برنامج الأغذية العالمي
Programme Alimentaire Mondial
World Food Programme
Programa Mundial de Alimentos

Executive Board
Annual Session

Rome, 8–12 June 2009

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For approval

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AUDITED ANNUAL ACCOUNTS, 2008

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.

Deputy Executive Director:	Ms G. Casar	tel.: 066513-2885
Acting Chief Financial Officer:	Mr S. O'Brien	tel.: 066513-2682
Chief, FLAG*:	Ms M. Bautista-Owen	tel.: 066513-2240

Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact Ms C. Panlilio, Administrative Assistant, Conference Servicing Unit (tel.: 066513-2645).

* General Accounts Branch

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The Secretariat is pleased to submit the Audited 2008 Financial Statements together with the Audit Opinion and the Report by the External Auditor. This is the first time that the financial statements have been prepared under the International Public Sector Accounting Standards (IPSAS). 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/2009/6-A/1) is submitted to the Board in accordance with General Regulation XIV.6 (b) and Financial Regulations 13.1 and 14.2, 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 first time that the statements and the report are presented together as one document.

Beginning with the Annual Session in 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's Recommendations" (WFP/EB.A/2009/6-D/1).

DRAFT DECISION*

The Board:

i) approves the 2008 Annual Financial Statements of WFP, together with the Report of the External Auditor, pursuant to General Regulation XIV.6 (b);

ii) approves the amendment to Financial Regulation 13.1 as outlined in Annex II to the 2008 Financial Statements, in accordance with General Regulation XIV;

iii) notes the funding from the General Fund of US$4.5 million during 2008 for the ex-gratia payments and write-off of cash losses, unfunded expenses and contributions and accounts receivable; and

iv) notes post-delivery losses of commodities during 2008 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 to the Executive Board (hereinafter "the Board") for approval the financial statements of the World Food Programme (WFP) for the year ended 31 December 2008.

2. The Report of the External Auditor on the audit of the 2008 financial statements, together with his opinion on the financial statements, are also submitted to the Board as prescribed under Financial Regulation 14.8 and the Annex to the Financial Regulations.

3. The 2008 financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS). This is the first set of financial statements prepared under IPSAS as the Board, at its Annual Session in June 2006, approved the adoption of IPSAS effective January 2008 (decision 2006/EB.A/15). WFP is the first United Nations agency to implement IPSAS, in line with the approval of the High-Level Committee on Management that IPSAS is adopted by United Nations System organizations.

4. Until 2007, the financial statements were prepared and presented to the Board on a biennial basis. Amendments to the General Regulations and to the General Rules and Financial Regulations were approved by the Board, changing the financial period from biennial to annual to allow for full compliance with IPSAS from the date of IPSAS adoption (decision 2006/EB.2/4).

5. WFP was established in 1963 as the United Nations frontline agency in the fight against hunger. It is an autonomous joint subsidiary programme of the United Nations and the Food and Agriculture Organization (FAO). Its policies and budget are determined and approved by the Board, its governing body consisting of 36 Member States, of which 18 are elected by the Economic and Social Council and 18 by the FAO Council. Decisions on requests for assistance to meet emergency needs that exceed the level of authority delegated to me are made jointly by me as Executive Director and the Director-General of FAO. WFP is neither a controlled entity nor does it control other entities under IPSAS definitions.

6. WFP has its Headquarters in Rome, Italy, and conducts activities through 96 offices around the world: 78 country offices, 6 regional bureaux and 12 liaison offices. WFP's principal place of business as well as the names and addresses of its General Counsel, actuaries, principal bankers and external auditor are indicated as Annex I to this document.

7. WFP's Strategic Objectives are to:

- save lives and protect livelihoods in emergencies;
- prevent acute hunger and invest in disaster preparedness and mitigation measures;
- restore and rebuild lives and livelihoods in post-conflict, post-disaster or transition situations;
- reduce chronic hunger and undernutrition; and
- strengthen the capacities of countries.

8. WFP's activities are funded by voluntary contributions from Member States, government agencies, intergovernmental bodies and other public, private and non-governmental sources, and by miscellaneous revenue, including interest. The indirect support costs (ISC) element of these contributions is used to fund Programme Support and Administrative (PSA) budget.

9. WFP provides internal services to its operations and projects through special accounts authorized under Financial Regulation 5.1.

10. Key management personnel consist of me as the Executive Director and the Deputy Executive Directors. Related party disclosures in line with IPSAS requirements are included accordingly in the notes to the financial statements. The Board is responsible for providing intergovernmental support and specific policy direction to and supervision of the activities of WFP. In view of its state membership composition the Board is not considered a related party as defined by IPSAS.

11. While we have defined key management personnel in accordance with IPSAS and as indicated above, I have included in the financial statements information on related remuneration of other senior managerial personnel of WFP to further enhance transparency and accountability.

IPSAS IMPLEMENTATION

12. In March 2006, the Secretary-General of the United Nations proposed a number of cross-cutting-measures to improve financial management practices in the United Nations Systems organizations.[1] In his report to the General Assembly, one of the proposals made was the introduction of new accounting standards combined with a new enterprise resource planning system and that by the end of 2010, will make it possible to provide a full attestation of the effectiveness of United Nations financial controls in the financial reports.[2] In a resolution adopted by the General Assembly on 17 August 2006[3], it has decided "to approve the adoption by the United Nations of the International Public Sector Accounting Standards."

[1] "Investing in the United Nations: for a stronger Organization worldwide" (A/60/692 and Corr.1)
[2] A/60/846
[3] A/RES/60/283

13. WFP's implementation of IPSAS in 2008 represents a precedent-setting achievement considering the complex nature of WFP's business. WFP also adopted all standards issued by the IPSAS Board including those standards prior to their effective date[4] for increased transparency and accountability. These standards represent all IPSAS standards available for early adoption. WFP was not required to adopt these standards in 2008 as their corresponding effective dates fall within the three years following 2008. The IPSAS Board, the body that issues IPSAS, encourages early adoption of these standards to enhance the ability to report more transparently.

14. There may be cases or financial transactions for which the current standards have not specifically dealt. In this respect, we have added a statement to our accounting policy to the effect that "where an IPSAS does not address a particular issue, the appropriate International Financial Reporting Standard (IFRS) has been applied".

15. In accordance with IPSAS 1, Presentation of Financial Statements, comparative information is encouraged to be disclosed in the financial statements on the first year of IPSAS adoption when practicable. WFP has presented comparatives in the Statement of Financial Position which are represented by the opening balances at 01 January 2008. Comparatives were not provided in the Statements of Financial Performance and Cash Flow.

16. In line with IPSAS 17, Property, Plant and Equipment (PP&E), which allows for a grace period of up to five years prior for full recognition of capitalized tangible assets, WFP has partially invoked this transitional provision in 2008 recognizing tangible assets whose useful lives were greater than five years from the first adoption date of IPSAS. In order to ensure appropriate control and stewardship over all other PP&E whose remaining useful lives did not exceed five years at that date, these tangible assets have been recorded in an asset register and are tracked and controlled.

17. All assets purchased subsequent to the first adoption date of IPSAS are recognized and capitalized in accordance with IPSAS without taking into consideration any transitional provisions.

18. Several key financial definitions are presented below to enhance the usability and understanding of these financial statements:

- **Assets** are resources controlled by WFP as a result of past events in which future economic benefits or service potentials are expected to flow to WFP.
- **Liabilities** are present obligations arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits or service potential.
- **Net assets** are the residual interest in the assets of WFP after deducting all its liabilities.
- **Revenue** is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

[4] IPSAS 4 (revised): The Effects of Changes in Foreign Exchange Rates, IPSAS 23: Revenue from Non-Exchange Transactions, IPSAS 24: Presentation of Budget Information in Financial Statements, IPSAS 25: Employee Benefits; and IPSAS 26: Impairment of Cash-Generating Assets

- **Expenses** are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets.
- **Non-exchange transactions** are those transactions for which WFP either receives or gives value from or to another entity without directly giving or receiving approximately equal value in exchange.
- **Monetary items** are units of currency held and assets and liabilities to be received or paid in fixed or determinable number of units of currency.
- **Surplus for the period** is the excess of all items of revenue over expense recognized in a period.

19. Under the accrual basis of accounting, revenues and expenses are recognized in the financial statements in the period in which they relate to. WFP recognizes revenues upon written confirmation of contributions and expenses are recognized when goods or services are delivered. The excess of revenue over expenses results in a surplus which is carried forward to the accumulated fund balances. These fund balances represent the unexpended portion of contributions to be utilized in future operational requirements of the Programme.

20. Contributions confirmed in writing are recorded as revenues in the books of accounts. Not all amounts confirmed are ultimately received. For this reason, WFP recognizes adequate and appropriate allowances and provisions for write-downs, doubtful accounts and provision for refunds[5] in accordance with IPSAS 23, Revenue from Non-Exchange Transactions.

21. Under IPSAS, the matching principle of revenue and expense does not apply for non-exchange transactions. The focus of IPSAS is the financial position which is evidenced by the recognition of assets when there is sufficient control and of liabilities when the criteria to recognize liabilities exist.

22. Outstanding commitments raised against accumulated fund balances do not meet the recognition criteria of expenses under the principle outlined above. These commitments, from a budgetary point of view, utilises the surplus of the period in the same way as other contractual obligations, such as employee contracts, contracted services and lease contracts for which no outstanding commitments have been raised at the end of the period.

23. WFP is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF)[6], which was established by the United Nations General Assembly to provide post-employment retirement, death, disability and related benefits. The pension fund is a funded multi-employer defined benefit plan.

24. The financial obligation of WFP to the UNJSPF comprises its mandated contribution at the rate established by the United Nations General Assembly, together with a share of any actuarial deficiency payments. The actuarial method adopted for the UNJSPF is the Open Group Aggregate method carried out every two years. The most recent actuarial

[5] Write-downs and doubtful accounts are defined in Note 2.3 and Provisions for refunds are defined in Note 2.10 to the financial statements.
[6] http://www.UNJSPF.org

valuation performed was at 31 December 2007. The United Nations General Assembly has maintained over the years the general criteria that guide the investment of the assets of the UNJSPF. Since the last actuarial study in 2007, the position of the fund, in terms of assets and liabilities, might have changed.

25. 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, plan assets, and costs to individual organizations participating in the plan. As WFP is not in a position to identify its share of the underlying financial position and performance of the plan with sufficient reliability in line with IPSAS 25, WFP accounts for the plan as a defined contribution rather than a defined benefit plan.

26. I have reported in the 2008 financial statements employee benefits liabilities totalling US$240.5 million at the end of the year and I have taken advice from independent actuaries in establishing these liabilities. Of this amount, US$108.1 million has been funded over the years by charging relevant funds and projects. The balance of US$132.4 million has not yet been charged to individual funds and projects. These liabilities are accounted for as liabilities of the General Fund.

27. During the Board's Annual Session in 2008, I presented options on funding these staff liabilities. I intend to seek the Board's approval in the near future how these staff liabilities should be charged.

28. The financial statements and the accompanying notes disclosures are presented in millions of US$ (US$ millions) rounded to the nearest US$100,000.

FINANCIAL RISK MANAGEMENT

29. At the October 2003 Second Regular Session of the Board, as a matter of good practice, WFP committed to strengthen risk management in governance and in November 2005 the Board approved WFP's risk management policy. Since then, WFP began developing an organization-wide risk management system.

30. WFP has established a framework of internal controls, including internal audit, inspections and investigation units and the Audit Committee, designed to maximize the effective and efficient use of resources as well as to safeguard its assets.

31. WFP's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates, interest rates and defaults by debtors in meeting its obligations. WFP's risk management policies focus on the unpredictability of financial markets and seek to minimize, where feasible, potential adverse effects on the financial performance of WFP.

- Financial risk management is carried out by a central treasury function using guidelines set out by the WFP Investment Committee and advice from the World Bank. Established policies cover areas of financial risk such as foreign exchange, interest rate and credit risk, the use of derivative financial instruments, and the investing of excess liquidity. There is also no perceived risk that receivables and payables may not be liquidated when they fall due.

- At 31 December 2008, ninety two percent of cash, cash equivalent and investments are denominated in the US dollar base currency. Non-US$ holdings have the primary objective of supporting operating activities. Foreign exchange forward contracts are used to hedge the euro versus US dollar exchange exposure on PSA salary expenses.
- WFP is exposed to interest rate risk through short-term investments and long-term bonds. In 2008, the effective interest rates of these two investment portfolios were 5.30 percent and 2.10 percent, respectively. A measurement of interest rate sensitivity indicates that the effective duration is 1.1 years for the short-term investments and 5.9 years for the long-term bonds. Fixed income derivatives are used by external investment managers to manage interest rate risk under strict investment guidelines.
- At 31 December 2008, derivatives usage 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 approximately US$29.9 million with a corresponding derivative offset which get liquidated at the same time. This brings the book value of these derivatives to zero with a maximum open position to WFP of US$0.2 million.
- WFP’s credit risk is spread widely and WFP’s risk management policies limit the amount of credit exposure to any one counter-party and include minimum credit quality guidelines. The short-term investments have credit quality at year end of AAA/AA+, while the long term investments have credit rating of AAA.
- WFP’s treasury policy on liquidity covers the maintenance of sufficient cash and marketable securities to meet WFP’s commitments as and when they fall due. The majority of cash, cash equivalents and investments are available within one day’s notice to support operational requirements.
- WFP is also subject to market price risks 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.

AMENDMENT TO FINANCIAL REGULATION

32. The financial statements are prepared in accordance with Financial Regulation 13.1. As the current financial regulation does not make specific reference to the preparation of the financial statements in accordance with IPSAS, I am proposing to the Board an amendment to this financial regulation to categorically state that the financial statements shall be prepared in accordance with IPSAS. The exact wording of the proposed amendment to Financial Regulation 13.1 is outlined in Annex II of this document.

FINANCIAL AND BUDGET PERFORMANCE HIGHLIGHTS

33. As outlined above, the financial statements are prepared under the accrual basis of accounting, with revenue recognized when contributions are confirmed in writing and expenses recognized when the underlying service or goods are received. Commodities are no longer recognized as expense when received, but are held as inventory until distributed.

34. WFP's business model involves a significant time lag between when a contribution is confirmed and when it is fully implemented. During 2008 revenue exceeded expenses by US$1.4 billion.

35. During 2008 contribution receivables have increased by US$805.7 million and inventories by US$505.9 million. In other words 58 percent of the surplus has not yet been received from donors and 36 percent of the surplus has been invested in commodities not yet distributed to the beneficiaries.

36. This places the organization in a strong position for the opening months of 2009. For example, US$238.5 million of closing stock is held in-country in Afghanistan, Ethiopia and the Sudan.

37. While Statement II outlines the Financial Performance for 2008, Statement V compares the WFP budget to actual amounts for 2008 (Note 6).

38. The original budget for 2008, presented as part of the biennial Programme of Work in the 2008-2009 Management Plan was US$3.1 billion. The final budget at 31 December 2008 was US$5.6 billion, an 82 percent increase. The operational budget increased by US$2.5 billion or 87 percent, while the PSA budget increased by US$18 million or 9 percent.

39. The increase in the budget for operational requirements for 2008 was due to large cost increases during 2008 and unexpected new requirements that arose during the year. The unprecedented increase in food and fuel prices compounded by the weakening of the US dollar against most currencies resulted in a direct increase of US$755 million for original operational requirements in 2008. In addition, unexpected new operations and expansions to existing programmes increased the programme of work for 2008 by US$1.8 billion.

40. Actual amounts on a budgetary basis for projects at 31 December 2008 total US$4.2 billion for the year, or 77 percent of the final budget for 2008. It is important to note that for WFP, these actual amounts are limited to the amount of total confirmed contributions from donors. The project budgets, both original and final, are based on requirements, while actual implementation depends on the amount of contributions confirmed for the projects.

41. Total contribution revenue in 2008 was US$5 billion. From this amount, ISC revenue amounting to US$317 million was transferred to the PSA equalization account to fund PSA budget; therefore, revenue for direct project expenses was US$4.7 billion or 87 percent of the comparable budget.

42. The WFP programme of work has nearly doubled during 2008 and many of the contributions confirmed during the year are in the process of being utilized. This lag in implementation is reflected in the different percentages of actual amounts by cost component - the commodity budget has been consumed at 82 percent whereas external transport consumption is at 65 percent, landside transport, storage and handling (LTSH) at 75 percent, other direct operational costs (ODOC) at 73 percent and direct support costs (DSC) at 71 percent. This reflects the business process, whereby the commodity budget is consumed first, whereas the associated costs are only incurred when WFP takes possession of the cargo and commences transport and distribution of the commodity.

43. The indirect cost budget increased from US$199 million at the beginning of the year to US$218 million at 31 December 2008. The Board approved an increase of US$10.5 million in the 2008 PSA budget in October 2008 and approximately US$2.8 million was advanced to various units against 2009 PSA allocations. The increase in the final budget for Capital and Capacity Funds represents the 2008 element of appropriations from the General Fund approved by the Board in June 2008 for the establishment of an Emergency Security Fund and for the World Food Programme Information Network and Global System (WINGS II).

44. Of the final approved PSA budget for 2008 only 87 percent has been utilized at 31 December 2008, with US$28 million carried over into 2009. It should be noted that the final budget was approved only in October 2008, and allocated to Divisions thereafter. As a result, not all Divisions had utilized additional funds by year-end and a number of activities were postponed to 2009.

45. Approximately 50 percent of the variance between the approved PSA budget and actual can be attributed to unexpended staff budget for positions not filled during the year. As further reduction in PSA posts was foreseen in the original budget for 2009, many units did not fill vacant posts.

46. Approximately half of the amount available for Capital and Capacity appropriations has been expended in 2008 – most of the variance can be attributed to security funds appropriations where the activities approved do reflect the full biennium cycle.

SUSTAINABILITY

47. I have evaluated the consequences of any potential reduction in contributions in the context of the global economic and financial crises, and whether it would lead to a consequential reduction in the scale of operations and number 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 adopt the going concern basis in preparing WFP's financial statements.

48. My above assertion is supported by: i) the increase in requirements in the Management Plan for 2008–2009; ii) the Strategic Plan prepared for the period 2008–2011; iii) the net assets held at the end of the period and the record level of contributions received in 2008; iv) the contributions levels for the year 2009; and v) the trend in donor support that has been sustaining WFP's mandate since its inception in 1963.

RESPONSIBILITY

49. 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, details of which form part of this document, fairly present the financial position of WFP at 31 December 2008.

Statement I	-	Statement of Financial Position at 31 December 2008
Statement II	-	Statement of Financial Performance for the Year Ended 31 December 2008
Statement III	-	Statement of Changes in Net Assets for the Year Ended 31 December 2008
Statement IV	-	Statement of Cash Flow for the Year Ended 31 December 2008
Statement V	-	Statement of Comparison of Budget and Actual Amounts for the Year Ended 31 December 2008

Notes to the Financial Statements

Signed on original
Josette Sheeran
Executive Director

Rome, 30 March 2009

WORLD FOOD PROGRAMME
STATEMENT I
STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2008
(US$ millions)

	Note	2008	Opening Balance 01.01.2008 (Restated)
ASSETS			
Current assets			
Cash and cash equivalents	2.1	972.3	548.7
Short-term investments	2.2	460.1	673.1
Contributions receivable	2.3	1 991.2	1 185.5
Inventories	2.4	1 021.8	515.9
Other receivables	2.5	127.9	162.5
		4 573.3	**3 085.7**
Non-current assets			
Contributions receivable	2.3	39.1	57.5
Long-term investments	2.6	186.6	177.4
Property, plant and equipment	2.7	18.7	2.1
Intangible assets	2.8	30.9	14.0
		275.3	**251.0**
TOTAL ASSETS		**4 848.6**	**3 336.7**
LIABILITIES			
Current liabilities			
Payables and accruals	2.9	567.8	462.6
Provisions	2.10	29.0	19.4
Employee benefits	2.11	16.2	20.8
		613.0	**502.8**
Non-current liabilities			
Employee benefits	2.11	224.3	207.3
Long-term loan	2.12	111.2	110.6
		335.5	**317.9**
TOTAL LIABILITIES		**948.5**	**820.7**
NET ASSETS		**3 900.1**	**2 516.0**
FUND BALANCES AND RESERVES			
Fund balances	7	3 621.6	2 375.9
Reserves	2.13	278.5	140.1
TOTAL FUND BALANCES AND RESERVES		**3 900.1**	**2 516.0**

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

Signed on original
Josette Sheeran
Executive Director

Rome, 30 March 2009

WORLD FOOD PROGRAMME

STATEMENT II

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2008

(US$ millions)

	Note	2008
REVENUE		
Monetary contributions	3.1	4 150.9
In-kind contributions	3.2	887.1
Other revenue	3.3	76.7
TOTAL REVENUE		**5 114.7**
EXPENSES		
Commodities distributed	4.1	2 198.1
Distribution and related services	4.2	551.1
Wages, salaries and employee benefits	4.3	555.1
Supplies, consumables and other running costs	4.4	114.6
Contracted services	4.5	237.4
Currency exchange differences	4.6	21.9
Negative return on investments	4.7	9.6
Finance costs	4.8	2.7
Depreciation	4.9	2.4
Other expenses	4.10	32.1
TOTAL EXPENSES		**3 725.0**
SURPLUS FOR THE YEAR		**1 389.7**

Revenue is recognized when contributions are confirmed in writing by donors and expenses are recognized upon delivery of goods and provision of services. The nature of WFP's business model results in a time lag between the confirmation of a contribution and its utilization. Inventories are no longer recognized as expense when received. The surplus of US$1,389.7 million is presented by segment in Note 7.2.

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 2008

(US$ millions)

	Note	Accumulated Surpluses/ Fund Balances	Surplus	Reserves	Total Net Assets
31 December 2007	11	**1 761.7**	**119.5**	**140.1**	**2 021.3**
Allocation of surplus for 2007	11	119.5	(119.5)	-	-
Change in accounting policy and other adjustments to net assets					
Initial recognition of property, plant and equipment	11	2.1	-	-	2.1
Initial recognition of intangible assets	11	14.0	-	-	14.0
Initial recognition of inventories net of impairment	11	515.9	-	-	515.9
Other adjustments to fund balances	11.1	(37.3)	-	-	(37.3)
Total recognized changes in net assets since last published accounts	11	**494.7**	-	-	**494.7**
Adjusted opening balance 01 January 2008	11	**2 375.9**	**-**	**140.1**	**2 516.0**
Movements in fund balances and reserves in 2008					
Transfer from/to reserves	2.13	(138.4)	-	138.4	-
Unrealized losses on long-term investment charged directly against fund balance	2.6 / 2.13	(5.6)	-	-	(5.6)
Surplus for the period	7.2	-	1 389.7	-	1 389.7
Total movement during the year		**(144.0)**	**1 389.7**	**138.4**	**1 384.1**
TOTAL NET ASSETS		**2 231.9**	**1 389.7**	**278.5**	**3 900.1**

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 2008

(US$ millions)

	Note	2008
Cash flows from operating activities:		
Surplus for the period		1 389.7
(Increase) in inventories	2.4	(505.9)
Unrealized loss on short-term investments	2.2	51.4
(Increase) in contributions receivable	2.3	(787.3)
Decrease in other receivables	2.5	34.5
Depreciation	2.7	2.4
(Increase) in property, plant and equipment (donated in kind)	2.7	(0.5)
Increase in payables and accruals	2.9	105.2
Increase in provision for refunds	2.10	9.6
Increase in employee benefits	2.11	12.4
Increase in the amortised value of long-term loan	2.12	0.6
Interest expense on long-term loan	2.12	2.1
Net cash flows from operating activities		**314.2**
Cash flows from investing activities:		
Decrease in short-term investments	2.2	161.6
Decrease in accrued interest receivables	2.5	0.1
(Increase) in long-term investments	2.6	(14.8)
(Increase) in property, plant and equipment	2.7	(18.5)
(Increase) in intangible assets	2.8	(16.9)
Net cash flows from investing activities		**111.5**
Cash flows from financing activities:		
Interest expense on long-term loan	2.12	(2.1)
Net cash flows from financing activities		**(2.1)**
Net increase in cash and cash equivalents		**423.6**
Cash and cash equivalents at beginning of the year	2.1	**548.7**
Cash and cash equivalents at end of the year	2.1	**972.3**

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 2008
(US$ millions)

	Notes	Budget Amount		Actual on comparable basis	Difference: final budget and actual
		Original Budget	Final Budget		
Cost components	6				
Food		1 284.7	2 815.2	2 332.6	482.6
External transport		316.5	586.5	383.2	203.3
Landside transport, storage and handling		800.3	1 088.7	811.5	277.2
Other direct operational costs		163.7	406.1	296.3	109.8
Direct support costs		337.7	528.5	373.2	155.3
Subtotal direct costs		**2 902.9**	**5 425.0**	**4 196.8**	**1 228.2**
Regular programme support and administrative costs		175.4	188.7	174.9	13.8
Capital and capacity funds		23.9	28.9	15.0	13.9
Subtotal indirect costs		**199.3**	**217.6**	**189.9**	**27.7**
TOTAL		**3 102.2**	**5 642.6**	**4 386.7**	**1 255.9**

The accompanying notes form an integral part of these financial statements

Notes to the Financial Statements at 31 December 2008

NOTE 1: ACCOUNTING POLICIES

Basis of Preparation

1. The financial statements of the World Food Programme (WFP) have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (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. These are the first set of financial statements to be prepared in accordance with IPSAS. The adoption of IPSAS has required changes to be made to the accounting policies previously followed by WFP. This includes the preparation of financial statements on an annual basis, compared to the previous biennial basis. The adoption of the new accounting policies has resulted in changes to the assets and liabilities recognized in the Statement of Financial Position. Accordingly, the last audited Statement of Financial Position, dated 31 December 2007, has been restated and the resulting changes are reported in the Statement of Changes in Net Assets and Note 10. The revised 31 December 2007 Statement of Financial Position is described in these financial statements as the Opening Balance 01 January 2008 (Restated). The net effect of the changes brought about by the adoption of IPSAS in the Statement of Financial Position amounted to an increase in total net assets of US$494.7 million on 01 January 2008.

3. 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.

4. 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. These contributions are recognized as revenue when confirmed in writing by donors.

5. Accrual accounting under IPSAS does not require the matching of revenue to related expenses. The cash-flows arising from contributions and the related expenses take place in current and future accounting periods.

6. As permitted on the initial adoption of IPSAS, transitional provisions have been applied in the following areas:

   - Comparative information has not been provided in the Statements of Financial Performance and Cash Flow (IPSAS 1); and

- Initial recognition of property, plant and equipment (PP&E) purchased or donated before 01 January 2008 is at the cost of acquisition less accumulated depreciation, where the asset had more than five years remaining useful life (IPSAS 17).

7. The following Accounting Standards have been adopted prior to their required implementation dates: IPSAS 4 (revised): The Effects of Changes in Foreign Exchange Rates; IPSAS 23: Revenue from Non-Exchange Transactions; IPSAS 24: Presentation of Budget Information in Financial Statements; IPSAS 25: Employee Benefits; and IPSAS 26: Impairment of Cash-Generating Assets. The effect on net assets on the opening balance due to early adoption of IPSAS 23 is US$44.0 million. There is no impact in the opening balances resulting from early adoption of IPSAS 4, 24 and 25.

8. The Cash Flow Statement is prepared using the indirect method.

9. The functional and reporting currency of WFP is the US$. Transactions in currencies other than US$ are translated into US$ 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

10. Cash and cash equivalents are held at nominal value and comprise cash on hand, cash at banks, money market and short-term deposits.

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

Financial Instruments

12. Financial instruments are initially measured at fair value. Subsequent measurement of all financial instruments is at fair value except for: i) long-term investments held to maturity; and ii) long-term financial liabilities, which are measured at amortized cost using the effective interest method. Costs of acquisition are included in the initial carrying amount of the assets held at amortized cost.

13. 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 the WFP has transferred substantially all the risks and rewards of ownership.

14. Gains or losses arising from changes in the fair value of financial instruments are included within the statement of financial performance in the period in which they arise.

Inventories

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

16. The cost of food commodities includes purchase cost or fair value[7] 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.

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

Contributions and Receivables

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

19. Receivables are stated at nominal value less allowance for estimated irrecoverable amounts.

20. 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.

21. Donated Property, Plant and Equipment are valued at fair market value and recognized as fixed asset and revenue.

Property, Plant and Equipment

22. Property, Plant and Equipment (PP&E) are stated at historical cost less accumulated depreciation and any impairment losses. Borrowing costs, if any, are not capitalized. Depreciation is provided for PP&Es 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

23. 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.

[7] 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.

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

Intangible Assets

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

26. 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 developed software	6
Licenses and rights, copyrights and other intangible assets	3

Employee Benefits

27. 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.

28. 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. WFP 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

29. 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.

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

Fund Accounting and Segment Reporting

31. The financial statements are prepared on a fund accounting basis, showing at the end of the period the consolidated position of all WFP funds. A fund is a self-balancing accounting entity established to account for the transactions of a specified purpose or objective. Fund balances represent the accumulated residual of revenue and expenses.

32. 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.

33. 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.

34. The General Fund is the accounting entity established for recording, under separate accounts, indirect support cost recoveries, miscellaneous income, operational reserve and contributions received which 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.

35. Bilateral Operations and other 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.

36. Reserves are maintained within the General Fund for the purpose of operational support. An operational reserve is maintained within the General Fund as per Financial Regulation 10.5 to ensure continuity of operations in the event of temporary shortfalls of resources. Other reserves may be established by the Board.

37. 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

38. The Board approves the biennial Management Plan which includes budgeted amounts for direct costs, programme support and administration costs, and capital and capacity funds. Budgets may be subsequently amended by the Board or through the exercise of delegated authority. 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 the Statement V to the actual amounts presented in Statement IV: Cash Flow.

Note 2.1: Cash and Cash Equivalents

	2008	Opening Balance 01.01.2008 (Restated)
	US$ millions	
Cash and cash equivalents		
Bank and cash at Headquarters	96.6	58.2
Money market and deposit accounts at Headquarters	688.2	217.3
Bank and cash at regional bureaux and country offices	66.1	53.9
Cash and cash equivalents held in investment portfolio	121.4	219.3
Total Cash and cash equivalents	**972.3**	**548.7**

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

	2008	Opening Balance 01.01.2008 (Restated)
	US$ millions	
Short-term investments		
Short-term investments	458.0	671.0
Current portion of long-term investments (Note 2.6)	2.1	2.1
Total Short-term investments	**460.1**	**673.1**

40. Short-term investments comprise five actively managed portfolios entrusted to two external investment managers. The short-term investments are divided into three portfolio tranches with distinct investment horizons, and specific investment guidelines and restrictions. Given the increased volatility in the financial markets the risk profile of short-term investment was reduced during the year.

41. Short-term investments of US$458.0 million consist of bonds issued or guaranteed by governments or government agencies (US$226.1 million); non-agency mortgage-backed securities and asset-backed securities (US$131.4 million) and corporate bonds (US$100.5 million). 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.

42. Corporate bonds include three securities which defaulted during the year. Market value of these securities has been marked down to US$0.3 million from its value of US$4.1 million.

43. At 31 December 2008, derivatives usage 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 approximately US$29.9 million with a corresponding derivative offset which get 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:

	Opening Balance 01.01.2008 (Restated)	Additions/ (Deductions)	Interest Received	Realized Gains/ (Losses)	Unrealized Gains/ (Losses)	2008
	US$ millions					
Short-term investments	671.0	(175.0)	23.1	(9.7)	(51.4)	458.0
Current portion of long-term investments	2.1					2.1
Total Short-term Investments	**673.1**	**(175.0)**	**23.1**	**(9.7)**	**(51.4)**	**460.1**

45. During 2008, short-term investments decreased by US$213.0 million. Of this amount, US$51.4 million represents unrealized losses which have been presented in the cash flow under operating activities. The balance of US$161.6 million is presented in the cash flow under investing activities.

Note 2.3: Contributions Receivable

	2008	Opening Balance 01.01.2008 (Restated)
	US$ millions	
Composition:		
Current	1 991.2	1 185.5
Non-current	39.1	57.5
Total Contributions Receivable	**2 030.3**	**1 243.0**

	2008	Opening Balance 01.01.2008 (Restated)
	US$ millions	
Monetary contributions	1 951.1	1 185.3
In-kind contributions	229.6	168.6
Total Contributions Receivable before allowance	**2 180.7**	**1 353.9**
Allowance for write-downs	(146.7)	(101.3)
Allowance for doubtful accounts	(3.7)	(9.6)
Net Contributions Receivable	**2 030.3**	**1 243 .0**

46. Contributions receivable are shown net of contributions adjustments related to write-downs and doubtful accounts:

- allowance for write-downs is based on historical experience. Write-downs are reductions of contributions receivable and income when the funding is no longer needed by the project to which the contributions was directed or is otherwise unavailable; and

- allowance for doubtful accounts is estimated at the following percentages of outstanding contributions receivable before revaluation adjustments:

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

47. These allowances 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. The movements of the allowance for doubtful accounts during 2008 are as follows:

	Opening Balance 01.01.2008 (Restated)	Utilization	Increase/ (Decrease)	2008
	US$ millions			
Total allowance for doubtful accounts	**9.6**	**(3.1)**	**(2.8)**	**3.7**

48. Non-current contribution receivables are for confirmed contributions due after 12 months from the date of the financial statements.

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

	2008	%
	US$ millions	
Year of confirmation		
2008	1 920.4	88
2007	233.7	11
2006 and earlier	24.2	1
Subtotal	**2 178.3**	
Revaluation adjustments	2.4	
Total Contributions Receivable before allowance	**2 180.7**	**100**

Note 2.4: Inventories

	2008	Opening Balance 01.01.2008 (Restated)
	US$ millions	
Food commodities on hand	929.3	473.0
Food commodities in transit	75.1	30.7
Subtotal Food commodities	**1 004.4**	**503.7**
Less allowance for impairment - Food	(4.0)	(2.0)
Total Food commodities	**1 000.4**	**501.7**
Non-food items	21.6	14.3
Less allowance for impairment – Non-food	(0.2)	(0.1)
Total Non-food items	**21.4**	**14.2**
Total Inventories	**1 021.8**	**515.9**

Food Commodities reconciliation	2008
	US$ millions
Opening inventory	503.7
Commodities purchased	1 502.3
In-kind contributions	831.5
Transport and related costs	365.0
Total inventory available for distribution	**3 202.5**
Less Commodities distributed	(2 198.1)
Allowance for impairment - Food	(4.0)
Total Food Commodities	**1 000.4**

50. For food commodities, 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 commodities destined for landlocked countries, the overland transport cost across transit countries.

51. Food commodity quantities, derived from WFP's commodity tracking systems, are validated by physical stock counts and valued at weighted average cost.

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

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

54. 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 commodities and 0.9 percent for non-food items. Inventories are valued net of any impairments or obsolescence. During 2008, movements of impairments are as follows:

	Opening Balance 01.01.2008 (Restated)	Utilization	Increase/ (Decrease)	2008
	US$ millions			
Allowance for impairment – Food	2.0	-	2.0	4.0
Allowance for impairment – Non-food	0.1	-	0.1	0.2
Total allowance	**2.1**	**-**	**2.1**	**4.2**

55. The gross value of food commodity stocks at 31 December 2008 amounted to US$1,004.4 million representing 1.7 million metric tonnes as compared with the opening balance of US$503.7 million and 1.1 million metric tonnes.

Note 2.5: Other Receivables

	2008	Opening Balance 01.01.2008 (Restated)
	US$ millions	
Advances to vendors	46.5	57.8
Advances to staff	20.6	19.6
TPA receivables	33.0	27.7
Miscellaneous receivables	27.8	57.4
Total Other Receivables	**127.9**	**162.5**

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

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

58. Third Party Agreements include reimbursable loan agreements, WFP staff loaned out to other UN agencies, co-location agreements where WFP manages the office space and recovers from participating agencies, joint agency activities whereby WFP acts as administrator for payment activities as well as transactions relating to shipping costs whereby WFP acts as an agent of the third parties.

59. Miscellaneous receivables include amounts due from clients for services provided under special accounts, accrued interest receivable and VAT receivables.

Note 2.6: Long-Term Investments

	2008	Opening Balance 01.01.2008 (Restated)
	US$ millions	
US Treasury STRIPS	81.0	78.8
Current portion (Note 2.2)	(2.1)	(2.1)
Long-term portion, US Treasury STRIPS	**78.9**	**76.7**
Bonds	70.4	53.6
Equities	37.3	47.1
Total bonds and equities	**107.7**	**100.7**
Total Long-Term Investments	**186.6**	**177.4**

60. Long-term investments consist of investments in United States Treasury Separate Trading of Registered Interest and Principal of Securities (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 obligations on the long-term loan.

61. Changes in market value of this investment are not recognized. At 31 December 2008, the market value of this investment was US$105.1 million (US$88.9 million at 31 December 2007).

62. The reductions in the value of the long-term equity investments results from changes in the market values during 2008.

63. The gross increase in long-term investment is US$14.8 million as reported in the Statement of Cash Flow, which was reduced by the unrealized loss component of US$5.6 million at the end of 2008. The movements of long-term investments accounts during 2008 are as follows:

	Opening Balance 01.01.2008 (Restated)	**Additions/ (Deductions)**	**Interest Received/ Amortized**	**Realized Gains/ (Losses)**	**Unrealized Gains/ (Losses)**	**2008**
			US$ millions			
Bonds and Equities	100.7	7.9	2.8	1.9	(5.6)	107.7
Investment in STRIPS	76.7		2.2			78.9
Total Long-Term Investment	**177.4**	**7.9**	**5.0**	**1.9**	**(5.6)**	**186.6**

64. Long-term bonds and equities are treated as available for sale and under IFRS, unrealized losses of US$5.6 million were transferred to net assets.

65. Investments in equities are made through five regional funds which track the composition and performance of the MSCI World Index, a recognized index of stocks of 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.

66. The net cash flow from long-term investments was US$14.8 million, comprising of additions of US$7.9 million, interest received of US$5.0 million and realized gains of US$1.9 million.

Note 2.7: Property, Plant and Equipment

	Opening Balance 01.01.2008 (Restated)	Additions	Disposals	2008
	US$ millions			
Property, Plant and Equipment				
Buildings				
Permanent	2.7	0.6	-	3.3
Temporary	-	2.0	-	2.0
Computer and office equipment	-	3.2	-	3.2
Office fixtures and fittings	-	0.2	-	0.2
Security and safety equipment	-	0.1	-	0.1
Telecommunication equipment	-	0.4	-	0.4
Motor vehicles	-	10.6	(0.1)	10.5
Workshop equipment	-	0.3	-	0.3
Leasehold improvements	-	1.7	-	1.7
Total Property, Plant and Equipment, at cost	**2.7**	**19.1**	**(0.1)**	**21.7**
Total Depreciation	**0.6**	**2.4**	**-**	**3.0**
Total Property, Plant and Equipment	**2.1**	**16.7**	**(0.1)**	**18.7**

67. Opening balances for property, plant and equipment reflect the initial recognition for permanent buildings in line with WFP's transitional arrangements under IPSAS 17.

68. During 2008, additions to PP&E were mainly for temporary buildings, computer and office equipment, motor vehicles and leasehold improvements. Net acquisitions (after disposals) for the year totalled US$19.0 million, of which US$0.5 million were in-kind donation and the balance were acquired through cash purchase.

69. Buildings, furniture and fittings, vehicles and computer 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.

70. Assets are reviewed annually to determine if there is any impairment in their value. During 2008, review of asset disposals indicated no disposal of PP&E due to assets being unusable or unserviceable.

71. The WFP Headquarters building is not part of PP&E as WFP is a tenant in the building with the rental expenses paid by WFP being reimbursed by the host government.

Note 2.8: Intangible Assets

	Opening Balance 01.01.2008 (Restated)	Additions	Disposals	2008
	US$ millions			
Internally developed software	**14.0**	**16.9**	**-**	**30.9**

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

73. At 31 December 2008, total expenses for the WINGS II project amounted to US$47.6 million, of which US$30.9 million have been capitalized. These capitalized costs comprise the system design and realization phase of the WINGS II project.

Note 2.9: Payables and Accruals

	2008	Opening Balance 01.01.2008 (Restated)
	US$ millions	
Vendor payables	182.2	131.1
Donor payables	72.4	52.0
Miscellaneous	14.4	66.0
Subtotal Payables	**269.0**	**249.1**
Accruals	**298.8**	**213.5**
Total Payables and Accruals	**567.8**	**462.6**

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

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

76. In 2008, WFP entered into forward exchange contracts for the total amount of US$84 million for the purpose of limiting the foreign exchange impact of euro-related PSA staff costs incurred at Headquarters. The forward exchange contracts consist of contracts of euro 4.86 million for each of the 12 months of 2009. Receivables in euro and payables in US$ have been set up for these transactions. At 31 December 2008, the euro receivables have been revalued reducing the euro receivables by US$0.6 million and resulting in a net payable under the forward exchange contracts of the same amount.

77. Accruals are liabilities for goods and services that have been received or provided to WFP during the period and which have not been invoiced or formally agreed with the suppliers.

Note 2.10: Provisions

	Opening Balance 01.01.2008 (Restated)	Utilization	Increase/ (Decrease)	2008
	US$ millions			
Provisions for refunds to donors	**19.4**	**(15.1)**	**24.7**	**29.0**

78. The provision for refunds reduces monetary contribution revenue. This provision estimates the level of refunds of contributions to projects which are now financially closed and transfers of the donors' cash contribution to their bilateral general accounts.

79. 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.

Note 2.11: Employee Benefits

	2008			Opening Balance 01.01.2008 (Restated)
	Actuarial Valuation	WFP Valuation	Total	
	US$ millions			
Short-term employee benefits	-	16.2	16.2	20.8
Post-employment benefits	190.1	0.7	190.8	174.6
Other long-term employee benefits	28.7	4.8	33.5	32.7
Total Employee Benefits Liabilities	**218.8**	**21.7**	**240.5**	**228.1**

	2008	Opening Balance 01.01.2008 (Restated)
	US$ millions	
Composition:		
Current	16.2	20.8
Non-current	224.3	207.3
Total Employee Benefits Liabilities	**240.5**	**228.1**

2.11.1 Valuation of Employee Benefit Liabilities

80. Employee benefit liabilities are determined by professional actuaries or calculated by WFP based on personnel data and past payment experience. At 31 December 2008, total employee benefits liabilities amounted to US$240.5 million, of which US$218.8 million was calculated by the actuaries and US$21.7 million was calculated by WFP. Of the total liabilities of US$240.5 million the amount of US$108.1 million has been charged against relevant funds and projects.

2.11.2 Short-Term Employee Benefits

81. Short-term employee benefits relate to annual leave and education grant.

2.11.3 Post-Employment Benefits

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

83. 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).

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

85. 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.

86. The liabilities include the current service costs for 2008 less benefit payments made.

2.11.4 Other Long-Term Employee Benefits

87. 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 separate from service.

2.11.5 Actuarial Valuations of Post Employment and Other Separation Related Benefits

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

89. Post-employment benefits and other separation-related benefits liabilities which are calculated by actuaries totalled US$218.8 million at 31 December 2008. In the 2008 valuation, the actuaries have calculated that WFP's defined benefit obligations totalled US$222.0 million, of which US$3.2 million represents actuarial losses. Under

IPSAS 25, actuarial gains and losses for post-employment benefits are recognized over time using the corridor method. Under this method, amounts up to 10 percent of the defined benefit obligations are not recognized as revenue or expense so as to allow gains and losses the reasonable possibility of offsetting over time. Gains and losses over 10 percent are amortized over the average remaining service of active staff for each benefit.

2.11.5.1 Actuarial Assumptions and Methods

90. 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 2008 valuation, the assumptions and methods used are as described in the below table which also indicates the changes in the assumptions and methods used compared with the 2007 valuation. These changes in assumptions and methods adopted for the 2008 actuarial valuation resulted in an increase in the post-employment and other separation-related benefits liabilities in the total amount of US$25.5 million.

91. 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.

92. 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 2008:

Discount Rate	5.70 percent for accounting and funding (was 5.50 percent for accounting and 6.50 percent for funding in prior valuation)
Medical Cost Increases	7.00 percent for 2009, 6.00 percent for 2010, and 5.00 percent for subsequent years (was 5.00 percent for all years in prior valuation)
Accounting Expected Return on Assets	Set equal to funding discount rate
Salary Scale	3.00 percent plus Merit Component
Cost of Living Increases	2.50 percent (For the Compensation Plan Reserve Fund, the minimum benefit is assumed to remain unchanged over time)
Average Annual 2008 Medical Claims Cost	The average claims in 2009 for all organizations are assumed to be US$5,184 for each retiree, covered spouse, covered sibling, covered parent, or beneficiary (was US$4,948 in prior valuation)
Age Variation of Medical Cost	The resulting claims are adjusted to produce average claims of US$5,184 in 2009 for the inactive adult participants of the Rome-based United Nations (claims was assumed to increase with age in prior valuation and adjusted to US$4,948 for inactive adult participants)
Administrative Costs	US$170.70 to US$187.44 per adult for 2009 increasing at 2.50 percent per annum thereafter (was US$149.07 in prior valuation).
Insurer's Retention	3.00 percent of the claims in 2009; included in the claims cost shown above. Decreases to 2.45 per cent in 2010 and subsequent years (was 5/95 of the claims for all years in prior valuation)
Mortality	Mortality for all plans matches the 31 December 2007 valuations of the United Nations Joint Staff Pension Fund (used different mortality rates in prior valuation depending on the category of staff)
Disability Rates	Vary according to age and gender and increase with age
Withdrawal Rates	Vary according to age and years of service with staff likely to withdraw on the first year of service
Retirement Rates	Vary according to age with higher probability of retirement for staff age 61 and up
Participation	90 percent of future retirees will elect coverage in the Basic Medical Insurance Plan
Coverage of Spouses	80 percent of male and 45 percent of female retirees have a spouse who elects coverage in the Basic Medical Insurance Plan. Females are assumed to be four years younger than their male spouse.
Future Deaths and Disablements Attributable to Performance of Official Duties	10 percent of deaths and 4.00 percent of disablements (in prior valuation, was 35.00 percent of deaths and 35.00 percent of disablements for field staff and 8.00 percent of death and 4.00 percent of disablements for headquarters staff)
Repatriation Grant	Repatriation benefits were assumed to be payable to 65.00 percent of those staff members who retire or withdraw from service. 80.00 percent of those who are eligible male were assumed to be married and 45.00 percent of female staff members were assumed to be married
Commutation of Accrued Leave	The average accrued leave benefit was assumed to be 20 days' pay, which is 7.70 percent of final net annual salary
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. (Was 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. (Accrued leave was attributed in the same manner as other benefits in prior valuation.)

93. The following tables provide additional information and analysis on employee benefits liabilities calculated by actuaries.

2.11.5.2 Reconciliation of Defined Benefit Obligation

	After-Service Medical Plan	Other Separation-Related Payments Schemes	Separation Payments Scheme	Staff Compensation Plan	Total
	US$ millions				
Net Defined Benefit Obligation at 31 December 2007	**150.5**	**20.1**	**19.7**	**3.0**	**193.3**
Change in Accounting Method	-	7.6	(1.5)	2.7	8.8
Restated balance at 01 January 2008	**150.5**	**27.7**	**18.2**	**5.7**	**202.1**
Service Cost for 2008	9.2	2.0	1.5	0.2	12.9
Interest Cost for 2008	8.2	1.0	1.0	0.2	10.4
(Actual Gross Benefit Payments for 2008)	(3.6)	(5.1)	(1.6)	(0.2)	(10.5)
Participant Contributions	0.8	-	-	-	0.8
Exchange Rate Movements	(2.5)	-	(0.1)	(0.1)	(2.7)
Other Actuarial (Gain)/Loss	8.1	3.1	(1.4)	(0.8)	9.0
Defined Benefit Obligation at 31 December 2008	**170.7**	**28.7**	**17.6**	**5.0**	**222.0**

2.11.5.3 Annual Expense for Calendar Year 2008

	After-Service Medical Plan	Other Separation-Related Payments Schemes	Separation Payments Scheme	Staff Compensation Plan	Total
	US$ millions				
Service Cost	9.2	2.0	1.5	0.2	12.9
Interest Cost	8.2	1.1	1.0	0.2	10.5
(Gain)/Loss Amortization	-	3.0	-	-	3.0
Total Expense recognized in 2008	**17.4**	**6.1**	**2.5**	**0.4**	**26.4**

2.11.5.4 Reconciliation of Funded Status

	After-Service Medical Plan	Other Separation-Related Payments Schemes	Separation Payments Scheme	Staff Compensation Plan	Total
	US$ millions				
Defined Benefit Obligation					
Inactive	69.2	-	-	4.1	73.3
Active	101.5	28.7	19.1	1.0	150.3
(Offset for Advance Payments)	-	-	(1.6)	-	(1.6)
Total	**170.7**	**28.7**	**17.5**	**5.1**	**222.0**
(Surplus)/Deficit	170.7	28.7	17.5	5.1	222.0
Unrecognized Gain/(Loss)	(5.6)	-	1.6	0.8	(3.2)
Net Balance Sheet (Asset)/ Liability	**165.1**	**28.7**	**19.1**	**5.9**	**218.8**

2.11.5.5 After-Service Medical Plan - Sensitivity Analysis

94. 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.

95. In the 2008 valuation, it was assumed that medical costs will increase at 7.00 percent for 2009, 6.00 percent for 2010, and 5.00 percent for subsequent years. It was also assumed that the future exchange rates between the euro and US dollar will average about 1.43 US dollars per euro, which was the spot United Nations operational rate of exchange at 31 December 2008. Further assumed was a 5.70 percent accounting discount rate.

96. 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 percent changes.

2.11.5.6 Expected Costs during 2009

97. The expected contribution of WFP in 2009 to the defined benefits plans is US$6.6 million which is determined based on expected benefit payments for that year.

2.11.6 United Nations Joint Staff Pension Fund

98. WFP is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits. 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.

99. 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 General Assembly on the audit every two years. The most recent actuarial valuation carried out was at 31 December 2007.

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

101. WFP's financial obligation to the UNJSPF consists of its mandated contribution, at the same uniform rate as specified by the Regulations of the Fund (7.9 percent for participants and 15.8 percent for member organizations) which is established by United Nations General Assembly, together with any share of any actuarial deficiency payments under Article 26 of the Regulation of the Pension Fund.

102. 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 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.

103. 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, plan assets and other 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.

104. During 2008, contributions paid to UNJSPF amounted to US$49.3 million. Expected contributions due in 2009 are US$51.3 million.

2.11.7 Social Security Arrangements for Employees under Service Contracts

105. WFP employees under the 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 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

	2008	Opening Balance 01.01.2008 (Restated)
	US$ millions	
Long-Term loan	**111.2**	**110.6**

106. 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 million was used to purchase food commodities against a long-term loan contract with a government agency of the donor country.

107. The loan is payable over 30 years and interest on the loan is at the rate of two per cent per year for the first ten years and three per cent 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 million.

108. The loan of US$106 million is reflected at amortized cost using the effective interest rate of 2.44 percent. At 31 December 2008, amortized cost was US$111.2 million and interest paid for the year was US$2.1 million. The initial effect of the amortization is a net decrease in the opening fund balance under Statement of Changes in Net Assets of US$3.3 million. This represents an increase of US$4.6 million in long-term loan and a reduction of US$1.3 million in accrued interest on long-term loan as the latter has already been included in the amortized cost of the loan.

109. During 2008, interest expense on the long-term loan totalled US$2.7 million 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.

110. In the Statement of Cash Flow (Statement IV), 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 is presented under operating activities.

Note 2.13: Fund Balances and Reserves

	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 2008 (restated)	**1 953.1**	**239.9**	**182.9**	**140.1**	**2 516.0**
Surplus for the year	**669.1**	**82.7**	**637.9**	**-**	**1 389.7**
Subtotal	**2 622.2**	**322.6**	**820.8**	**140.1**	**3 905.7**
Movements during the year:					
Advances to projects	175.6	-	8.1	(183.7)	-
Repayments by projects	(119.6)	-	-	119.6	-
Replenishments	-	-	(65.9)	65.9	-
Surplus of ISC revenue over PSA expenses	-	-	(136.6)	136.6	-
Transfers between funds	377.2	(1.6)	(375.6)	-	-
Unrealized losses on long-term investment	-	-	(5.6)	-	(5.6)
Total movements during the year	**433.2**	**(1.6)**	**(575.6)**	**138.4**	**(5.6)**
Closing Balance at 31 December 2008	**3 055.4**	**321.0**	**245.2**	**278.5**	**3 900.1**

111. 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.

	2.13.1 Operational Reserve (OR)	2.13.2 Immediate Response Account (IRA)	2.13.3 DSC/ODOC Advance Facility (DSCAF)	2.13.4 PSA Equalization Account (PSAEA)	Total
	US$ millions				
Opening Balance at 01 January 2008 (restated)	**51.1**	**41.5**	**38.9**	**8.6**	**140.1**
Advances to projects	-	(168.4)	(15.3)	-	(183.7)
Repayments by projects	-	111.5	8.1	-	119.6
Replenishments	5.9	60.0	-	-	65.9
Transfers between reserves	-	-	(24.1)	24.1	-
Surplus of ISC revenue over PSA expenses	-	-	-	136.6	136.6
Closing Balance at 31.12.2008	**57.0**	**44.6**	**7.6**	**169.3**	**278.5**

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

2.13.1 Operational Reserve

113. 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.

114. During the Annual Session of the Board in June 2008, the Board approved the replenishment of the operational reserve from the General Fund in the amount of US$5.9 million relating to a drawdown based on a forecast contribution that did not materialize (2008/EB.A/5 (ii)). The replenishment restored the balance of this Reserve to its established level of US$57 million.

2.13.2. Immediate Response Account

115. 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.

116. In 2008, the IRA received US$60 million in replenishments. Advances made to projects totalled US$168.4 million of which US$111.5 million was repaid during 2008. The IRA balance at 31 December 2008 is US$44.6 million which is below the target level of US$70 million.

2.13.3. Direct Support Cost Advance Facility

117. The purpose of the DSCAF is to ensure continued financing of DSC and ODOC pending confirmation of contributions.

118. At the second regular session of the Board in 2007, the Board authorized the transfer of US$24.1 million from the DSCAF to the PSAEA (2007/EB.2/4 paragraph iii). Advances to projects and the Global Vehicle Leasing Programme amounted to US$15.3 million as at 31 December 2008.

2.13.4. PSA Equalization Account

119. The PSAEA is a reserve set up to record any differences between ISC revenue and PSA expenses for the financial period.

120. During 2008, PSAEA increased to US$160.7 million resulting from transfer of US$24.1 million from DSCAF and surplus of ISC revenue over PSA expenses in 2008.

NOTE 3: REVENUE

		2008
		US$ millions
3.1	**Monetary contributions**	
	Contributions for direct cost	3 986.9
	ISC contributions	317.0
	Total	**4 303.9**
	Less:	
	Refunds, reprogrammes and write-downs	(153.0)
	Total Monetary contributions	**4 150.9**
3.2	**In-kind contributions**	
	Commodities in-kind contributions	908.4
	Service in-kind contributions	9.6
	Total	**918.0**
	Less:	
	Write-downs	(30.9)
	Total In-kind Contributions	**887.1**
3.3	**Other Revenue**	**76.7**
	Total Revenue	**5 114.7**

121. In-kind contributions represent confirmed contributions of food commodities or services during the period.

122. 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, net income from third party agreements as well as proceeds from sale of damaged commodities and other unserviceable properties.

123. Contribution revenue is adjusted by changes in the levels of the allowance for write--downs (Note 2.3) and in the level of the provisions for refunds to donors (Note 2.10). Actual refunds and write-downs are also directly made against specific contributions.

NOTE 4: EXPENSES

		2008
		US$ millions
4.1	**Commodities distributed**	**2 198.1**
4.2	**Distribution and related services**	**551.1**
4.3	**Wages, salaries and employee benefits**	
	International and national staff	405.7
	Consultants	43.4
	United Nations volunteers	5.5
	Temporary staff	19.0
	Other personnel costs	81.5
	Total wages, salaries and employee benefits	**555.1**
4.4	**Supplies, consumables and other running costs**	
	Telecommunications and Information Technology	14.4
	Equipment	23.4
	Office supplies and consumables	55.4
	Utilities	5.0
	Vehicle maintenance and running costs	16.4
	Total supplies, consumables and other running costs	**114.6**
4.5	**Contracted services**	
	Air operations	95.3
	ODOC contracted services	62.5
	Other contracted services	28.2
	Telecommunications/IT related services	20.5
	Security and other services	13.5
	Leases	17.4
	Total contracted services	**237.4**
4.6	**Currency exchange differences**	**21.9**
4.7	**Negative return on investments**	
	Net Realized Loss on Investment	6.3
	Net Unrealized Loss on Investment	51.4
	Return on investments	(48.1)
	Total negative return on investments	**9.6**
4.8	**Finance costs**	**2.7**
4.9	**Depreciation**	**2.4**
4.10	**Other expenses**	
	Maintenance services	3.6
	Insurance	3.7
	Bank charges/ investment manager and custodian fees	3.1
	Doubtful accounts and impairment	0.7
	Trainings and meetings	7.0
	Others	14.0
	Total other expenses	**32.1**
	Total expenses	**3 725.0**

124. Food 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$11. 4 million (Note 9).

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

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

127. Supplies and consumables used are cost of goods and services used exclusively by WFP in direct support of a project. Also included are the operational supplies and consumables for air transport services such as aircraft fuel.

128. Currency exchange differences were due to the weakening of the US$ against most currencies where transactions were in non-US currencies and revaluation of non-US$ assets and liabilities.

129. At 31 December 2008, negative return on investments totalled US$9.6 million. Interest realized on investments was offset by the decline in market value of investments held.

130. Other expenses include maintenance of facilities, insurance, meeting related costs, allowances for doubtful accounts and inventory impairment.

NOTE 5: STATEMENT OF CASH FLOW

131. 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 for 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

132. 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 Performance Highlights section of the Executive Director's Statement and form part of these financial statements.

133. WFP's budget and accounts 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 (Statement V) is prepared on a commitment accounting basis.

134. 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.

135. 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.

136. 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.

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

138. 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.

139. 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 2008 is presented below:

	2008			
	Operating	**Investing**	**Financing**	**Total**
	US$ millions			
Actual Amount on Comparable Basis (Statement V)	**(4 386.7)**	**-**		**(4 386.7)**
Basis Differences	(561.9)	111.5	(2.1)	(452.5)
Presentation Differences	5 490.6	-		5 490.6
Entity Differences	(227.8)	-		(227.8)
Actual Amount in the Statement of Cash Flow (Statement IV)	**314.2**	**111.5**	**(2.1)**	**423.6**

140. 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 although they are excluded from the budgetary process.

141. Budget amounts have been presented on a functional classification basis in accordance with the 2008-2009 Biennial Management Plan 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

	2008				
	Programme Category Funds	**General Fund and Special Accounts**	**Bilateral Operations and Trust Funds**	**Inter-Segments Transactions**	**Total WFP**
			US$ millions		
ASSETS					
Current assets					
Cash and short-term investments	927.8	262.8	241.8	-	1 432.4
Contributions receivable	1 627.7	287.9	75.6	-	1 991.2
Inventories	979.1	21.8	20.9	-	1 021.8
Other receivables	42.1	214.2	1.2	(129.6)	127.9
	3 576.7	**786.7**	**339.5**	**(129.6)**	**4 573.3**
Non-current assets					
Contributions receivable	0.2	8.4	30.5	-	39.1
Long-term investments	-	186.6	-	-	186.6
Property, plant and equipment	10.5	7.4	0.8	-	18.7
Intangible assets	-	30.9	-	-	30.9
	10.7	**233.3**	**31.3**	**-**	**275.3**
TOTAL ASSETS	**3 587.4**	**1 020.0**	**370.8**	**(129.6)**	**4 848.6**
LIABILITIES					
Current liabilities					
Payables and accruals	510.5	144.6	42.3	(129.6)	567.8
Provisions	21.5	-	7.5	-	29.0
Employee benefits	-	16.2	-	-	16.2
	532.0	**160.8**	**49.8**	**(129.6)**	**613.0**
Non-current liabilities					
Employee benefits	-	224.3	-	-	224.3
Long-term loan	-	111.2	-	-	111.2
	-	**335.5**	**-**	**-**	**335.5**
TOTAL LIABILITIES	**532.0**	**496.3**	**49.8**	**(129.6)**	**948.5**
NET ASSETS	**3 055.4**	**523.7**	**321.0**	**-**	**3 900.1**
FUND BALANCES AND RESERVES					
Fund balances	3 055.4	245.2	321.0	-	3 621.6
Reserves	-	278.5	-	-	278.5
TOTAL FUND BALANCES AND RESERVES	**3 055.4**	**523.7**	**321.0**	**-**	**3 900.1**

Note 7.2: Statement of Financial Performance by segment

	2008				
	Programme Category Funds	General Fund and Special Accounts	Bilateral Operations and Trust Funds	Inter-Segments Transactions	Total WFP
	US$ millions				
REVENUE					
Monetary contributions	2 953.0	887.5	310.4	-	4 150.9
In-kind contributions	886.4	0.7	-	-	887.1
Other revenue	55.8	76.9	0.1	(56 .1)	76.7
TOTAL REVENUE	**3 895.2**	**965.1**	**310.5**	**(56.1)**	**5 114.7**
EXPENSES					
Commodities distributed	2 046.3	(0.3)	157.0	(4.9)	2 198.1
Distribution and related services	547.1	-	7.6	(3.6)	551.1
Wages, salaries and employee benefits	299.6	221.9	42.3	(8.7)	555.1
Supplies, consumables, and other running costs	102.4	29.7	10.6	(28.1)	114.6
Contracted services	188.8	52.6	6.1	(10.1)	237.4
Currency exchange differences	22.8	(4.7)	3.8	-	21.9
Negative return on investment	-	11.1	(1.5)	-	9.6
Finance costs	-	2.7	-	-	2.7
Depreciation	1.5	0.8	0.1	-	2.4
Other expenses	17.6	13.4	1.8	(0.7)	32.1
TOTAL EXPENSES	**3 226.1**	**327.2**	**227.8**	**(56.1)**	**3 725.0**
SURPLUS FOR THE YEAR	**669.1**	**637.9**	**82.7**	**-**	**1 389.7**

142. 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 shows a reconciliation of the amounts reported in the Statement of Financial Position and segment reporting in line with IPSAS requirements.

	2008
	US$ millions
Cash and cash equivalents	972.3
Short-term investments	460.1
Total Cash and short-term investments	**1 432.4**

143. 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.

144. During the year ended 31 December 2008, activities have created inter-segment balances in the amount of US$129.6 million in the Statement of Financial Position and US$56.1 million in the Statement of Financial Performance.

145. Of the total PP&E of US$18.7 million at the end of 2008, US$16.6 million relates to new acquisitions.

146. 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.

147. Accumulated fund balances under programme category funds and bilateral operations and trust funds represent the unexpended portion of contributions that are carried forward to be utilized in future operational requirements of the Programme.

NOTE 8: COMMITMENTS AND CONTINGENCIES

Note 8.1: Commitments

8.1.1 Property Leases

	2008
	US$ millions
Obligations for property leases:	
Within 12 months	18.2
1 – 5 years	35.7
Beyond 5 years	1.9
Total Property Leases obligations	**55.8**

148. At the end of 2008, the property lease obligations for WFP Headquarters building in Rome represent 48 percent of the total obligations under the within 12 months category and 64 percent under the one to five years category. Costs related to non-property leases amounted to US$0.2 million. The non-property leases represent rental of photocopiers.

8.1.2 Commitments

149. At 31 December 2008, WFP had commitments for the acquisition of food commodities, services, and non-food items contracted but not delivered as follows:

	2008
	US$ millions
Commodities	401.0
Non-food items	20.9
Transportation	87.8
Services	65.0
Capital commitments	16.5
Total open commitments	**591.2**

150. 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

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

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

152. 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". During 2008, ex-gratia payments totalled US$572,310 relating to staff termination, medical-related bills and service-incurred losses suffered by national staff.

153. The same Financial Regulation, under section 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." During 2008, cash losses and irrecoverable contributions receivable and advances to staff and suppliers resulted in write-offs to the total amount of US$3.9 million. In addition, losses of commodities after the same arrived at the recipient country totalled 21,699 metric tonnes with a value of US$11.4 million at 31 December 2008.

154. Fraud and presumptive fraud in 2008 comprised the theft of commodities and fuel involving WFP staff and/or implementing partners as well as misappropriation of cash valued at US$570,206, of which US$94,582 has been recovered.

155. In 2005, cases of fraud were discovered in WFP Regional Bureau in South Africa. The loss was estimated at US$6.0 million. WFP has commenced arbitration proceedings against two staff members to recover the bulk of the funds.

156. WFP was also in a dispute with a transporter that was settled through mediation with a cost of US$9.3 million. Of this amount, US$5.4 million was borne by the external insurers with the balance charged to the relevant project.

NOTE 10: RELATED PARTY AND OTHER SENIOR MANAGEMENT DISCLOSURE

Note 10.1: Key Management Personnel

	Number of individuals	Compensation and post adjustment	Entitlements	Pension and health plans	Total remuneration 2008	Outstanding Advances against entitlements 31.12.2008	Outstanding Loans 31.12.2008
		US$ millions					
Key Management Personnel	**4**	**0.7**	**0.4**	**0.3**	**1.4**	**0.2**	**-**

157. 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 Executive Board consists of 36 Member States without personal appointment.

158. 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.

159. 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.

160. Key management personnel are ordinary members of UNJSPF.

Note 10.2: Other Senior Management

	Number of individuals	Compensation and post adjustment	Entitlements	Pension and health plans	Total remuneration 31.12.2008	Outstanding Advances against entitlements 31.12.2008	Outstanding Loans 31.12.2008
		US$ millions					
Other Senior Management	**29**	3.8	1.7	1.4	6.9	0.6	0.1

161. In addition to key management personnel whose remuneration, advances and loans 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 HQ divisional directors.

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

163. 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.

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

NOTE 11: OPENING BALANCES ADJUSTMENTS

	31.12.2007 (Audited)	Adjustments	Opening Balance 01.01.2008 (Restated)
		US$ millions	
ASSETS			
Current assets			
Cash and cash equivalents	548.7		548.7
Short-term investments	672.6	0.5	673.1
Contributions receivable	1 330.2	(144.7)	1 185.5
Inventories	-	515.9	515.9
Other receivables	213.0	(50.5)	162.5
Total current assets	**2 764.5**	**321.2**	**3 085.7**
Non-current assets			
Contributions receivable	-	57.5	57.5
Long-term investments	53.6	123.8	177.4
Property, plant and equipment	-	2.1	2.1
Intangible assets	-	14.0	14.0
Total non-current assets	**53.6**	**197.4**	**251.0**
TOTAL ASSETS	**2 818.1**	**518.6**	**3 336.7**
LIABILITIES			
Current liabilities			
Payables and accruals	540.2	(77.6)	462.6
Provisions	-	19.4	19.4
Employee benefits	-	20.8	20.8
Total current liabilities	**540.2**	**(37.4)**	**502.8**
Non-current liabilities			
Deferred contribution	150.6	(150.6)	-
Employee benefits	-	207.3	207.3
Long-term loan	106.0	4.6	110.6
Total non-current liabilities	**256.6**	**61.3**	**317.9**
TOTAL LIABILITIES	**796.8**	**23.9**	**820.7**
NET ASSETS	**2 021.3**	**494.7**	**2 516.0**
FUND BALANCES AND RESERVES			
Fund balances	1 881.2	494.7	2 375.9
Reserves	140.1	-	140.1
TOTAL FUND BALANCES AND RESERVES	**2 021.3**	**494.7**	**2 516.0**

165. Opening balances represent the 2007 audited Statement of Assets, Liabilities, Reserves and Fund balances which have been restated to incorporate adjustments made due to changes in accounting policies and other adjustments made at 01 January 2008.

166. These adjustments pertain to the capitalization of property, plant and equipment, inventories and intangibles; recognition of revenue of all confirmed contributions; recognition of allowances and provisions for receivables, inventories and revenue due to write-downs, doubtful accounts, impairments and refunds; adjustments of imputed interest related to long-term investments; adjustments relating to employee benefits liabilities; and amortization of the long-term loan.

Note 11.1: Other Adjustments to Fund Balances

167. Increases in net assets resulted from initial recognition of inventories (US$515.9 million), PP&E (US$2.1 million), and intangibles (US$14.0 million) totalling US$532 million. Other adjustments to fund balances decreased the net assets by US$37.3 million or a net increase in fund balances of US$494.7 million at 01 January 2008. The nature of adjustments to fund balances of US$37.3 million is as follows:

Description	Assets	Liabilities	Net Effect on Fund Balances 01.01.2008
		US$ millions	
Adjustment to short-term investments	0.5	-	0.5
Allowances for write-downs and doubtful accounts and other adjustments	(144.7)	-	(144.7)
Reclassification of current to non-current contributions receivable	57.5	-	57.5
Provision for refunds for monetary contributions	-	19.4	-19.4
Deferred contribution recognized as revenue	-	(150.6)	150.6
Adjustment to other receivables	(50.5)	-	(50.5)
Adjustment to long-term investments	123.8	-	123.8
Commodity borrowings	-	9.7	(9.7)
Adjustment to accruals	-	17.9	(17.9)
Trust fund contributions recognized as revenue and other adjustments	-	(103.9)	103.9
Presentation of employee benefits previously reported in the noted disclosure	-	110.9	(110.9)
Reclassification of employee benefits previously reported as payables and accruals	-	108.4	(108.4)
Recognition of additional employee benefits due to change in accounting method	-	8.8	(8.8)
Recognition of long-term loan at amortized value	-	4.6	(4.6)
Adjustment of accrued interest on long-term loan	-	(1.3)	1.3
Total other adjustments to fund balances	**(13.4)**	**23.9**	**(37.3)**

NOTE 12: THIRD PARTY AGREEMENTS

Third Party Agreements reconciliation	**2008**	
	US$ millions	
Opening balance at 01 January 2008 (restated)		**27.7**
New Third Party Agreements set up in 2008	**170.7**	
Less: Receipts during the period	**(84.1)**	**86.6**
Third Party Agreements payables during the period	**(158.7)**	
Less: Disbursements made	**77.4**	**(81.3)**
Closing balance at 31 December 2008		**33.0**

168. A third party agreement 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 third party agreements 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.

169. The above table shows the movement of third party agreements transactions during 2008 showing a net receivable from third parties of US$33.0 million (Note 2.5).

NOTE 13: EVENTS AFTER REPORTING DATE

170. WFP's reporting date is 31 December 2008. On the date of signing of these accounts, 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 (unaudited)

Name		Address
WFP	World Food Programme	Via Cesare Giulio Viola 68/70 Parco de' Medici 00148 Rome, Italy
General Counsel and Director, Office of Legal Services	Bartolomeo Migone	Via Cesare Giulio Viola 68/70 Parco de' Medici 00148 Rome, Italy
Actuaries	Hewitt Associates	45 Glover Avenue Norwalk Connecticut 06850 United States
Principal Bankers	Citibank N.A.	16, Foro Buonaparte 20121 Milan, Italy
	Intesa SanPaolo S.p.A.	Via Monte di Pietà, 8 20121 Milan, Italy
	Standard Chartered Plc	6th Floor, 1 Basinghall Avenue London, EC2V 5DD, U.K.
Auditor	UK National Audit Office	151 Buckingham Palace Road London, SW1W 9SS, U.K.

ANNEX II (unaudited)

Amendment to Financial Regulation 13.1

Current text:

The Executive Director shall submit to the Board for its approval annual financial statements in respect of the WFP Fund, including its funds and accounts. These financial statements shall be prepared in accordance with the UN Common Accounting Standards except when the nature of WFP's operations requires different internationally accepted accounting standards. The format of the financial statements shall be such as may be appropriate to clearly show the financial position of WFP and meet the managerial requirements of the Board and of the Executive Director.

Proposed text:

The Executive Director shall submit to the Board for its approval annual financial statements in respect of the WFP Fund, including its funds and accounts. These financial statements shall be prepared in accordance with the International Public Sector Accounting Standards (IPSAS).

SECTION II

Financial Statements of the World Food Programme 2008

The External Auditor's Report to the Executive Board of the World Food Programme

I have audited the financial statements of the World Food Programme for the year ended 31 December 2008. These comprise the statements of the financial position, financial performance, changes in net assets, cash flow, and the comparison of budget and actual amounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Statement of Responsibilities

The Executive Director of the World Food Programme is responsible for the preparation and fair presentation of the financial statements, in accordance with requirements of the Financial Regulations as authorised by the Executive Board. This responsibility includes: designing, implementing and maintaining internal control; the 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.

My responsibility is to issue a report on the audit of the financial statements, in accordance with Financial Regulation 14 and the additional terms of reference governing external audit. I am required to express an opinion as to whether the financial statements present fairly the financial position at the end of the period and the results of the operations for the period; and that the financial statements were prepared in accordance with the stated accounting policies.

I also report to you whether, in all material respects, the transactions have been made in accordance with the financial regulations.

Basis of Opinion

I conducted my audit in accordance with International Standards on Auditing, issued by the International Auditing and Assurance Standards Board. Those Standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the transactions have been made in accordance with the Financial Regulations which govern them and applied to the purposes intended by the Executive Board. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion:

- the financial statements present fairly, in all material respects, the financial position of the World Food Programme at 31 December 2008 and, for the year then ended, the results of its financial performance, changes in fund balances and reserves, cash flow, and the comparison of budget and actual amounts, in accordance with International Public Sector Accounting Standards; and

- the financial statements have been prepared in accordance with the stated accounting policies.

Opinion on Regularity

In my opinion, in all material respects, the transactions which I have tested as part of my audit have been made in accordance with the Financial Regulations and applied to the purposes intended by the Executive Board.

Long-Form Report

I have separately provided a long form report for the World Food Programme as a whole, which I have issued in accordance with Financial Regulation 14.4.

Signed on original

T J Burr

Comptroller and Auditor General, United Kingdom

External Auditor

National Audit Office

157-197 Buckingham Palace Road

London, SW1W 9SP

7 May 2009

National Audit Office

Report by the External Auditor

WORLD FOOD PROGRAMME

Audit of the 2008

Financial Statements

The National Audit Office (NAO), headed by the Comptroller and Auditor General of the United Kingdom, provides external audit services to the World Food Programme.

The External Auditor has been appointed by the Executive Board in accordance with the Financial Regulations. In addition to certifying the accounts of the WFP under Article XIV of the Financial Regulations, he has authority under the mandate, to report to the Executive Board on the efficiency of financial procedures, the accounting system, the internal financial controls and the general administration and management of the WFP.

The aim of the NAO's audit is to provide independent assurance to the Executive Board; to add value to the WFP's financial management and governance; and through the external oversight process to support the objectives of the UN World Food Programme.

The NAO provides external audit services to international organisations, working entirely independently of its role as the United Kingdom's Supreme Audit Institution. The NAO has a dedicated team of professionally qualified staff with wide experience of the audit of international organisations.

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EXECUTIVE SUMMARY

- ***The financial statements for 2008 represent the first set of WFP's accounts prepared in full compliance with International Public Sector Accounting Standards. The implementation of IPSAS represents a significant improvement in the Programme's financial reporting and a fundamental strengthening of the governance of the WFP.***

- ***The External Auditor has provided an unqualified audit opinion. This is a commendable major achievement for the WFP Secretariat in the first year of adoption of IPSAS. This is not the end of the process – WFP now need to embed IPSAS in their financial management procedures and learn how to utilise the new financial information to better manage their operations.***

- ***IPSAS is not simply about annual financial reporting – it represents a change in the way the organisation is run and provides the basis for improved financial decision making. The audited IPSAS-based financial statements offer an improved tool to analyse operational results and evaluate financial management. Authoritative information is now available to allow the WFP to review:***

- ***The composition and performance of the investment portfolio, in the light of total realised and unrealised losses of US$ 57.7 million;***

- ***The level of inventory holdings of commodities, valued in excess of US$ 1.0 billion at 31 December 2008;***

- ***The increase of US$ 200 million in cash and investments, to US$ 1.6 billion at the year end, to confirm that the level of cash holdings remains appropriate to the Programme's needs, and how these funds will be utilised in the future;***

- ***The liability and financing of US$ 240 million in future staff benefits; and***

- ***The reasons behind the operating surplus of US$ 1.4 billion for 2008.***

OVERALL RESULTS OF THE 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. **The audit revealed no weaknesses or errors which we considered material to the accuracy, completeness and validity of the financial statements as a whole; and the External Auditor's opinion confirmed that the financial statements present fairly, in all material respects, the financial position of the World Food Programme at 31 December 2008 and, for the year then ended, the results of its financial performance, changes in net assets, cash flow and the comparison of budget and actual amounts, in accordance with International Public Sector Accounting Standards (IPSAS).**

3. This is the first set of accounts prepared by the WFP in compliance with the requirements of IPSAS. WFP is the UN system's early adopter in preparing annual accounts under an IPSAS accounting framework. The implementation of IPSAS represents a fundamental strengthening of the governance of the WFP. The achievement of an unqualified audit opinion in the first year of IPSAS adoption is significant for the WFP: it reflects the leadership of the Secretariat and the professional efforts made by the central finance team, finance officers across the world, and all staff who provided information for the accounts preparation exercise.

Preparation of the Financial Statements under IPSAS

4. Our Report in January 2005[1] recommended that the Executive Board change the basis of financial accounting from the UN System Accounting Standards (UNSAS) and implement internationally accepted accounting standards. The Board accepted this recommendation with implementation from 2008. In July 2006[2] the United Nations General Assembly endorsed the general adoption of IPSAS and a target date of 2010 has been set. The General Assembly considered that IPSAS would improve accountability, comparability, transparency and harmonisation of financial accounting and reporting in the United Nations.

5. Following the decision of the WFP Executive Board to implement IPSAS, the Secretariat established a central project team to identify and oversee the necessary changes. These changes included: a comprehensive reconsideration of the financial information necessary to support the work of the WFP; the specification of amendments necessary to the computerised accounting system to support IPSAS (known as the WINGS II project); and the training of finance and other staff across the world to implement new working practices and generate the information needed to make IPSAS implementation a success.

6. In June 2008 the central finance team prepared a preliminary set of accounts for the first six months of the year on the new IPSAS basis. Lessons learned from that process fed into a full set of dry-run accounts for the nine months to September 2008. Following review and input from Internal Audit, a project plan for the preparation of the year-end accounts was prepared and promulgated under the leadership of the Director

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[1] WFP/EB.1/2005/5-E
[2] 60th Session.

Legal and Finance. The draft financial statements for 2008 were submitted for external audit on 16 February 2009.

7. As WFP's external auditors, we have provided advice and guidance to the organisation throughout the process of implementing IPSAS. For example, we advised on the development of key accounting policies – including inventory accounting. We also provided independent reviews[3] of progress of the implementation of the WINGS II system. And we undertook a detailed review of the nine-month dry-run accounts[4] to identify key areas where, if accounting processes and evidence were not strengthened, we might encounter difficulty in forming an audit opinion on the full year accounts for 2008.

8. We have analysed the Secretariat's response to our earlier report to the Board on preparedness for IPSAS and WINGS II[5] (details are summarised later in this report). We found that the Secretariat had responded in a timely and appropriate manner to the recommendations we made. This allowed the organisation to collect relevant information to support the 2008 financial statements. Without such a positive response, the audit process would have been more complex, and forming the audit opinion more problematic.

9. Our year-end audit processes included review of the draft annual financial statements to ensure that there were no material errors in the figures and that the requirements of IPSAS had been met. This review led to numerous amendments to the classification and disclosure of information in the accounts. In parallel with this examination, and in accordance with the requirements of International Standards on Auditing, we undertook a holistic review of the accounts to ensure that they were both complete and clearly presented. Amendments arising from this process included the development of IPSAS-compliant accounting policies tailored to the needs of WFP; inclusion of an Executive Director's Statement; corrections to the format of the statement of financial position; and the inclusion of required disclosures regarding financial instruments.

10. Preparing one set of IPSAS compliant accounts for 2008 is not the end of the story. The organisation will now need to prepare compliant accounts on a regular annual basis. This process needs to be embedded in the routine management functions of the organisation. But until the full implementation of WINGS II, the organisation will have to continue to commit resources to validate and convert existing financial data at the year end to meet the requirements of IPSAS.

KEY FIGURES IN THE FINANCIAL STATEMENTS

11. Comparing the 2008 financial statements with those of previous years reveals significant changes and improvements in the presentation of financial information. There are also more subtle changes relating to the recognition and valuation of financial transactions, and other disclosures in the accounts. This shows the extent of improved financial reporting resulting from compliance with IPSAS, which provides more focused, high level management information and analysis which will materially assist the Executive Board in exercising its governance responsibilities.

12. Notable changes arising from the implementation of IPSAS include: a discussion in the Executive Director's Statement concerning the risks associated with the holdings of

[3] WFP/EB.A/2005/6-B/1/rev.1 and WFP/EB.1/2009/6-D/1
[4] WFP/EB.1/2009/6-D/1
[5] WFP/EB.1/2009/6-D/1

cash and investments (valued at US$ 1.6 billion), which contributed to the loss on investments; the introduction of an inventory (value US$ 1.0 billion at 31 December 2008); the recognition of the full liability for staff benefits (US$ 240 million) in the Statement of Financial Position and funded by the General Fund; and the reporting of an operating surplus for the year of just under US$ 1.4 billion. We analyse each of these key figures in the following sections of this report, followed by a summary of the main improvements in financial reporting under IPSAS.

INVESTMENT PERFORMANCE – A NEGATIVE RETURN

13. Note 4.7 to the Financial Statements shows that interest of US$ 48.1 million earned on investments (representing a 3 per cent return on average investments held during the year) was offset by realised and unrealised losses of US$ 57.7 million in capital value, to post a total negative return on investments of US$ 9.6 million for 2008. WFP have separately disclosed the interest earned in the year, and both realised and unrealised capital losses, to show the overall performance of their investment portfolio for 2008.

14. Our analysis showed that most of the losses were incurred on the short-term investment portfolio. Note 2.2 records that during 2008 losses on short-term investments totalled US$ 61.1 million, to which must be added unrealised losses of US$ 3.6 million incurred before 2008 and not yet realised. This represents total losses on the investment portfolio of US$ 64.7 million since acquisition, comprising US$ 9.7 million of losses realised when investments were sold in 2008, and unrealised losses totalling US$ 55.0 million at 31 December 2008. The unrealised losses arose because the value of individual investments at the year end was less than the price which had been paid for those investments. In accordance with the accounting policies adopted by the WFP, and consistent with the mark-to-market principle of IPSAS, the investments have been reported at open market value at 31 December.

15. Note 2.2 shows that the total value of short-term investments was US$ 458.0 million at 31 December 2008, comprising 473 separate short-term investments. Table 1 provides a detailed analysis of the short-term investments held, and the unrealised gains or losses at the year end.

Table 1: Analysis of Short-term Investments at 31 December 2008			
Class of Investment	Purchase Price US$ million	Valuation at 31 December 2008 US$ million	Unrealised Gain/(Loss) at 31 December 2008 US$ million
Bonds issued or guaranteed by governments or government agencies	222.8	226.1	3.3
Corporate Bonds	111.5	100.6	(10.9)
Mortgage-backed securities and asset-backed securities	178.7	131.3	(47.4)
TOTAL	**513.0**	**458.0**	**(55.0)**

16. Table 1 shows that bonds issued by or guaranteed by governments or government agencies increased in value during 2008 and at the year end there was an unrealised gain of US$ 3.3 million. However, the value of corporate bonds, mortgage backed securities and asset backed securities had declined over the year and at the year end there was an unrealised loss of US$ 58.3 million. This represents a net loss of US$ 55.0 million at 31 December 2008. The US$ 55.0 million unrealised loss reflects the value of the investments at a snapshot on 31 December 2008. Since then the value will have changed, reflecting market conditions; and when the investments come to be sold the amount of any realised loss will depend upon the market conditions at the time of the sale.

17. Our audit confirmed that the losses on short-term investments have all been charged to the WFP General Fund and Special Accounts (Fund Balances): none of the losses have been borne by donor-funded projects. After taking these transactions into account, at 31 December 2008 the balance on the General Fund and Special Accounts stood at US$ 245 million.

Analysis

18. With the benefit of hindsight, it is clear that the WFP have not been isolated from the turmoil in the financial markets. The WFP is not the only organisation to have lost substantial amounts of money. Accordingly, we sought to establish: why WFP had invested in corporate bonds, asset-backed and mortgage-backed securities, which have generated such significant losses; the actions that were taken to minimise losses; and what lessons can be learned for the future management of WFP's investments.

19. In our review of the WFP Treasury Management[6] (February 2007), we noted that the WFP had established an Investment Committee, which provided advice on managing financial risk and had provided guidelines on the range of investments that were acceptable. Short term investments are managed by external investment managers. Within a framework which emphasised the principles of security, liquidity and return, the portfolio was restricted to what were then seen as low risk investments including cash and cash equivalents, treasury bills, corporate and government bonds, and asset-backed securities. There were also guidelines on the quality of the investments, using the "A" rating system assigned by the credit rating agencies. It was on this basis that the WFP invested in a range of corporate bonds, asset-backed and mortgage-backed securities.

[6] WFP/EB.1/2007/6-B/1

20. In September 2007, responding to the developing turbulence in the financial markets, the Investment Committee placed an embargo on new short-term investments in favour of cash. Recognising that existing investments were performing poorly, and were no longer of a quality compliant with the guidelines set down by the Investment Committee, these assets were moved into a separate legacy portfolio, with an aim to divest as market conditions permitted. Although the WFP did not have a specific stop-loss policy (which triggers disposals when values fall below a preset level), they have been progressively liquidated as market conditions allow. In the period January to March 2009, legacy investments worth US$ 30.1 million were liquidated, realising losses of US$ 8.3 million. The intention remains to fully liquidate the legacy portfolio during 2009.

21. As an illustration of the losses which have been incurred, Note 2.2 to the accounts records that the WFP bought three investments where the borrower has subsequently defaulted. The total cost of these investments was US$ 4.1 million and they are now valued at US$ 0.3 million: US$ 3.8 million has been written off in the 2008 financial statements as an unrealised loss. A summary of the facts relating to the three investments are in Table 2.

Table 2: Details of three investments which have defaulted

Investment	Date of investment	Quality rating at date of investment	Cost US$ m
Lehman Brothers	January 2007	A1	2.3 m
Glitnir Icelandic Bank	February 2008	AA3	1.5 m
Kaupthing Icelandic Bank	January 2007	A1	0.3 m

22. Our examination confirms that at the time the investments were made, all three banks met the minimum credit rating requirements of A- included in the investment guidelines. Subsequent events have resulted in the significant loss in value.

23. In response to this analysis, the Secretariat considered that interest and investment income on cash and cash equivalents and short term investments over the period 2000 to 2007 had been US$ 300 million, and that the investment performance over 2008 – a US$ 9.6 million negative return - should be seen in a multi-year context. They informed us that throughout 2008 the Secretariat had operated within the provisions of the investment policy and investment guidelines, and implemented a number of measures to limit the risk profile of the investments in the environment of difficult financial markets; that the negative performance over 2008 had been mainly due to the valuation of investments at year end, which led to unrealised losses in excess of realised income; that the unrealised losses were incurred primarily on short term investments, which earned US$ 23.1 million in interest during the year; and that the return on cash/cash equivalents and short term investments should be viewed together, since both support ongoing operations.

24. The issues which emerge from our analysis of the losses incurred by the WFP are:

- WFP is not insulated from the economic downturn that much of the world faces but nonetheless needs to identify where it can act more effectively and more prudently to reduce/minimise its exposure in future investment decisions. This can be achieved through clarification of the level of risk that the WFP accepts in the placing of funds in the market, and the balance to be struck between security, liquidity and yield;
- The importance of the Investment Guidelines giving effect to the agreed policy and being endorsed by the Executive Board; and
- The need for the Secretariat to report to the Board on progress in disposing of the legacy portfolio and the extent of any losses incurred.

Recommendation 1: ***We recommend that WFP take account of the information provided in the financial statements in reviewing and managing the performance of the Programme's investment portfolio, updating the Investment Guidelines, and monitoring the disposal of the legacy investments.***

ACCOUNTING FOR FOOD – INVENTORY OF US$ 1.0 BILLION

25. The arrangements for accounting for food commodities have changed substantially with the adoption of IPSAS. Previously all commodities purchased were charged to expenditure when they were received by WFP, as were in-kind contributions of food. This approach did not recognise and value the substantial inventory of food and other commodities which WFP held around the world. Neither did it encourage the effective financial management of inventories.

26. Under IPSAS, all purchases of food commodities and in-kind donations are added to inventory, together with the cost of transportation to the country where the food becomes distributable and any other relevant costs, such as milling or bagging. In 2008, the value of food and associated costs added to existing stock of US$ 0.5 billion was US$ 2.7 billion. When commodities are issued for beneficiaries, the value of the inventory issued is expensed through the statement of financial performance. In 2008 the total value of food commodities issued was US$ 2.2 billion. At the year end, the inventory in warehouses controlled by the WFP was valued at US$ 1.0 billion and has been reported in the financial statements for the first time. This new information gives the Board visibility on the value of inventories.

27. We examined the arrangements for the counting and valuation of inventory held at the year end. We were satisfied that WFP had put in place proper procedures to ensure that the value of inventory reported in the financial statements reflected actual stocks on hand at the year end.

28. The financial records show that at 31 December 2008, inventory of food totalled 1.7 million metric tonnes (MT), with a value of US$ 1.0 billion. The figures included US$ 290 million of food on the high seas in course of being delivered; and US$ 75 million of food commodity in transit within countries. The inventory of food held by WFP in warehouses amounted to US$ 640 million, located in 73 countries. And in the larger countries and locations, the inventory was held in multiple warehouses.

29. To illustrate the inventory holdings of the WFP at 31 December 2008, we analysed the ten most significant country holdings by value. For this purpose we excluded inventories on the high seas, and inventory in transit. This analysis is therefore of inventory held in warehouses. The results of our analysis by quantity and value are at Table 3.

Table 3: Food Commodities held by WFP at 31 December 2008: Top 10 Countries.

Country	Stock 31 December 2008 000's MT	Stock 31 December 2008 US$ million
SUDAN	200	109.2
ETHIOPIA	135	73.5
AFGHANISTAN	92	55.8
SOMALIA	71	41.2
ZIMBABWE	42	38.7
CHAD	31	22.1
DEMOCRATIC REPUBLIC of the CONGO	23	19.8
KENYA	29	18.6
MALAWI	28	17.3
UGANDA	30	17.2

Source: WFP Inventory Returns, 31 December 2008

30. WFP food commodities held in these ten countries accounted for combined inventory in excess of 680,000 metric tonnes valued at US$ 413 million. This represented 65 per cent of total inventory in terms of quantity and value held in all warehouses.

31. The Secretariat informed us that the extent of inventory held by country reflected operational need or circumstances. Relevant factors are the lead time between purchase and delivery of food commodities; the need to maintain strategic stocks to meet unexpected surges in demand; the size and complexity of feeding programmes in country; and the condition of local roads (since poor roads slow down distribution, resulting the higher inventory requirements).

Analysis

32. Notwithstanding these factors and the fact that the financial statements present a snapshot at a single point in time, the benefits of improved and more informative financial reporting show that it is important now for the Executive Board and management to use the new information to monitor and evaluate the level of stockholdings, commodity usage (turnover) and procurement in an increasingly

effective manner. In our view, the results at the end of 2008 indicate the following issues to be addressed in order to ensure effective financial management and properly informed operational decisions:

- The appropriateness of the overall levels of stockholdings for operational needs (Are food and commodity stock holdings sufficient without being excessive in relation to anticipated need?);
- The appropriateness of stock levels at the various locations for operational needs (Are stocks held at the right levels in the right places?); and
- The appropriateness of stock levels taking account of usage or turnover of food commodities held in stock.

Recommendation 2: ***Now that the financial statements report reliable information on the quantity and value of food commodities held at 31 December, WFP may wish to use this information to confirm that the amounts held were appropriate for the effective discharge of the Programme's responsibilities.***

CASH AND INVESTMENTS – US$ 1.6 BILLION.

33. The Executive Board will recall that in the past we have undertaken comprehensive reviews of the operation of the WFP treasury and cash management function, most recently in our report of January 2007[7]. We now draw attention to the value of cash and investments held by the WFP at 31 December 2008, which stood at US$ 1.6 billion compared to US$ 1.4 billion at 31 December 2007. Table 4 provides a breakdown of the balances held at 31 December in 2007 and 2008.

Table 4: Analysis of Cash and Investment: 31 December 2007 and 2008

Asset Description	Value at 31 December 2007 US$ million	Value at 31 December 2008 US$ million
Cash and cash equivalents[8]	548.7	972.3
Short-term investments	673.1	460.1
Long-term investment in bonds[9]	53.6	70.4
Long-term investment in equities	47.1	37.3
Long-term US Treasury deposits	76.7	78.9
Total Cash and Investments	**1,399.2**	**1,619.0**

[7] WFP/EB.1/2007/6-B/1
[8] Cash and cash equivalents represents cash deposits at banks, money market and short-term deposits.
[9] Includes investment in bonds issued by Governments and Corporations

34. During 2008 the value of cash and investments held by WFP increased by US$ 220 million. Within the overall total there was also a switch of some US$ 200 million from short-term investments into cash and cash equivalents. We understand that this represented a measured response to the uncertainties in the investment markets.

35. The amount of just over US$ 970 million of cash and cash equivalents held at 31 December 2008 comprises cash deposits at banks, in the money market and short-term deposits. This is held by WFP in banks, reflecting the Secretariat's expectation of disbursements required in the short-term to meet operational needs. Note 8.1.2 to the financial statements discloses that there were open purchase orders totalling just under US$ 600 million at 31 December 2008. There was therefore an expectation that these commitments, including purchases of food totalling US$ 400 million, will be met early in 2009.

36. Of course, expenditure in 2009 will include other expenses, such as staff costs, in addition to the discharge of orders placed in 2008. On this basis we estimate that at 31 December 2008, the amount held as cash and cash equivalents represented some 100 days of operational requirements. This reflects the cautious approach adopted by the Secretariat to the management of cash.

37. Our analysis in Table 1 showed that the WFP held short-term investments of US$ 458 million at 31 December 2008. The Secretariat told us that this represented amounts of cash received from donors which were earmarked to fund future programme and support costs: in due course, as the work programme was delivered, the investments would be liquidated and used to fund the business, and it was therefore appropriate to retain these funds in the short-term investment portfolio.

38. As regards long term investments, US$ 70 million was held in Government and Corporate Bonds, and US$ 37 million in equity funds. This gives a total of just under US$ 108 million. The Secretariat told us that they hold these investments in the long-term to fund the long-term element of staff benefits. We have considered the funding of staff benefits in the next section of this present report, further below.

39. Included within cash and investments at 31 December 2008 was an amount of US$ 78.9 million held in long-term US Treasury deposits to fund the capital and interest due on a 30-year loan from a Member State. The loan, interest and repayment arrangements have been subject to our review and the liability is recorded in Note 2.12 to the financial statements.

Recommendation 3: ***Noting that the balance of cash and investments held at the end of the year stood at US$ 1.6 billion reflecting the growth in the level of operations of the WFP in 2008, we recommend that WFP confirm that the level of cash holdings remains appropriate to the Programme's needs, and how these funds will be utilised in the future.***

LIABILITIES FOR FUTURE STAFF BENEFITS – US$ 240 MILLION

40. The liability for post employment benefits of staff and other separation benefits are recognised by WFP in the accounts. The value of these liabilities at 31 December 2008 was US$ 240 million, which represented an increase in the year of US$ 21 million compared to the liability of US$ 219 million at 31 December 2007. The main elements of the liability have been estimated by the WFP's consulting actuaries (Hewitt Associates) based on a series of assumptions agreed with the Secretariat.

41. The full amount of US$ 240 million is included in the accounts as a liability of the General Fund and is fully covered by the assets of the Fund. Although previous financial statements recognised the whole of the liability, it was split between an amount of US$ 110 million in reserves (described as funded) and US$ 108 million in the General Fund (described as unfunded). The use of the terms funded and unfunded in these circumstances relates to whether the liability has, or has not, been charged to specific projects and funds. The Executive Board should find the revised presentation more transparent and easier to interpret.

42. The Secretariat informed us that for 2008, US$ 108 million of the liability has been funded by donors over time through charging to relevant funds and projects. As our analysis of cash and investments has shown, this amount has been used to purchase long-term investments and is effectively unavailable to fund the short-term operations of the organisation.

43. During the Board's Annual Session in June 2008, the Secretariat put forward options for financing the amount that has not so far been charged to specific projects and funds. We understand that the Board will be invited to endorse a financing mechanism in the near future.

44. Concerning these future financing decisions, WFP will wish to address the balance that needs to be struck between the need for certainty in financing the liability (with consideration of how the resources should be invested), and the risks that arise in deferring the decision on financing to be met out of future income streams.

Recommendation 4: ***In considering the financing of liabilities for staff benefits, and noting that the existing liabilities are already fully funded through the General Fund, we recommend that WFP actively manage the financing options.***

OPERATING SURPLUS FOR 2008 – US$ 1.4 BILLION

45. The operating surplus reported by WFP for 2008 was just under US$ 1.4 billion. This compares with the last WFP accounts prepared under UNSAS which showed a surplus of US$ 120 million for the two years 2006-2007. We examined why the surplus had risen so significantly at the same time as there has been an increased demand for WFP's services. In this regard, it is important to consider income and expenditure in assessing the underlying reasons that have given rise to the surplus.

46. The recognition of income has been a key driver of the surplus. Because IPSAS is geared to the financial reporting needs of the public sector, it recognises two types of income, referred to as exchange transactions and non-exchange transactions. In exchange transactions, the seller provides goods and services of nearly equal value to a purchaser – such as when a business sells goods and services to a customer. In non-exchange transactions, the donor receives no direct benefit from the transfer of resources to an organisation. The latter applies when WFP receives contributions from donors, which are therefore brought to account in accordance with IPSAS Standard 23, which covers revenue from non-exchange transactions.

47. The measurement of income under IPSAS 23 requires consideration as to whether there are conditions associated with a contribution. Where conditions over the contributions exist, income can only be recognised to the extent that the conditions have been met. The Secretariat's analysis of contributions indicated that, while donors may make stipulations on how contributions should be utilised (for example, linked to a particular project), these do not usually amount to conditions falling within the definitions in IPSAS 23. For this reason, WFP recognises income when it is reasonably certain that the contribution will be paid, and can be fairly measured. For practical purposes, the point of recognition is the receipt of a written undertaking from the donor specifying the amounts to be paid. An analysis of income undertaken by the Secretariat has confirmed that, once committed in writing, contributions are invariably honoured. We confirmed the Secretariat's conclusions in relation to the recognition of income in the financial statements.

48. Turning now to consider the recognition of expenditure in the financial statements, it follows from recognising income as a non-exchange transaction that the costs associated with delivering funded projects do not have to be recognised at the same time as the income. In accordance with IPSAS requirements, the costs associated with projects are recognised in the statement of financial performance when inventories of food commodities are distributed, and when other goods and services are provided.

49. Table 5 provides a simple illustration of the project cycle in WFP and its impact on the financial statements.

Table 5: Project Cycle and the Recognition of Income and Expenditure in the Financial Statements.		
Stage of Project	Project Action	Impact on the Financial Statements
Stage 1: Initiation.	Identify project and potential donors.	No financial impact.
Stage 2: Income pledges received from donors.	Allows commodities contracts to be let.	Income is recognised in the accounts when there is a written commitment. The Immediate Response Account, Working Capital Facility and the Direct Support Cost Advance Facility can be used to pre-fund projects.
Stage 3: Donors discharge their commitments by paying cash.	Project resources are available to pay for commodities. Early distributions for beneficiaries.	Cash increases.
Stage 4: Food commodities are received in country.	Food deliveries into warehouses.	Inventories increase. Reduction in cash as payments made by WFP.
Stage 5: Food distribution.	Food distributed for beneficiaries.	Stock consumed. Stock expensed in the accounts.

Audit Commentary:

Although all projects differ, there are similarities in the broad stages each project goes through. The simplest model is that donors make written commitments, which are treated as income. The commitments are met by donors making cash payments to the WFP which increases the amount of cash held by the WFP. Once WFP managers have confidence on the initial funding of a project, spending on goods, services and commodities is initiated. This results in an increase in inventory and a reduction in cash when paid for. Finally, food commodities are issued for beneficiaries, reducing inventory and creating a charge to the financial statements. In practice many of these stages overlap, and the Immediate Response Account, Working Capital Facility and Direct Support Cost Advance Facility are available to pre-fund projects and reduce the time from initiation to the issuing of food.

50. The simple model in Table 5 illustrates why – with a rapid increase of donations that WFP experienced in 2008 – income exceeded expenditure, generating a surplus of US$ 1.4 billion for the year. The model also helps explain why cash balances rose by US$ 200 million in 2008, as donors met their commitments but the pace of expenditure on commodities and other costs lagged behind. The balance of project funds held at 31 December 2008 will be used in 2009 and later to finance WFP operations. As regards the figures reported in the accounts as expenditure, there is inevitably a time lag behind the recognition of income.

51. Our detailed analysis suggests that the size of the surplus for 2008 resulted from specific circumstances relating to the year. The Secretariat were effective in obtaining generous commitments from donors but, to the extent that these commitments arose towards the end of the year, expenditure funded by this income will take place in future years.

Recommendation 5: ***Noting the substantial surplus reported by WFP for 2008, and notwithstanding the necessary delay between funding and expenditure, we recommend that WFP review the extent to which balances and surplus are held against future expenditure.***

IMPROVEMENTS IN FINANCIAL REPORTING UNDER IPSAS

52. We have commented above on some of the key balances which emerge from the improved financial reporting under IPSAS. There are, in addition, many detailed changes to the form and content of the financial statements, which include:

(i) The provision of an Executive Director's Statement, explaining the basis for the preparation of the accounts, an analysis of the financial results compared to the budgets approved by the Board, and an explicit recognition of her responsibility to prepare accounts which fairly present the financial transactions in 2008 and the state of affairs of the WFP at the year end. This information offers the Board an authoritative interpretation of the financial results for the year.

(ii) There are now five principle Statements prepared in accordance with the requirements of IPSAS:

- **Statement I**: a statement of financial position at 31 December 2008, which shows all the assets and liabilities of the WFP including some items, such as the value of inventories, which were not previously recognised in the financial statements;
- **Statement II**: financial performance for the year ended 31 December 2008. This statement shows all the income and expenditure of the WFP in the year and reports, under IPSAS accounting rules, a surplus of just under US$ 1.4 billion;
- **Statement III**: changes in net assets. This new statement summarises for 2008 the financial adjustments necessary on the adoption of IPSAS. It shows that the implementation of IPSAS resulted in the recognition of almost US$ 500 million of net assets;
- **Statement IV**: cash flow. The cash flow statement is prepared on a similar basis to that included in previous accounts, and shows how the net inflow of cash to WFP has been utilised; and
- **Statement V**: comparison of budget to actual amounts. This is a new primary statement with audited data on the budget outturn.

(iii) Taken together, these principle Statements provide the Board with a comprehensive, high level view of the financial performance of the WFP, and of the assets and liabilities at 31 December. Analysis of the Statements shows how funds received from donors have been utilised to increase inventories of food, with excess cash being put aside in short-term investments. The new Statement V provides the Executive Board with a comparison of the actual utilisation of resources during the year against the approved budget. Because each of the statements is audited, they provide the Board with independent assurance on the Executive Director's discharge of her responsibility for fiduciary stewardship.

(iv) The accounts are now prepared on an annual basis compared with previous biennial accounts. This provides the Board with more frequent and timely information on the financial performance and state of affairs of the WFP.

(v) All the figures are presented on a consistent accruals basis as opposed to the old mix of cash and accruals. This makes the figures within the accounts fully comparable and will enable the Board in the future to track financial performance on a year-by-year basis.

(vi) The opportunity has been taken to clarify the operation of WFP's funds and reserves, separating those with administrative functions from those which are considered to have a distinct identity. This simplifies and reduces the detail reported in the accounts, while the information on each fund and reserve is still maintained by Finance and subject to review and control by the Secretariat.

(vii) The accounts report the aggregate remuneration of the Executive Director and the three Deputies; and the aggregate remuneration of 29 other senior staff. The Executive Director considers that the inclusion of remuneration of other senior staff aids transparency and accountability, and goes beyond the minimal disclosure requirements of IPSAS. For transparency, and as a matter of good governance and good practice in financial reporting, we believe that an analysis might be provided in the financial statements reporting the remuneration and allowances of the Executive Director and each of the Deputies separately, rather than in bulk. This information has not been provided for 2008.

Recommendation 6: ***To support transparency and best practice in financial reporting, we recommend that in future WFP disclose separately the senior staff remuneration and benefits applicable to the Executive Director and each of the Deputy Executive Director posts.***

PROGRAMME OF WORK OF THE EXTERNAL AUDITOR

Programme of Work for 2008

53. Our programme of work for 2008 was presented to the October 2007 meeting of the WFP Executive Board after consultation with the Board and with the Secretariat. We were subsequently invited to prepare an additional briefing paper for the Board regarding the terms of reference of the WFP Audit Committee. Subjects covered by our audit reports to the Board are shown at Table 6.

Table 6: External Audit Reports to the Executive Board	
• Audit report and opinion on the biennial financial statements 2006-2007[10]	(June 2008 EB)
• Report of the External Auditor: Managing for Results – A second review of progress in implementing results-based management[11]	(October 2008 EB)
• Programme of Work of the External Auditor for 2008-2009[12]	(October 2008 EB)
• Advice paper on the WFP Audit Committee Terms of Reference[13]	(February 2009 EB)
• Report of the External Auditor on Preparedness for IPSAS and WINGS II[14]	(February 2009 EB)

54. In addition to these audit reports to the Executive Board, our programme of audit work in 2008 included visits to WFP offices and operations in six countries, including three Regional Bureaux and three Country Offices. On each visit we reviewed the operation of financial controls, undertook substantive testing of transactions, and assessed the preparedness of the office for the implementation of IPSAS. After each visit we provided management letters to the Regional or Country Director and the Secretariat at Headquarters, with our findings and recommendations.

Recommendations made by the External Auditor in Previous Reports

55. As a matter of good audit practice we have reviewed the progress made by the Secretariat in responding to external audit recommendations presented to the Executive Board. The Secretariat has prepared a separate paper to the Board on their response to our recommendations, and we have not duplicated that paper here. Instead, we focus on those areas where progress has been slower than we would wish.

56. For 2008, we considered our recommendations arising from two reports – Managing for Results: a second review of progress in implementing Results Based Management[15]; and the Report of the External Auditor on Preparedness for IPSAS and WINGS II[16].

Managing for Results – a second review of progress in implementing results-based management

57. Our first three recommendations in this Report related to the results-based approach in the Strategic Plan 2008-2011, which the Board approved in June 2008. We consider that the Secretariat has completed the action necessary to implement our recommendations, except for our recommendation that performance indicators should be revised to focus on the assessment of WFP's performance against its key objectives. At the time of finalising this Report, we await confirmation that the Secretariat has made the appropriate revisions.

[10] WFP/EB.A/2008/6-A/1/3
[11] WFP/EB.2/2008/5-B/1
[12] WFP/EB.2/2008/5-C
[13] WFP/EB.1/2009/6-B/1
[14] WFP/EB.1/2009/6-D/1
[15] WFP/EB.2/2008/5-B/1
[16] WFP/EB.1/2009/6-D/1

58. The Secretariat has addressed our recommendation that the WFP should demonstrate a continued commitment to results-based performance by re-instituting the Results-Based Co-ordination Unit reporting to the Executive Director.

59. Our other recommendations proposed enhancements to performance reporting and the staff performance appraisal system (PACE). We understand that the Secretariat is currently considering these recommendations.

Preparedness for IPSAS

60. We reported to the Board on the lessons to be learned from the preparation of financial statements covering the first nine months of 2008. Our recommendations were designed to ensure that the accounting policies for 2008 were clear; that the accounts would meet the accounting and disclosure requirements of IPSAS; and that there would be sufficient relevant evidence to support each of the figures in the accounts. The Secretariat confirmed that it was addressing all the issues raised.

61. Our audit of the 2008 financial statements included examination of the evidence prepared by the WFP to demonstrate that the accounts were compliant with IPSAS requirements; and that there was sufficient evidence to support each figure and the disclosures made. From the findings of our audit, we are satisfied that the Secretariat has addressed the recommendations we made.

Implementation of the WINGS II Project

62. We continue to support the decision taken by WFP to introduce WINGS II based on standard SAP processes; and it remains important that the system is only implemented once it has been thoroughly tested, rather than risk disruption to WFP's business and operations with a system which is not properly ready for deployment.

63. Our recommendations were aimed mainly at the go-live date for WINGS II, which is currently scheduled for the end of June.

64. At this stage, we reiterate two of our recommendations where action still needs to be finalised. We recommend that the Secretariat should:

   - Demonstrate the value of the investment in the WINGS II system by preparing an assessment of estimated savings, and then tracking the savings actually realised; and

   - Prepare a timetable for the implementation of those elements of WINGS II functionality postponed until after the main implementation date.

65. Overall, we were generally satisfied with the Secretariat's response to our recommendations.

Recommendation 7: ***In following up our earlier report on the implementation of the WINGS II system, we recommend that the Secretariat should:***

- ***Demonstrate the value of the investment in the WINGS II system by preparing an assessment of estimated savings, and then tracking the savings actually realised; and***
- ***Prepare a timetable for the implementation of those elements of WINGS II functionality postponed until after the main implementation date.***

FRAUD, EX-GRATIA PAYMENTS, AMOUNTS WRITTEN OFF AND LOSSES

66. As part of our audit we review losses arising from fraud and other causes, ex-gratia payments, and amounts written off – collectively known as losses and special payments. As a matter of good practice, we report the results of this review in our audit report on the financial statements.

67. For 2008, the Secretariat reported to us that WFP had investigated 15 cases of alleged fraud of an estimated value in excess of US$ 570,000, of which US$ 94,382 had been recovered. The Executive Director authorised ex-gratia payments totalling US$ 572,309 in 2008.

68. The implementation of IPSAS has brought with it the need to disclose various classes of losses incurred in the year. The information disclosed in the financial statements is scattered, and Table 7 draws the various elements together.

Table 7: Losses

Source of loss (and Note reference)	Losses recognised in 2008 US$ million
Bad debts (Note 2.3)	3.1
Post-Delivery Commodities Losses (Note 9)	11.4
Food impairments (Note 2.4)	0
Other inventory impairments (Note 2.4)	0
Investments (Note 4.7)	6.3
Total	**20.5**

69. Table 7 summarises the losses incurred by WFP in 2008, which amounted to US$ 20.5 million. This total has been recognised as an operating cost in 2008.

70. Under the current Financial Regulations, only certain classes of losses and special payments require authorisation by the Executive Director, and there is no consistency in the requirement to report to the Executive Board.

Recommendation 8: ***To improve transparency, we recommend that in future the Secretariat include in the financial statements a comprehensive note on losses and special payments, showing as a minimum the amounts written-off in year.***

ACKNOWLEDGEMENT

71. We wish to record our appreciation for the co-operation and assistance provided by the Executive Director and the staff of the WFP in Headquarters and throughout the world during the audit.

Signed on original

T. J. Burr

Comptroller and Auditor General, United Kingdom

External Auditor

ANNEX A

SCOPE AND APPROACH OF THE AUDIT

1. Audit Scope

The audit covers the examination of the WFP's accounts and financial statements for the financial period 01 January 2008 to 31 December 2008 in accordance with Article XIV of the Financial Regulations and the Additional Terms of Reference governing External Audit appended thereto.

2. Audit Objectives

The main purpose of the audit was to enable us to form an opinion as to whether the expenditure recorded in the financial period had been incurred for the purposes approved by the Executive Board; whether income and expenditure were properly classified and recorded in accordance with the Financial Regulations; and whether the financial statements present fairly the financial transactions for 2008 and the financial position at 31 December 2008.

3. Audit Standards

Our audit of the World Food Programme's financial statements was conducted in accordance with International Standards on Auditing. These standards require us to plan and carry out the audit so as to obtain reasonable assurance that the financial statements are free from material misstatement. The WFP's management are responsible for preparing the financial statements and we are responsible for expressing an opinion on them, based on evidence obtained in the audit.

4. Audit Approach

In accordance with International Standards on Auditing, the audit included a general review of the accounting systems and such tests of the accounting records and internal control procedures as we considered necessary in the circumstances. The audit procedures are designed primarily for the purpose of forming an opinion on the WFP's financial statements. Consequently our work did not involve detailed review of all aspects of financial and budgetary systems and the results should not be regarded as a comprehensive statement on them.

The examination was performed on a test basis, in which all material areas of the financial statements were subject to substantive testing of the transactions recorded. A final examination was carried out to ensure that the financial statements accurately reflected the WFP's accounting records and were fairly presented in accordance with IPSAS.

ANNEX B

EXTERNAL AUDIT FOR RECOMMENDATIONS 2008 (SUMMARY)

Recommendation 1 – We recommend that WFP take account of the information provided in the financial statements in reviewing and managing the performance of the Programme's investment portfolio, updating the Investment Guidelines, and monitoring the disposal of the legacy investments.

Recommendation 2 – Now that the financial statements report reliable information on the quantity and value of food commodities held at 31 December, WFP may wish to use this information to confirm that the amounts held were appropriate for the effective discharge of the Programme's responsibilities.

Recommendation 3 – Noting that the balance of cash and investments held at the end of the year stood at US$ 1.6 billion reflecting the growth in the level of operations of the WFP in 2008, we recommend that WFP confirm that the level of cash holdings remains appropriate to the Programme's needs, and how these funds will be utilised in the future.

Recommendation 4 – In considering the financing of liabilities for staff benefits, and noting that the existing liabilities are already fully funded through the General Fund, we recommend that WFP actively manage the financing options.

Recommendation 5 – Noting the substantial surplus reported by WFP for 2008, and accepting the necessary delay between funding and expenditure, we recommend that WFP review the extent to which balances and surplus need to be held against future expenditure.

Recommendation 6 – To support transparency and best practice in financial reporting, we recommend that in future WFP disclose separately the senior staff remuneration and benefits applicable to the Executive Director and each of the Deputy Executive Director posts.

Recommendation 7 – In following up our earlier report on the implementation of the WINGS II system, we recommend that the Secretariat should demonstrate the value of the investment in the WINGS II system by preparing an assessment of estimated savings and then tracking the savings actually realised; and prepare a timetable for the implementation of those elements of WINGS II functionality postponed until after the main implementation date.

Recommendation 8 - To improve transparency, we recommend that in future the Secretariat include in the financial statements a comprehensive note on losses and special payments, showing as a minimum the amounts written-off in year.

ACRONYMS USED IN THE DOCUMENT

DSC	direct support costs
DSCAF	Direct Support Cost Advance Facility
EB	Executive Board
FAO	Food and Agriculture Organization of the United Nations
IAS	International Accounting Standard
IPSAS	International Public Sector Accounting Standards
IRA	Immediate Response Account
ISC	indirect support costs
LTSH	landside transport, storage and handling
ODOC	other direct operational costs
OR	Operational Reserve
PP&E	Property, Plant and Equipment
PSA	Programme Support and Administrative
PSAEA	PSA Equalization Account
STRIPS	Separate Trading of Registered Interest and Principal of Securities
TPAs	third party agreements
UN	United Nations
UNJSPF	United Nations Joint Staff Pension Fund
US$	US dollars
WFP	World Food Programme
WINGS	World Food Programme Information Network and Global System