1,577 million at 31 December 2010.



13. Cash and cash equivalents consist of cash and bank balances; money market and deposit accounts and balances with investment managers. In 2010, the cash balances came down and the investments went up, as compared to 2009 (Graph). The main reasons were: a) A sum of US$31 million of moneys set aside to fund employee benefit liabilities, was transferred from cash to long-term investments (bonds and equities) in line with the WFP asset allocation policy; and b) US$200 million was transferred from the money market to short-term investments on the basis of the recommendations of the Investment Committee meeting (March 2010).

14. Despite increase in investments in 2010 as compared to 2009, the income from investments came down from US$39 million in 2009 to US$23 million in 2010. The return on investments was around 1.4 per cent in 2010 as against 2 per cent in 2009. The significant difference was the drop in unrealised gains compared to 2009 when unrealised gains were high due to normalization of the financial market environment after the volatility in 2008. A substantial chunk of investment income in 2010 came from interest earned, as would be expected from a fixed income portfolio.

Investment Performance (in US$ millions)		
	2010	**2009**
Realised losses during the year	(-)10.4	(-)23.5
Unrealised gains during the year	11.5	37.3
Interest earned	21.5	24.9
Total	**22.6**	**38.7**

15. WFP continues to benefit from periodic inputs from the Investment Committee. In a recent initiative and in line with the recommendations made by our predecessor, WFP is geared to present to the Board in the Finance Seminar a report on management of investment in 2011.

Food inventory

16. The value of food inventory reduced by 6 per cent: it was US$680 million as at 31 December 2010 against US$721 million at the end of 2009. In terms of tonnage, the reduction was around 7 per cent. The stocks represent supply required to sustain operations for an average of 3-4 months. Management would need to assure itself that the stock levels are appropriate for the lead time for pre-positioning food at the distribution points.

17. The actual distribution of food commodities in 2010 was 4.6 million tonnes which was 4 per cent lower than the distribution in 2009. 53 per cent of the total expenses in 2010 were on commodities.

18. Our comments on the accounting policies and the processes that underpin valuation of inventory are at Section A of Comments on Financial Statements.

VAT Receivable

19. By virtue of being a body of the United Nations, WFP is exempt from direct taxes such as VAT. In 12 of the 96 countries WFP pays VAT on goods and services and recovers the VAT from the host governments. VAT receivable by WFP was around US$49 million as on 31 December 2010, of which nearly US$25 million pertained to the year 2007 and earlier periods. VAT receivable in the Sudan was US$40 million accounting for 82 per cent of the total VAT receivable.

20. Our predecessor had highlighted (2009) the need for close monitoring of VAT receivables. WFP reviewed the VAT receivable position and in 2010, has increased the allowance for doubtful accounts from US$25.3 million in 2009 to US$45.4 million (Note 2.5 of the Financial Statements).

Budgetary Analysis

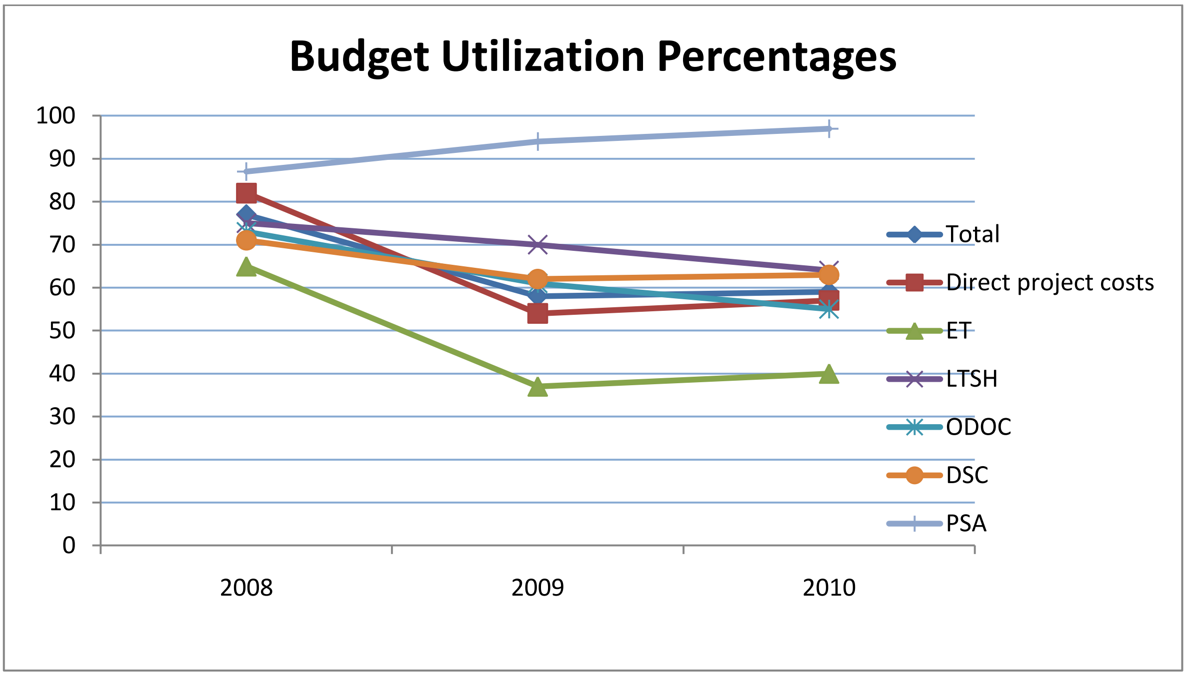
21. The final budget for 2010 was US$6,678 million; the total final budget utilisation was 59 per cent. The utilisation for different components of the budget is detailed in the table.

Component	Budget utilisation %
Commodities	57
Direct project costs	57
External transport (ET)	40
LTSH	64
ODOC	55
Direct support costs (DSC)	63
Programme Support and Administrative (PSA) costs	97

22. Management attributed the budget utilisation to the timing and level of contribution income affecting the availability of resources. In particular, the low utilisation under External Transport was attributed to operational reasons such as changes in planned sourcing area of food commodities and increase in local and regional purchases as against planned in-kind contributions and international purchases.

23. A trend analysis (Graph overleaf) shows that the utilisation was in general marginally higher than in 2009 (except for landside transport, storage and handling (LTSH) and ODOC components). When compared to 2008, the utilisation was substantially lower. The PSA budget[3] utilisation shows an increasing trend consistently and was 97 per cent in 2010; the utilisation of the budget for commodities in 2009 and 2010 was 54 per cent and 57 per cent respectively.

[3] PSA budget covers WFP's indirect support costs which are not linked to any specific operation.



Fraud, ex-gratia payments, losses and amounts written off

24. Our review shows that systemic controls are in place to provide a reasonable assurance on financial control on losses and special payments.

Losses and Special Payments (in US$ millions)		
Description	**2010**	**2009**
Bad debts written off (Note 2.3)	Nil	Nil
Losses due to impairment of food (Note 2.4)	1.1	3.3
Losses of food in the recipient country (Note 9)	12.9	9.4
Loss of non-food inventory (Note 9)	Nil	1.4
Write-off of cash losses (Note 9)	1.0	0.1
Theft and Fraud (netted, Note 9)	0.3	1.3
Ex-gratia payments (Note 9)	0.2	0.8
Total	**15.5**	**16.3**

25. We were informed that the country offices are taking appropriate legal action for recovery of US$332,258 remaining to be recovered from a total loss of US$382,458 booked on account of fraud and presumptive fraud involving WFP staff and third parties. Out of 45 cases that came to the notice of the Oversight Office, recoveries of US$50,200 were effected in 2 cases. No write-offs of amounts to be recovered on account of frauds have been carried out during the year. We also observed that the cases were monitored by the Oversight Office.

Allegations of corruption, theft and diversion of food aid

26. On the specific request of the Executive Board, a special audit of WFP's operations in Somalia was conducted and the Report was submitted to the Board at the February session.

II Comments on Financial Statements

27. During the course of the audit, we had pointed out certain modifications mainly relating to disclosures required to improve the quality of financial reporting. WFP carried out some of the changes during the course of audit; on those that merited action over a long term, we were assured of due consideration.

28. Our comments on the financial statements are detailed in the following paragraphs.

A Inventory

Valuation of inventory

29. IPSAS 12 lays down that inventory should be measured at the lower of cost and current replacement cost. Current replacement cost is the cost that the entity would incur to acquire the asset on the reporting date. However, Paragraph 6.2.2 of WFP Policy Guidance Manual for IPSAS states that owing to the nature of WFP's mission and its operations in countries where replacement costs would be costly or impracticable to identify, inventories are valued at cost only.

30. A new disclosure under Note 2.4 of the Financial Statements was made in 2010 that states that "During 2010, WFP conducted a review of the movement in market prices for the main types of food that WFP holds in inventory for the average period that WFP food is held in stock. The review led to WFP maintaining all food inventory values at historic cost as opposed to replacement cost because the historic cost was lower than the replacement cost." However, we noted that no such review was conducted for non-food commodities which account for 3 per cent of total inventory at US$20.1 million.

31. We are of the view that the assessment of replacement cost should be location-specific and should include in its scope, all components of the value presently being capitalized under inventories. A review of replacement cost at a macro-level is not rigorous enough to draw the conclusion that it is necessarily higher than the historical cost.

Recommendation 1

> *WFP should introduce a more rigorous process to identify the replacement cost of both food and non-food commodities and harmonise the provisions under the WFP Policy Guidance Manual for IPSAS with the valuation process adopted.*

Expensing of Food Inventory

32. IPSAS 12 defines assets in the form of materials or supplies to be consumed or distributed in the rendering of service or held for sale or distribution in the ordinary course and the expense is recognized when the goods are distributed or related service is rendered. WFP's stated accounting policy is that food commodities are expensed when distributed directly by WFP or once they are handed over to Cooperating Partners (CPs) for distribution.

33. The rationale behind the policy of adopting the point of handing over to the CPs as the distribution point is that WFP considers that it transfers ownership and control over the commodities after handing over and that at this point, the risks are passed on to the CP. We are of the view that the following aspects of WFP's relationship with the CPs, are of relevance while considering the issue of transfer of ownership and control at the time of handing over:

- *The CP does not have the flexibility to use the commodities provided to it by WFP, except as provided under the terms of the field-level agreement (FLA) with the CP. The CP is a service delivery agent for the WFP and is compensated under the terms of the FLA.*

- *WFP can in principle redirect/recall the commodities physically present in a recipient country to another location within the recipient country or to a location outside the recipient country respectively if it has reasons to do so.*

- *WFP monitors the movement of the commodity: its issue from the WFP warehouse to the CP; quantity received by the CP; and the quantity distributed by the CP to the beneficiaries. The payments are released to the CPs only after certification of the quantity of food distributed by them.*

- *WFP bears the cost of distribution up to the ultimate beneficiaries and also records the post-delivery losses although the inventory has already been expensed from its accounts.*

- *Food inventories that lie with the host governments are counted as inventories held by WFP. Cash vouchers handed over to the CP but remain to be distributed, are accounted as assets owned by WFP. The treatment of food commodities distributed to the CPs is at variance with the treatment of the above interventions.*

- *The real future service potential commodities (food and non food) is realized only when the commodities reach the beneficiaries.*

34. However, WFP felt that the following have a bearing on the transfer of control to CPs at the time of handing over commodities: a) only those costs (direct and indirect) of the CPs agreed within the framework of the FLAs, are covered by WFP; b) CPs bear the cost of any losses although WFP, as part of its accountability responsibilities, reports to the Board on these losses; c) WFP does not book post-delivery losses. The expense is recorded in total when the commodity is delivered to the CP, however when there is evidence of a post-delivery loss there is a reclassification from the original expense account to another expense account specifically labelled as a post-delivery loss. Both accounts are disclosed in the same expense line in Financial Statement II, therefore no change in financial reporting terms. This adjustment facilitates WFP in meeting its accountabilities in reporting on the level of post-delivery losses to the Board and has no impact in the Financial Statement disclosure and d) the CPs are contracted to distribute, but have the flexibility to organise, operate and meet their legal requirements in their own way, as evidenced that many CPs work in different ways to meet the responsibilities within the FLAs. WFP does not have the right to instruct the CPs how to meet those legal responsibilities; and indeed once food is in the CP's hands its intended destination is irreversibly settled.

35. We think it is important to note that the costs of the CP after the handing over of commodities are borne by WFP, if not in full; WFP monitors the distribution up to the distribution to the beneficiaries, of which recording the post-delivery loss is one part; and the CP has to operate within the confines of the FLA and it cannot be claimed that the CP has unfettered rights to deal with the commodities.

36. We note that WFP faces logistical difficulties in getting timely reports of food distribution from the CPs. We also recognise that a change in the accounting policy would necessitate a change in WINGS II that supports the accounting. Therefore, we recommended that the stock of 135,228 mt food commodities valued at US$77.4 million in the custody of CPs that remain to be distributed to the beneficiaries as on 31 December 2010 should be disclosed in the Notes to the Financial Statements. Accordingly, WFP added the following disclosure under Note 4 (Expenses) of the Financial Statements which states, "Given WFP's accounting policy to expense when food is handed over to the CP, at 31 December 2010, there remains food commodities that have yet to be distributed to beneficiaries."

37. We are of the opinion that the value and volume of food inventories lying undistributed with the CPs must also be disclosed. Management told us that the volumes recorded in the IT system (COMPAS) as remaining to be distributed by the CPs, needed to be validated and assured us that it would be achieved through modification of IT Applications and changes in business processes.

Recommendation 2

WFP should disclose in the Notes to the Financial Statements, the volume and value of food and non-food commodities handed over to Cooperating Partners but not distributed to the beneficiaries. In order to do so, the integrity of the data captured in COMPAS should be ensured.

Other issues of internal control on inventory

38. We observed that while the value of food commodities accounted as loaned to other projects was US$68.1 million, the corresponding figure of internal borrowings was US$70.7 million. This difference of US$2.6 million needs to be reconciled and adjustment entries passed. We were informed that the process of reconciliation was under way.

39. The financial statements of WFP are generated using the data captured and processed by WINGS II, a SAP-based online enterprise resource planning (ERP) solution. With specific regard to commodities, WINGS II records transactions till the stage of expensing of inventory. Information thereafter is captured in COMPAS – the batch processing system. The data migration is facilitated between the two systems by a SAP-COMPAS Interface. The data is populated in COMPAS by logistics and programming personnel for the pre-delivery and the post-delivery stages respectively; the migration of the data from COMPAS to WINGS II is managed by the IT personnel. The business owner of COMPAS including the Interface and any related transactions is Logistics. The data extracted from COMPAS is ported into WINGS II through an interface and effectively the output of COMPAS becomes the input for WINGS II. The only criteria to determine whether data has been extracted satisfactorily or not from COMPAS is the successful execution of the extraction programme.

40. We noted that there was a stock difference of 12,047 mt between COMPAS and WINGS II as on 31 December 2010. The differences are mainly due to delayed data entry in COMPAS and rejection of the COMPAS data during migration into WINGS II. We also found that there is no process by which the extracted data is regularly validated by Logistics, at least on a sample basis, for accuracy before it is ported into WINGS II through the interface. We recommend that a sample check of the extracted data, as a form of

supplementary control, may be implemented to reduce the rejection of the COMPAS data which would eventually result in better inventory reconciliation between COMPAS and WINGS II.

41. WINGS II uses the Moving Average Price (MAP) for calculating the value of inventories.[4] We observed that if there is a difference between the document date (say, the date on which the commodity was issued out of the warehouse) and the posting date (date on which the issue was recorded in the system), WINGS II takes the MAP of the posting date to calculate the value, instead of the document date which should ideally be the case. We found that the posting date can be manually entered to be different from the system date. Management stated that if the MAP is based on a posting date, it will reflect a fair value of inventory and allow comparison from period to period. It may be noted that our audit of the country offices revealed delays in posting and Management needs to support its above view with an analysis.

Recommendation 3

- *The process of reconciliation of internal loans and borrowings of food commodities should be expedited.*
- *WFP should strengthen the internal controls on the IT systems that support inventory management , more specifically,:*
  - ✓ *Evaluate the adoption of Moving Average Price (MAP) using document date instead of the MAP using posting date for a realistic reflection of the value of inventory and losses.*
  - ✓ *Strengthen the reconciliation process of differences in the control figures between COMPAS and WINGS II in coordination with the different functional wings and incorporate validation checks in the process.*

B Contingent liabilities

42. As per IPSAS 19—Provisions, Contingent Liabilities and Contingent Assets - a contingent liability is: a) a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or b) a present obligation that arises from past events, but is not recognized because: i) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or ii) the amount of the obligation cannot be measured with sufficient reliability.

43. While reviewing legal and contingent liabilities cases, we observed three cases ranging from US$0.1 million to US$0.9 million which had been assessed by WFP as improbable outflow. However, these cases have not been disclosed as contingent as the same were not considered material by WFP. Though the amount may not be material but we also note that currently no monetary threshold levels for disclosure of contingent liabilities has been laid down.

[4] The stock is valued by project/country office/commodity. The unit price of stock is a moving average price of a commodity which will dynamically change with the value of procurement and issue of commodities.

Recommendation 4

WFP should adopt monetary threshold levels for disclosure of contingent liabilities in its accounting policies

C Receivables

44. WFP creates allowances for doubtful donor contributions receivable on the basis of their age. While contribution receivables outstanding for more than 4 years are provided in full, those of 3 and 4 years are provided at 50 per cent and those of 2 and 3 years at 10 per cent. There is no provision for contribution receivables less than 2 years old.

45. The Other Receivables include advances to vendors, advances to staff, third-party agency receivables and miscellaneous receivables. We found this account included receivables amounting to US$2.7 million pending from 2005 to 2008.

Recommendation 5

WFP should introduce regular monitoring mechanism for review of other receivables and conduct a structured review of the allowance policy for impairment of other receivables based on an age analysis.

D Property, Plant and Equipment

46. We noticed five items valued at US$1.9 million that were incorrectly classified as "under construction" although they were completed during the year 2010. WFP has since corrected the classification by transferring the completed assets to the respective fixed asset class and made the necessary changes in Note 2.7 to the Financial Statements. Since the depreciation to be charged on this capitalized value was not material, it was agreed that it would be included in the next financial year.

Recommendation 6

WFP should put in place a monitoring mechanism to ensure that completed works-in-progress are transferred to fixed assets and depreciation charged. This should be a mandatory check during the annual closure of accounts.

E IT Governance: WINGS II

47. WINGS II is in operation for more than 20 months in WFP. Best practices currently adopted are taken from CoBIT[5] and a self assessment based on it has been started recently in January 2011. Our review of the IT governance practices relating to WINGS II showed the following:

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[5] Control Objectives for Information and Related Technology – an IT Governance Framework by ISACA (Information Systems Audit and Control Association, USA)

- Though the information risk assessments and management are based on ISO 27001,[6] there is no standard based ISMS (Information Security Management System) implemented for WINGS II.

- For service delivery the ITIL[7] approach that has been used since 2007 for all IT services has been adapted to WINGS II after go-live and is constantly being reviewed and adapted.

- WINGS II can manage logistical movement of commodities but this facility was not implemented because of infrastructural and connectivity issues at final distribution locations (usually sub-offices and warehouses) where COMPAS is currently installed. The SAP-COMPAS interface is a transitional arrangement till a more permanent solution is reached. However the Interface phase-out is linked to the phase-out of COMPAS and the consequential operationalization of the Logistics Execution Support System (LES) for which a definite timeframe is yet to be fixed.

Recommendation 7

WFP may implement the Information Security Management System for WINGS II. A definite timeframe may also be fixed for operationalization of LES and the associated phase out of the SAP-COMPAS Interface.

ACKNOWLEDGEMENT

We wish to record our appreciation for the cooperation and assistance provided by the Management and staff of WFP while carrying out this audit.

Vinod Rai

Comptroller and Auditor General of India

External Auditor

8 April 2011

[6] ISO Standard for ISMS (Information Security Management System)

[7] Information Technology Infrastructure Library - guidelines for IT Service Management

ACRONYMS USED IN THE DOCUMENT

ASM	After Service Medical Plan
BMIP	Basic Medical Insurance Plan
CO	country office
CP	cooperating partner
CPRF	Compensation Plan Reserve Fund
DBO	defined benefit obligation
DSC	direct support costs
DSCAF	Direct Support Cost Advance Facility
DSCAFR	Direct Support Cost Advance Facility Reserve
ET	External Transport
FAO	Food and Agriculture Organization of the United Nations
FCR	full-cost recovery
FLA	field-level agreement
IFRS	International Financial Reporting Standard
IPSAS	International Public Sector Accounting Standards
IRA	Immediate Response Account
ISC	indirect support costs
LES	Logistics Execution Support System
LTSH	landside transport, storage and handling
MAP	moving average price
MSCI	Morgan Stanley Capital International
NGO	non-governmental organization
ODOC	other direct operational costs
ODSC	other direct support costs
OR	Operational Reserve
OSRB	other separation-related benefits
PP&E	property, plant and equipment
PSA	Programme Support and Administrative (budget)
PSAEA	PSA Equalization Account
RB	regional bureau
RMP	Performance and Accountability Management Division
SMCA	Strengthening Managerial Control and Accountability
STRIPS	Separate Trading of Registered Interest and Principal of Securities
TPA	third-party agreement
UNJSPF	United Nations Joint Staff Pension Fund
UNORE	United Nations Operational Rates of Exchange
VAT	value-added tax
WINGS II	WFP Information Network and Global System