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

Executive Board
Annual Session

Rome, 3–6 June 2014

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For approval

AUDITED ANNUAL ACCOUNTS, 2013

E

Distribution: GENERAL
WFP/EB.A/2014/6-A/1
2 May 2014
ORIGINAL: ENGLISH

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.

Assistant Executive Director and Chief Financial Officer, RM*:	Mr M. Juneja	tel.: 066513-2885
Acting Director, RMF**:	Mr R. van der Zee	tel.: 066513-2544
Chief, RMFFG***:	Ms T. Tropea	tel.: 066513-2426

Should you have any questions regarding availability of documentation for the Executive Board, please contact the Conference Servicing Unit (tel.: 066513-2645).

* Resource Management and Accountability Department
** Finance and Treasury Division
*** General Accounts Branch

TABLE OF CONTENTS

The Secretariat is pleased to submit the Audited 2013 Financial Statements together with the Audit Opinion and the Report by the External Auditor. The financial statements have been prepared under International Public Sector Accounting Standards. The External Auditor has completed the audit in accordance with the International Standards of Auditing, and has provided an unqualified audit opinion.

This document is submitted to the Board in accordance with General Regulation XIV.6 (b) and Financial Regulations 13.1 and 14.8, which provide for the submission to the Board of the audited financial statements of WFP and an associated report of the External Auditor. The statements and the report are presented in one document.

This document includes a Statement on Internal Control which provides specific assurance on the effectiveness of internal control in WFP.

The Secretariat's responses to the External Auditor's recommendations are contained in "Report on the Implementation of the External Auditor Recommendations" (WFP/EB.A/2014/6-I/1).

DRAFT DECISION*

The Board:

i) approves the 2013 Annual Financial Statements of WFP, together with the Report of the External Auditor, pursuant to General Regulation XIV.6 (b);

ii) notes the funding from the General Fund of USD 3,238 during 2013 for the write-off of cash losses and receivables; and

iii) notes post-delivery losses of commodities during 2013 forming part of the operating expenses for the same period.

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

SECTION I

Executive Director's Statement

INTRODUCTION

1. In accordance with Article XIV.6 (b) of the General Regulations and Financial Regulation 13.1, I have the honour to submit for the approval of the Executive Board (the Board) the financial statements of the World Food Programme (WFP) for the year ended 31 December 2013. The External Auditor has given his opinion and report on the 2013 financial statements, both of which are also submitted to the Board as required by Financial Regulation 14.8 and the Annex to the Financial Regulations.

2. The challenges faced by WFP, its donors and beneficiaries in 2013 were immense including four high-level emergencies in the Philippines, Central African Republic, South Sudan and Syrian Arab Republic. Despite the difficult financial and economic climate donors continued to provide strong support to WFP operations throughout the world with contributions of USD 4,379.6 million; an increase of 8 percent over 2012. With 840 million people affected by hunger and at a time of continued food insecurity, volatile food and fuel prices, political and social unrest and natural disasters the services of WFP remain relevant and in high demand.

3. WFP, as a fully voluntarily funded organization, is committed to maintaining the highest standards of financial and budgetary management and financial reporting. WFP also has continued to strengthen transparency and accountability processes, enterprise risk management and financial risk management during 2013.

FINANCIAL AND BUDGET ANALYSIS

Summary

4. The financial and budget analysis highlights the increased levels in 2013 of revenue, expenses, budget and budget utilization. The analysis also indicates the financial strength of WFP in terms of net assets and fund balances and reserves which are at similar levels to 2012. The analysis reflects the increasing demand for WFP services and is confirmation of continued donor support in meeting the critical needs of beneficiaries.

5. WFP's financial reporting in line with International Public Sector Accounting Standards (IPSAS) recognizes contribution revenue when confirmed in writing and expenses when goods and services are received or when food commodities or cash and vouchers are delivered. There is an inherent time-lag between the recognition of revenue and the recognition of expense. Resources available for use in 2013 therefore consisted of the fund balances at the end of 2012 and new contributions confirmed by donors during 2013. Consequently, expenses in any one year may be higher or lower than the revenue in that year as WFP utilizes or replenishes its fund balances.

2013 Financial Performance

6. Total revenue was USD 4,535.8 million, an increase of USD 324.4 million or 8 percent from the revenue of USD 4,211.4 million in 2012. Total revenue in 2013 comprised :

- ➢ monetary and in-kind contributions – USD 4,379.6 million;
- ➢ currency exchange differences – USD 19.8 million;
- ➢ return on investments – USD 20.1 million; and
- ➢ other revenue – USD 116.3 million.

7. WFP expenses amounted to USD 4,514.8 million, an increase of USD 119.1 million or 3 percent from 2012. Cash and voucher expense increased to USD 498.1 million from the 2012 level of USD 191.8 million. Food commodities distributed in 2013 decreased by 0.4 million mt from 3.6 million in 2012 to 3.2 million in 2013, an 11 percent decrease. In line with the decrease in the quantity of commodities distributed the value of commodities distributed expense of USD 2,053.4 million decreased by 9 percent.

8. In 2013, there was a surplus of revenue over expenses of USD 21.0 million, compared to a deficit of USD 184.3 million in 2012. This change was the net result of:

a) an increase in contribution revenue of USD 335.3 million from USD 4,044.3 million in 2012 to USD 4,379.6 million in 2013.

b) an increase in overall spending of USD 119.1 million from USD 4,395.7 million in 2012 to USD 4,514.8 million in 2013. This increase is mainly from increased distribution of aid to WFP beneficiaries (an increase in cash and voucher aid offset by a decrease in food aid).

c) a net decrease of other revenue items of USD 10.9 million.

Financial Position at the End of 2013

9. At 31 December 2013, WFP had USD 3,672.7 million in total Fund Balances and Reserves, of which USD 2,796.5 million relate to the Programme’s projects, representing approximately six months of operational activity (six months in 2012). The balance pertains to the General Fund, Special Accounts, Reserves, Bilateral Operations and Trust Funds.

10. Total cash and short-term investments increased by USD 162.2 million or 13 percent from USD 1,274.0 million in 2012 to USD 1,436.2 million in 2013. The increase is mainly due to the higher levels of contribution revenue in 2013.

11. WFP’s cash and short-term investments included in the Programme Category Funds segment of USD 1,079.4 million cover three months of operational activity, compared with two to three months in 2012.

12. The value of WFP's food commodity inventory at the end of 2013 decreased by USD 45.6 million or 7 percent from the 2012 value mainly due to a reduction in the value of food held while the metric tons held remained at the same levels as in 2012 (1.1 million mt in 2013 and 2012). Using the projected operational requirements in the Management Plan (2014–2016), the 1.1 million mt of food commodity in inventory represents four months of operational activity.

Budgetary Analysis

Basis of the budget

13. The budget figures for direct project costs and indirect costs (Programme Support and Administrative (PSA) budget) which are disclosed in *Financial Statement V – Statement of Comparison of Budget and Actual Amounts* are derived from the Programme of Work in the Management Plan (2013–2015). The Management Plan reflects the total of direct and indirect cost budgets approved by the Board or through authority it has delegated, and broadly is needs-based. Resources are made available for direct project costs when contributions are confirmed by donors for approved projects and through advances from the advance financing facilities. Resources are made available to meet indirect costs through the approval of the Management Plan.

14. In the original Management Plan (2013–2015), presented to the Board in November 2012, the total 2013 Programme of Work was USD 5,238.7 million. This is disclosed in Financial Statement V as 'Original Budget'. By the end of 2013, the Programme of Work had expanded to reflect changes in WFP's project needs. The increased requirements to respond to the escalating Syrian crisis were USD 889 million, or 68 percent of the total increase. Other notable increases related to the conflict and drought in Mali, drought in Malawi, and the typhoon in the Philippines. The final 2013 Programme of Work was USD 6,545.5 million, an increase of USD 1,306.8 million or 25 percent. This is disclosed in Financial Statement V as 'Final Budget'.

Utilization of the budget

15. It is important to note that WFP can use resources when contributions are confirmed to approved projects, or from a limited amount of funds made available through advance financing facilities or through strategic purchases from the Forward Purchase Facility, where there is a high or medium probability contribution forecast. Therefore, budgetary utilization within the year is constrained by the amount, timing and predictability of contributions, as well as, inherent operational constraints. In 2013, WFP's final direct cost budget was USD 6,276.0 million. Utilization of the final direct project cost budget in 2013 was 62 percent, reflecting these constraints.

16. This utilization rate was reflected across the various cost components utilization rates as outlined below.

- food and related direct operational costs (DOC) at 59 percent
- cash and vouchers and related DOC at 67 percent
- capacity augmentation at 74 percent
- direct support costs (DSC) at 69 percent

17. The scale-up of cash and vouchers has been by far the largest and most significant operational initiative within WFP over past few years. Cash and vouchers represented 8.9 percent of the original budget (compared with 5.0 percent in the previous financial period), and 13.8 percent of the final budget. The sizeable increase in the cash and vouchers is primarily attributable to using cash and vouchers as the main programmatic response for the Syrian refugees in Egypt, Iraq, Jordan, Lebanon and Turkey.

18. The original 2013 PSA indirect cost budget remained constant at USD 269.5 million. The final PSA budget consisted of USD 249.1 million for regular PSA and USD 20.4 million for the capital and capacity funds. Of the final approved regular PSA budget for 2013, 99 percent was utilized by 31 December 2013 and of the final approved capital and capacity budget, 95 percent had been utilized at 31 December 2013.

Enhancing Transparency and Accountability

19. In line with WFP's Fit for Purpose initiative, WFP has taken various actions to put in place the fundamental pillars necessary for enhanced transparency and accountability:

i) the undertaking of the Financial Framework Review and further development of the entity-wide resource planning system (the WFP Information Network and Global System (WINGS));

ii) the adoption and application of IPSAS from 2008;

iii) the adoption and use of an internal control framework based on guidance issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO); and

iv) the implementation of additional measures for public disclosure and transparency.

Financial Framework Review and WINGS Development

20. In 2013, WFP completed an important phase of the Financial Framework Review in order to further align the financial architecture to the new ways in which WFP does business. This is a major achievement in which WFP, with the support of the Board, updated the DSC funding model and revised the financial project structure in WINGS. Where previously only ad hoc tools and processes existed for cash and voucher activities, WFP now plans, manages and expenses food assistance operations using three high level categories: food, cash and voucher transfers, and capacity development and augmentation. This important step will make WFP more transparent in the way it operates and serves as the foundation for giving staff the tools needed to manage operations with greater accountability.

21. WFP continues to refine and improve its enterprise resource planning (ERP) system (WINGS). Key improvements in progress during 2013 include an approved funding model and roll out for the new Logistics Execution Support System (LESS) and a more refined system for data collection and use in the country office monitoring and evaluation tool (COMET). Both these major new additions will enhance transparency and accountability in WFP.

International Public Sector Accounting Standards Application

22. WFP has prepared IPSAS-based financial statements since 2008. The adherence to these internationally recognized accounting standards in the preparation of WFP's financial statements has ensured that WFP produces more timely, relevant and useful financial reporting thereby improving transparency and accountability in the management of resources.

23. WFP continues to work with other United Nations System organizations, through involvement in the High-Level Committee on Management (HLCM) Task Force on IPSAS. This United Nations wide cooperation provides a platform for discussion on IPSAS issues with a view to achieving consistency in the application of new IPSAS developments and enhancing comparability of financial reporting.

24. International Public Sector Accounting Standards are regularly updated to reflect best accounting practice. WFP's continued compliance with IPSAS remains a priority and requires significant focus to ensure we keep up to date with professional developments. Three new standards, applicable from 1 January 2013, (IPSAS 28 Financial Instruments: Presentation; IPSAS 29 Financial Instruments: Recognition and Measurement; IPSAS 30 Financial Instruments: Disclosures) have been implemented fully by WFP in the 2013 Financial Statements.

25. The Executive Management Group (EMG) meets regularly to discuss issues and strategies of common concern, including the IPSAS-based quarterly financial statements, containing WFP's financial performance, financial position and cash flows, with supporting qualitative analysis and key financial performance metrics. This has served to strengthen senior management focus on financial management issues and identified risks.

Internal Control

26. A new COSO-based internal control framework was issued in 2011 addressing the five main COSO components – internal environment; risk management; control activities; information and communication; and monitoring – and containing 22 best practice principles.

27. A range of guidance material was developed to help managers implement the new internal control framework and an online training course on internal control was made available to all staff. WFP also revised its Financial Resource Management Manual in 2012 and issued a new WFP-specific Human Resources Manual in 2013.

28. At the end of every financial year, senior managers provide the Executive Director (through WFP's framework of internal accountabilities) with a range of specific assurances related to the operation of internal control within their office entities. Line managers review individual assurance statements for completeness and accuracy, where appropriate. Each year Internal Audit reviews the effectiveness of this assurance process based on a sample review of the assurance statements signed by managers.

29. A Statement on Internal Control (SIC) is issued with the annual financial statements and provides specific assurance on the effectiveness of internal control in WFP, which remains one of the few United Nations agencies and programmes to provide this important level of assurance to its governing body.

30. Best practice on internal control continues to evolve and, in 2013, COSO issued new guidance on internal control, which the organisation will review during 2014 for future application.

31. The Assistant Executive Director (AED) and Chief Financial Officer (CFO) continues to take the lead in ensuring: a) that the concepts of strong managerial control are firmly embedded in the organization's culture; and b) that a clear plan of action exists for addressing internal control issues raised in the annual statement.

32. As an important component of internal control the Secretariat ensures effective follow-up of the recommendations of the internal and external oversight bodies and reports regularly to the WFP Audit Committee on outstanding recommendations and action taken or proposed to address high risk.

Additional Measures in Support of Public Disclosure and Transparency

33. WFP has adopted clear policies related to the public disclosure of key oversight information. Since late 2012, Internal Audit and Inspection reports are posted on WFP's external website within thirty days of their publication.

34. In 2013, WFP became a signatory of the new International Aid Transparency Initiative (IATI), a voluntary, multi-stakeholder initiative that seeks to improve the transparency of aid-related information. As a member of the initiative, WFP is required to publish a broad range of financial and project related data on its external website. WFP published its first IATI compliant data set in June 2013 and its regular publications now include details about over 600 project activities worldwide with approved project budgets and monthly expenditures from January 2010 onwards.

ENTERPRISE RISK MANAGEMENT AND FINANCIAL RISK MANAGEMENT

Enterprise Risk Management

35. Enterprise risk management (ERM) in WFP is integrated with organizational performance management and is one of the key components of our internal control framework. The objective of risk management in WFP is to ensure that all operations, including L2 and L3 emergencies and office entities actively consider internal and external factors that may affect the achievement of stated results.

36. The ERM framework defines risks as contextual, programmatic or institutional and includes mechanisms for identifying appropriate risk responses under each category. In 2012, WFP developed a risk appetite statement which defines how much risk the organization is prepared to accept; this is communicated within WFP and to external stakeholders.

37. All WFP offices have designated Performance and Risk-Management Champions (PARCs) tasked, among other functions, with the role of recording and monitoring risks and mitigation actions. The country offices and regional bureaux manage their respective risk registers, escalating risks as required in line with existing managerial structures. Risks identified as recurrent in a number of operations, impacting and adversely affecting the achievement of programme and organizational objectives are included in the Corporate Risk Register, which functions as the global repository of main residual risks within the organization.

38. The EMG, which supports the Executive Director's managerial functions, is mandated with oversight of corporate risks. Each corporate risk has an owner identified by the EMG who is tasked with defining and implementing relevant risk responses. The quarterly review of the Corporate Risk Register is supplemented by global risk reports that highlight country-specific risks and forecast corporate risk issues for management attention.

39. Building upon the risk appetite statement and the risk sharing studies done in 2013, WFP is in the process of defining acceptable levels of risk tolerance and thresholds for its business. The purpose of identifying and defining risk tolerance is to ensure that country offices and managers are able to establish realistic goals and targets for their operations, and can quickly respond to critical situations. Tolerance and threshold levels will be context-specific and will act as triggers to assist in identifying issues that require additional support and resources.

Financial Risk Management

40. 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 financial 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.

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

42. In 2013, the Secretariat completed the final phase of the implementation of the treasury management system in WINGS, with the activation of the bank communication management module and establishment of connectivity with banking partners via SWIFT. The three-year project to enhance the treasury management system has allowed for significantly improved financial risk management processes for foreign exchange transactions, investments and processing of payments. The total investment of USD 2.0 million from the General Fund in the period 2011–2013 has already been recovered with annual cost savings in excess of the invested amount, achieved through better foreign exchange rates for conversion of donor contributions into local currencies, lower investment management fees, reduced bank charges and more efficient business processes. The new system functionalities are fully implemented at Headquarters and in

three regional bureaux and three country offices; the roll-out of the new payment processing functionalities to field offices will continue in 2014 to further leverage the benefits of the treasury management system.

43. WFP's employee benefit liabilities totalled USD 421.8 million at 31 December 2013. Of this amount, USD 301.7 million has been funded to date through the charging of relevant funds and projects. The unfunded balance of USD 120.1 million has not yet been charged to individual funds and projects. These liabilities are accounted for in the General Fund. The funding plan, approved by the Board in 2010, includes an incremental annual funding of USD 7.5 million in the standard staff cost over a 15-year period starting in 2011, with a view to achieving fully funded status at the end of this period. The current level of assets set aside and held in bonds, equities and cash for the funding of the gross long-term employee benefit liabilities represents an 82 percent funding level. This represents an increase from the 60 percent funding level in 2012 and is primarily due to reduction in the discount rate used to value the liabilities and investment returns of assets set aside to cover these liabilities.

SUSTAINABILITY

44. WFP's financial statements are prepared on a going concern basis. In making this determination, WFP has considered the consequences of any potential significant reduction in contributions in the context of the global economic and financial situation, 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.

45. My above statement on sustainability is supported by: i) the requirements I put forward in the WFP Management Plan (2014–2016); ii) the Strategic Plan (2014–2017) approved by the Board in 2013; iii) the net assets held at the end of the period and contributions received in 2013; iv) the projected contributions levels for the year 2014; and v) the trend in donor support that has been sustaining WFP's mandate since its inception in 1963.

ADMINISTRATIVE MATTERS

46. 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.

RESPONSIBILITY

47. 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 2013.

Statement I	Statement of Financial Position at 31 December 2013
Statement II	Statement of Financial Performance for the Year Ended 31 December 2013
Statement III	Statement of Changes in Net Assets for the Year Ended 31 December 2013
Statement IV	Statement of Cash Flow for the Year Ended 31 December 2013
Statement V	Statement of Comparison of Budget and Actual Amounts for the Year Ended 31 December 2013

Notes to the Financial Statements

Signed on original
Ertharin Cousin
Executive Director

Rome, 26 March 2014

Statement on Internal Control

SCOPE OF RESPONSIBILITY AND PURPOSE OF INTERNAL CONTROL

1. The Executive Director of the World Food Programme is accountable to the Board for the administration of WFP and for the implementation of WFP programmes, projects and other activities. Under Financial Regulation 12.1, the Executive Director is required to establish internal controls, including internal audit and investigation, to ensure the effective and efficient use of the resources of WFP and the safeguarding of its assets.

2. The system of internal control is designed to reduce and manage – rather than eliminate – the risk of failure to achieve WFP's aims and objectives. It can provide reasonable but not absolute assurance that WFP's objectives will be achieved. It is based on a continuous process designed to identify the principal risks to the achievement of objectives, to evaluate the nature and extent of those risks and to manage them effectively, efficiently and economically.

WFP'S OPERATING ENVIRONMENT

3. By the very nature of its work as a humanitarian organization, WFP is called to go where it is needed. This exposes WFP to situations where there is a high level of inherent risk, both in terms of the security of its staff and its ability to maintain high standards of internal control. In November 2012, the Executive Director issued a statement on WFP's risk appetite to further strengthen WFP's engagement with its governing bodies in both explaining the risks it faces and in sharing its response to such risks, seeking to minimize these wherever possible.

4. Internal control is a key role of management and an integral part of the overall process of managing operations. As such, it is the responsibility of management of WFP at all levels to:
   - establish an internal environment and culture that promotes effective internal control;
   - identify and assess risks that may impact the achievement of objectives;
   - specify and propose policies, plans, operating standards, procedures, systems and other control activities to minimize, mitigate and/or limit the risks associated with exposures identified;
   - ensure an effective flow of information and communication so that all staff have the information they need to fulfil their responsibilities; and
   - monitor the effectiveness of the controlling processes that have been established and foster continuous improvement to these processes.

THE INTERNAL CONTROL FRAMEWORK AND ENTERPRISE RISK MANAGEMENT

5. In 2011 WFP adopted a new internal control framework based on the COSO[1]best practice. The framework is supported by a range of additional guidance and tools to help managers assess the effectiveness of internal control in their office entities. During 2013, COSO issued a major update of its guidance on internal control. The recommendation is that organizations following COSO best practice should aim to revise their internal control frameworks to reflect this new guidance by the end of 2014. WFP will take action to update its internal control framework during 2014 for full application from January 2015.

6. In November 2012, the Executive Director issued a statement on WFP's risk appetite developed through a wide-ranging consultative process. This risk appetite statement sets out a vision on how WFP views risks. It allows WFP throughout the organization to communicate with our partners and stakeholders about how much risk we are prepared to accept and to engage them proactively in decisions about risk sharing. The Executive Board is briefed on significant risks through periodic operational updates.

7. WFP has continued to develop and enhance its risk management processes in line with its policy on enterprise risk management. Under this policy, WFP seeks to identify and manage risks at two broad levels: risks that impact an individual office entity (country office, regional bureau, Rome Headquarters divisions); and risks that impact WFP as a whole including its role as major agency in the United Nations system in particular in emergencies.

8. WFP, and the United Nations in general, monitors the security situation in each country in which it operates, taking strategic decisions where necessary to adapt WFP's operations and limit the risk exposure of its staff. WFP's goal is to ensure that all risks at an office entity level are captured in a formal risk register, subject to regular review by line managers and escalated to more senior levels for attention where necessary.

9. Every office in WFP is required to maintain an up-to-date risk register. Risks identified as impacting and adversely affecting the achievement of corporate objectives are included in the Corporate Risk Register which provides a means of ascertaining the level of risk exposure across WFP. The EMG, which is mandated to oversee corporate risks, continuously reviews and updates the Corporate Risk Register, which is shared with all offices periodically as well as with the WFP Audit Committee and is used as a basis for briefings to the Executive Board. As a consequence, the Audit Committee, which is mandated to advise the Executive Director and the Executive Board on the effectiveness of internal control and risk management in WFP, has received a systematic update of the risk profile throughout 2013.

[1] The Committee of Sponsoring Organizations of the Treadway Commission

REVIEW OF THE EFFECTIVENESS OF INTERNAL CONTROL

10. The review of effectiveness of WFP's internal controls is informed by managers within WFP who have the responsibility for the identification and maintenance of the internal controls in their areas of responsibility. Explicit assurance is derived from:

    i) **Statements of assurance on the effectiveness of internal control** signed by 140 senior WFP managers including the Deputy Executive Director; Assistant Executive Directors; Regional Directors; Country Directors; Directors of WFP Offices; and Directors of divisions in Headquarters. This represents 100 percent compliance with the process. Submissions were subject to at least one higher level of review. In 2013, the statements were further improved to reflect specifically risk and control matters highlighted in 2012 as well as to achieve consistency and quality of the supervisory review. The statements included assurance on actions taken to address risks, as well as actions taken to implement oversight body recommendations.

    ii) **An Assurance Opinion from the Inspector General** based on the results of internal audit and inspections and investigations by the Inspector General and the Oversight Office.

11. The Audit Committee further advises on the effectiveness of WFP's internal control systems, including risk management and internal governance practices.

SIGNIFICANT RISK AND INTERNAL CONTROL MATTERS

Issues Reported in the 2012 Statement on Internal Control

12. The 2012 statement on internal control drew attention to five areas where there was need for improvement (these five areas were originally raised in the 2011 statement). Significant progress has been made in all five areas but further work is needed in four of these.

    a) Areas where further improvement is needed going forward:

    i) **Full implementation of the enterprise risk management strategy.** WFP offices continued to implement the risk assessment process in 2013, maintaining formal risk registers and documenting and following up on proposed mitigation actions. At the end of 2013, compliance increased overall, as 94 percent of WFP country offices (88 percent in 2012) had formal risk registers in place, covering 98 percent of operational expenditure (97 percent in 2012). Country offices without risk assessments in place were mostly middle-income countries and it is envisaged that priority risk management support in 2014 will contribute to successful re-positioning of WFP in these countries. In 2014, the focus of risk management will be on improving the quality of the risk management processes and its link to improving organizational performance. To support this endeavour, complete roll-out of an integrated control performance and risk management system and information technology (IT) tool (PROMIS) during 2014 is planned. WFP will also update its ERM policy during 2014 to reflect developments since it was issued in 2005.

ii) **Further implementation of emergency preparedness strengthening.** The 2012 statement reported on the progress of emergency preparedness strengthening activities – including the three-year Preparedness and Response Enhancement Programme (PREP) which is due to end in 2014. This included an Emergency Preparedness and Response Package (EPRP) aimed at strengthening the preparedness of country offices. WFP has made progress in the roll-out of the EPRP – at 31 December 2013, 92 percent of country offices had implemented the EPRP (75 percent in 2012). WFP aims for all country offices, with sufficient support, to have fully implemented the EPRP in early 2014. Further improvements in 2013 were seen through the Executive Director approvals of the corporate Emergency Response Roster (ERR) and the Corporate Response Emergency Operation Facility (CREF), both designed to enhance the timeliness of WFP emergency response. The work undertaken on emergency preparedness contributed to the effectiveness of WFP's response to the four Level 3 emergencies in 2013. WFP expects its emergency preparedness strengthening activities to be fully implemented and/or mainstreamed by the end of 2014.

iii) **Improving operational monitoring and evaluation systems.** The 2012 statement reported that despite many improvements to field-level monitoring and evaluation (M&E) systems in past years, country offices still face challenges collecting and reporting outputs and outcomes of programmes. In 2013, regional M&E advisors assumed functions at each regional bureau. This has allowed regional bureaux to provide direct guidance and support to country offices for M&E functions. During the year WFP made further progress by developing a new Strategic Results Framework (SRF) and related indicators (approved by the Board in November 2013); issuing Standard Operating Procedures (SOPs) for project level monitoring; updating corporate M&E guidance materials; and issuing guidance on the application of SRF indicators. In addition, WFP initiated work: a) to assess WFP practice in relation to decentralized evaluations, and b) to update the corporate M&E strategy, including development of a sustainable financing mechanism for M&E. Roll out of WFP's country office monitoring and evaluation tool (COMET) progressed well during 2013, with full roll-out of the COMET design module in all locations. While demonstrating that progress is being made to put in place the systems and structures for improved monitoring and reporting, the measures taken will only begin to show valued improvements in quality and reliability of data for reporting in 2015.

iv) **Ensuring staff performance is appraised in a timely manner**. The 2012 statement reported that there were delays in the completion of all three stages of WFP's Performance and Competency Enhancement (PACE) process by the target dates set, however, there was a significant improvement in PACE completion rates during 2012. During 2013, WFP has focused on improving the quality as well as the timeliness of performance management. It has also had to take into account the added complexity of PACE completion when such a large number of staff have been assigned temporarily to one of the four Level 3 emergencies in effect during the PACE completion period. Target dates for the completion of the 2013 PACE reports were therefore extended by one month (to 28 February 2014) to allow for additional training of staff in the PACE arrangements with the goal of generating better performance information and discussions. By this revised target date, 94 percent had finalized all three phases – this represents a 44 percentage point improvement over 2011 and the highest level of PACE completion achieved since its introduction. As a best practice employer WFP remains committed to the goal of full on-time completion by the end of the 2014 cycle.

b) Areas previously reported on where WFP has implemented the necessary improvement actions:

i) **Ensuring effective segregation of duties in the corporate IT systems**. Segregation of duties is a key element of the system of internal control. In their assurance statements for 2013, 97 percent of directors reported that effective segregation of duties existed in their business units in line with WFP policies. In 2012, WFP reported on progress made in addressing a recommendation made by the Office of Internal Audit that improvements were needed concerning segregation of duties for the management of key roles within WINGS. In recognition of the actions taken by management during 2013 to address this issue, the high risk recommendations on segregation of duties have now been closed. However, a medium risk recommendation was issued in a report on the WINGS II baseline security audit and minor further improvement actions are required.

Issues arising during 2013

13. Assurance statements received from WFP directors and managerial oversight provided assurance on the effectiveness and strength of WFP's internal controls during 2013. In addition, WFP management will place increased emphasis on the management oversight for the key themes raised in the Assurance Opinion of the Inspector General, including the increased usage of cash and vouchers as transfer modality, managing larger infrastructure projects, as well as food manufacturing, quality and safety.

14. No additional areas were identified where significant improvement is needed beyond the areas noted in the 2012 statement.

STATEMENT

15. All internal controls have inherent limitations – including the possibility of circumvention – and therefore can provide only reasonable assurance. Further, because of changing conditions, the effectiveness of internal controls may vary over time.

16. Based on the above, I consider, to the best of my knowledge and information, that WFP operated satisfactory systems of internal control for the year ended 31 December 2013 and up to the date of approval of the financial statements.

17. WFP is committed to addressing the internal control and risk issues identified in paragraph 12 a) above as part of the continuous improvement of its internal controls.

Signed on original
Ertharin Cousin
Executive Director

Rome, 26 March 2014

WORLD FOOD PROGRAMME
STATEMENT I
STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2013
(USD millions)

	Note	2013	2012
ASSETS			
Current assets			
Cash and cash equivalents	2.1	652.7	438.5
Short-term investments	2.2	783.5	835.5
Contributions receivable	2.3	1 774.1	1 723.9
Inventories	2.4	664.9	709.9
Other receivables	2.5	137.4	147.9
		4 012.6	**3 855.7**
Non-current assets			
Contributions receivable	2.3	165.7	202.4
Long-term investments	2.6	427.5	352.7
Property, plant and equipment	2.7	110.7	110.5
Intangible assets	2.8	15.9	24.1
		719.8	**689.7**
TOTAL ASSETS		**4 732.4**	**4 545.4**
LIABILITIES			
Current liabilities			
Payables and accruals	2.9	499.0	415.2
Provisions	2.10	10.7	14.3
Employee benefits	2.11	23.7	19.5
Loans	2.12	32.8	5.8
		566.2	**454.8**
Non-current liabilities			
Employee benefits	2.11	398.1	365.1
Long-term loan	2.13	95.4	101.2
		493.5	**466.3**
TOTAL LIABILITIES		**1 059.7**	**921.1**
NET ASSETS		**3 672.7**	**3 624.3**
FUND BALANCES AND RESERVES			
Fund balances	7.1	3 400.2	3 351.2
Reserves	2.15	272.5	273.1
TOTAL FUND BALANCES AND RESERVES		**3 672.7**	**3 624.3**

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

Signed on original
Ertharin Cousin
Executive Director

Rome, 26 March 2014

WORLD FOOD PROGRAMME

STATEMENT II

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2013

(USD millions)

		2013	2012
REVENUE			
Monetary contributions	**3.1**	3 868.4	3 338.0
In-kind contributions	**3.2**	511.2	706.3
Currency exchange differences	**3.3**	19.8	42.6
Return on investments	**3.4**	20.1	24.0
Other revenue	**3.5**	116.3	100.5
TOTAL REVENUE		**4 535.8**	**4 211.4**
EXPENSES			
Cash and vouchers distributed	**4.1**	498.1	191.8
Food commodities distributed	**4.2**	2 053.4	2 264.6
Distribution and related services	**4.3**	578.6	602.5
Wages, salaries, employee benefits and other staff costs	**4.4**	718.1	691.4
Supplies, consumables and other running costs	**4.5**	159.0	156.7
Contracted and other services	**4.6**	405.3	389.7
Finance costs	**4.7**	2.5	2.6
Depreciation and amortization	**4.8**	49.0	43.8
Other expenses	**4.9**	50.8	52.6
TOTAL EXPENSES		**4 514.8**	**4 395.7**
SURPLUS (DEFICIT) FOR THE YEAR		**21.0**	**(184.3)**

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 2013
***(USD millions*)**

	Note	Accumulated surpluses/fund balances	Deficit	Reserves	Total net assets
31 December 2012		**3 535.5**	**(184.3)**	**273.1**	**3 624.3**
Allocation of deficit for 2012		(184.3)	184.3	-	-
Movements in fund balances and reserves in 2013					
Transfer from/to reserves	2.15	0.6	-	(0.6)	-
Net unrealized gains on long-term investments recognized directly within fund balance	2.6 / 2.15	27.4	-	-	27.4
Surplus for the year	7.2	-	21.0	-	21.0
Total movements during the year		**28.0**	**21.0**	**(0.6)**	**48.4**
TOTAL NET ASSETS at 31 December 2013		**3 379.2**	**21.0**	**272.5**	**3 672.7**

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 2013

(USD millions)

	Note	2013	2012
Cash flows from operating activities:			
Surplus (deficit) for the year		21.0	(184.3)
Adjustments to reconcile surplus (deficit) to net cash flows from operating activities			
Depreciation and amortization	**2.7/2.8**	49.0	43.8
Unrealized (gain) loss on short-term investments	**2.2**	2.2	(3.5)
Unrealized (gain) loss on long-term investments	**2.6**	2.8	(2.0)
(Increase) in amortized value of long-term investments	**2.2/2.6**	(4.5)	(4.7)
(Decrease) in amortized value of long-term loan	**2.13**	(0.5)	(0.6)
Interest expense on long-term loan	**2.13**	3.0	3.2
Decrease in inventories	**2.4**	45.0	66.7
(Increase) in contributions receivable	**2.3**	(13.5)	(101.2)
(Increase) decrease in other receivables	**2.5**	10.6	(26.4)
(Increase) in property, plant and equipment (donated in kind)	**2.7**	(1.3)	(3.8)
Increase (decrease) in payables and accruals	**2.9**	83.8	(120.0)
Increase (decrease) in provisions	**2.10**	(3.6)	6.5
Increase in employee benefits	**2.11**	37.2	35.6
Net cash flows from operating activities		**231.2**	**(290.7)**
Cash flows from investing activities:			
Decrease in short-term investments	**2.2**	57.9	172.6
(Increase) decrease in accrued interest receivable	**2.5**	(0.1)	0.5
(Increase) in long-term investments	**2.6**	(53.8)	(52.1)
(Increase) in property, plant and equipment	**2.7**	(38.8)	(40.8)
(Increase) in intangible assets	**2.8**	(0.9)	(2.1)
Net cash flows from investing activities		**(35.7)**	**78.1**
Cash flows from financing activities:			
Interest paid on long-term loan	**2.13**	(3.0)	(3.2)
Repayment of annual principal on long-term loan	**2.13**	(5.3)	(5.3)
Increase in loans	**2.12**	27.0	-
Net cash flows from financing activities		**18.7**	**(8.5)**
Net increase (decrease) in cash and cash equivalents		**214.2**	**(221.1)**
Cash and cash equivalents at beginning of the year	**2.1**	**438.5**	**659.6**
Cash and cash equivalents at end of the year	**2.1**	**652.7**	**438.5**

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 2013

(USD millions)

	Note	Budget Amount		Actual on comparable basis	Difference: final budget and actual
		Original Budget	Final Budget		
	6				
Food and related direct operational costs (DOC)		3 543.6	4 286.5	2 528.8	1 757.7
Cash and vouchers and related DOC		464.4	903.4	607.0	296.4
Capacity augmentation		303.7	318.1	235.8	82.3
Direct support costs		657.5	768.0	531.7	236.3
Subtotal direct project costs		**4 969.2**	**6 276.0**	**3 903.3**	**2 372.7**
Regular programme support and administrative costs		249.1	249.1	247.4	1.7
Capital and capacity funds		20.4	20.4	19.4	1.0
Subtotal indirect costs		**269.5**	**269.5**	**266.8**	**2.7**
TOTAL		**5 238.7**	**6 545.5**	**4 170.1**	**2 375.4**

The accompanying notes form an integral part of these financial statements

* Prepared on a commitment basis

Notes to the Financial Statements at 31 December 2013

NOTE 1: ACCOUNTING POLICIES

Basis of Preparation

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

2. The International Public Sector Accounting Standards Board (IPSASB) has issued IPSAS 28 – Financial Instruments: Presentation, IPSAS 29 – Financial Instruments: Recognition and Measurement, and IPSAS 30 – Financial Instruments: Disclosures. IPSASB requires entities to apply these standards for annual financial statements covering periods beginning on or after 1 January 2013. WFP has applied these standards in preparing these financial statements. The adoption of these standards has had no effect on the recognition and measurement of financial instruments, but additional qualitative and quantitative disclosure has been provided in accordance with IPSAS 30.

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. 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.

4. Food commodities and cash and vouchers are expensed when distributed directly by WFP or once they are handed over to cooperating partners or service providers for distribution.

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

6. The functional and reporting currency of WFP is the United States dollar. Transactions in currencies other than the US dollar are translated into dollars at the prevailing United Nations Operational Rates of Exchange (UNORE) at the time of transaction. Assets and liabilities in currencies other than USD are translated into USD 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

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

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

Financial Instruments

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

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

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

12. Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that WFP has the intention and ability to hold to maturity. Held-to-maturity investments comprise the United States treasury separate trading of registered interest and principal of securities (STRIPS) held within the long-term investment portfolio and are stated at amortized cost.

13. Available-for-sale financial assets are non-derivative financial assets that are not designated within any other category. Available-for-sale assets comprise the long-term investments other than the United States Treasury STRIPS. They are carried at fair value, with value changes recognized in the Statement of Changes in Net Assets. Gains and losses are reclassified from equity to surplus or deficit when the assets are derecognized.

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

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 cost or current replacement cost, whichever is lower. Under the legal framework in which WFP operates, legal title of food commodities normally passes to the recipient country government at their point of first entry into a recipient country where they become distributable. Although legal title may have passed for those food commodities held in WFP warehouses in recipient countries, WFP records these as inventories because WFP retains physical custody and control.

16. The cost of food commodities includes purchase cost or fair value[2] 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.

Contributions and Contributions Receivable

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

18. Contributions receivable are presented net of allowances for estimated reductions in contribution revenue and doubtful accounts.

19. 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.

20. Donated property, plant and equipment (PP&E) and intangible assets are valued at fair market value and recognized as PP&E or intangible asset and contribution revenue.

Property, Plant and Equipment

21. Property, Plant and Equipment (PP&E) are measured initially at cost. Subsequently, PP&E are carried at cost less accumulated amortization and any impairment losses. Borrowing costs, if any, are not capitalized. Donated PP&E are valued at fair market value and recognized as PP&E and contribution revenue. Depreciation is provided for PP&E over their estimated useful life using the straight line method, except for land which is not subject to depreciation. The estimated useful life for PP&E classes are as follows:

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

22. 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.

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

[2] 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.

Intangible Assets

24. Intangible assets are measured initially at cost. Subsequently, intangible assets are carried at historical cost less accumulated amortization and any impairment losses. Donated intangible assets are valued at fair market value and recognized as intangible asset and contribution revenue.

25. 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)
Internally generated software	6
Externally acquired software	3
Licenses and rights, copyrights and other intangible assets	3

Employee Benefits

26. WFP recognizes the following categories of employee benefits:

- short-term employee benefits due to be settled 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.

27. 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 to employees. 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.

28. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, 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. WFP and the UNJSPF, in line with the other participating organizations in the Fund, are not in a position to identify WFP's respective proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence WFP has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25. WFP's contributions to the plan during the financial period are recognized as expenses in the Statement of Financial Performance.

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

Fund Accounting and Segment Reporting

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

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

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 (ISC) recoveries, miscellaneous income, operational reserve and contributions received that are not designated to a specific programme category, project or a bilateral project. Special Accounts are established by the Executive Director under Financial Regulation 5.1 for special contributions or monies earmarked for specific activities, the balances of which may be brought forward to the succeeding financial period.

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

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

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 other revenue.

Budget Comparison

38. WFP undertook a review of its financial framework to ensure that it fully supported the implementation of the Strategic Plan (2008–2013) and to improve the predictability, flexibility and transparency of resource usage. Changes contained in the new financial framework include the separation of commodity and non-commodity activities; a modified direct support cost recovery mechanism; and the move to a three-year rolling planning cycle with an annual budget. The separation of commodity and non-commodity activities has resulted in a new cost categorization for operational costs. Starting from 2012, the Statement of Comparison of Budget and Actual Amounts has been modified to present the new cost categories.

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

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

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

Note 2.1: Cash and Cash Equivalents

	2013	2012
	USD millions	
Cash and cash equivalents		
Bank and cash at Headquarters	58.8	71.2
Bank and cash at regional bureaux and country offices	64.4	35.8
Money market and deposit accounts at Headquarters	334.2	268.4
Cash and cash equivalents held by investment managers	195.3	63.1
Total cash and cash equivalents	**652.7**	**438.5**

42. 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

	2013	2012
	USD millions	
Short-term investments		
Short-term investments	775.5	827.3
Current portion of long-term investments (Note 2.6)	8.0	8.2
Total short-term investments	**783.5**	**835.5**

43. Short-term investments are divided into two portfolio tranches with distinct investment horizons and specific investment guidelines and restrictions. The risk profile of short-term investments did not materially change in 2013 and remained at very low levels in the context of a market environment of low absolute yields.

44. Short-term investments were valued at USD 775.5 million at 31 December 2013 (USD 827.3 million at 31 December 2012). Of this amount, USD 492.9 million pertains to bonds issued or guaranteed by governments or government agencies (USD 572.4 million at 31 December 2012); USD 193.0 million pertains to corporate bonds (USD 169.7 million at 31 December 2012) and USD 89.6 million pertains to asset-backed securities (USD 85.2 million at 31 December 2012). 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.

45. At 31 December 2013, derivatives usage in short-term investments was limited to bond futures and foreign exchange forwards and derivatives exposure was considered not to be material. The notional amount of the derivatives financial instruments held in the investment portfolio is USD 60.4 million (USD 60.5 million at 31 December 2012).

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

	2012	Net additions/ (deductions)	Interest received/ amortized	Net realized gains/ (losses)	Net unrealized gains/ (losses)	2013
	USD millions					
Short-term investments	827.3	(58.1)	11.9	(3.4)	(2.2)	775.5
Current portion of long-term investments	**8.2**	(0.6)	0.4	-	-	**8.0**
Total short-term Investments	**835.5**	**(58.7)**	**12.3**	**(3.4)**	**(2.2)**	**783.5**

47. During 2013, short-term investments decreased by USD 52.0 million. This decrease includes net unrealized losses of USD 2.2 million presented in the reconciliation of surplus to operating cash flows in the Statement of Cash Flow and amortized interest on the current portion of the long-term investment of USD 0.4 million, also presented in the reconciliation as part of the increase in amortized value of the long-term investment of USD 4.5 million. The remaining balance, net of reclassification from long-term to short-term of USD 7.7 million, amounting to USD 57.9 million is presented in the Statement of Cash Flow under investing activities.

Note 2.3: Contributions Receivable

	2013	2012
	USD millions	
Composition:		
Current	1 774.1	1 723.9
Non-current	165.7	202.4
Total net contributions receivable	**1,939.8**	**1 926.3**

	2013	2012
	USD millions	
Monetary contributions receivable	1 913.2	1 857.0
In-kind contributions receivable	109.3	159.4
Total contributions receivable before allowance	**2 022.5**	**2 016.4**
Allowance for reductions in contribution revenue	(63.6)	(76.0)
Allowance for doubtful accounts	(19.1)	(14.1)
Total net contributions receivable	**1 939.8**	**1 926.3**

48. Current contributions receivable are for confirmed contributions that are due within twelve months while non-current contributions receivable are those that are due after 12 months from 31 December 2013.

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

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

	2013		2012	
	USD millions	*%*	*USD millions*	*%*
Year of confirmation				
2013	1 695.6	83		
2012	262.5	13	1 585.5	78
2011 and earlier	84.5	4	439.5	22
Subtotal	**2 042.6**	**100**	**2 025.0**	**100**
Revaluation adjustments (non-USD contributions receivable)	(20.1)	-	(8.6)	-
Total contributions receivable before allowance	**2 022.5**	**100**	**2 016.4**	**100**

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

52. The allowance for reductions in contribution revenue is an amount estimated for any reductions of contributions receivable and corresponding revenue when the funding is no longer needed by the project to which the contributions were related. The allowance is based on historical experience.

53. The change in the allowance for reductions in contribution revenue during 2013 is as follows:

	2012	Utilization	Increase/ (Decrease)	2013
	USD millions			
Total allowance for reductions in contribution revenue	**76.0**	**(78.5)**	**66.1**	**63.6**

54. During 2013, the reductions in contributions receivable amounted to USD 78.5 million. These reductions are recorded as a utilization of the allowance for reductions in contribution revenue and reported in the Statement of Financial Position. At 31 December 2013, the estimated final allowance required is USD 63.6 million. Accordingly, an increase of USD 66.1 million was recorded as an adjustment to monetary contribution revenue for the period and is reported in the Statement of Financial Performance.

55. The allowance for doubtful accounts is 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 USD 5,000.

56. The allowance for doubtful accounts is estimated at the following percentages of outstanding contributions receivable.

Contributions receivable outstanding for:	%
More than 4 years	75
Between 3 and 4 years	25
Between 2 and 3 years	5
Between 0 and 2 years	0

57. The change in the allowance for doubtful accounts during 2013 is as follows:

	2012	Utilization	Increase/ (Decrease)	2013
	USD millions			
Total allowance for doubtful accounts	**14.1**	**(0.5)**	**5.5**	**19.1**

58. During 2013, write-offs of contributions receivable amounted to USD 0.5 million. These write-offs are recorded as a utilization of the allowance for doubtful accounts and reported in the Statement of Financial Position. At 31 December 2013, the estimated final allowance for doubtful accounts required is USD 19.1 million. Accordingly, an increase of USD 5.5 million was recorded as an expense for the period and is reported in the Statement of Financial Performance.

Note 2.4: Inventories

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

	2013	2012
	USD millions	
Food on hand	539.0	594.0
Food in transit	112.8	103.3
Subtotal food	**651.8**	**697.3**
Less allowance for impairment - food	(3.0)	(2.9)
Total food	**648.8**	**694.4**
Non-food items	16.2	15.7
Less allowance for impairment - non-food	(0.1)	(0.2)
Total non-food items	**16.1**	**15.5**
Total inventories	**664.9**	**709.9**

Food reconciliation	2013	2012
	USD millions	
Opening inventory	694.4	758.6
Add back: impairment allowance	2.9	3.5
Food purchased	1 144.1	1 148.4
In-kind commodities received	543.5	644.4
Transport and related costs	315.7	399.3
Total inventory available for distribution	**2 700.6**	**2 954.2**
Less: Food distributed	(2 048.8)	(2 256.9)
Allowance for impairment - food	(3.0)	(2.9)
Total food	**648.8**	**694.4**

60. For 2013, food and non-food items distributed totalled USD 2,053.4 million (USD 2,264.6 million in 2012), as reported in the Statement of Financial Performance. Of this amount, USD 2,048.8 million relates to food commodities and USD 4.6 million relates to non-food items (USD 2,256.9 million and USD 7.7 million, respectively, in 2012)

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

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

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

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

65. Food commodity stocks at 31 December 2013 were 1.1 million mt, valued at USD 651.8 million. At 31 December 2012, stocks were 1.1 million mt valued at USD 697.3 million.

66. 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 0.45 percent of total food and 0.7 percent for non-food items. In 2012, the allowance for food was 0.4 percent and 1.5 percent for non-food items. Inventories are valued net of any impairments or obsolescence. During 2013, USD 3.4 million representing the total value of food impaired is recorded as a utilization of the allowance for impairment in the Statement of Financial Position. As at 31 December 2013, the estimated final allowance for impairment required is USD 3.1 million. Accordingly, an increase in the allowance for impairment of USD 3.4 million is reported in the Statement of Financial Performance.

67. The change in the allowances for impairment during 2013 is as follows:

	2012	Utilization	Increase/(Decrease)	2013
		USD millions		
Allowance for impairment – food	2.9	(3.4)	3.5	3.0
Allowance for impairment – non-food	0.2	-	(0.1)	0.1
Total allowance	**3.1**	**(3.4)**	**3.4**	**3.1**

Note 2.5: Other Receivables

	2013	2012
	USD millions	
Advances to vendors	36.3	55.1
Advances to staff	28.6	26.0
TPA receivables (Note 11)	21.9	27.5
Miscellaneous receivables	74.5	61.4
Total other receivables before allowance	**161.3**	**170.0**
Allowance for doubtful accounts	**(23.9)**	**(22.1)**
Total net other receivables	**137.4**	**147.9**

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

69. Advances to staff are for education grants, rental subsidies, travel and other staff entitlements. These advances are non-interest bearing in accordance with staff rules and regulations.

70. Miscellaneous receivables include amounts due from clients for services provided, accrued interest receivable and value-added tax (VAT) receivables whereby outright tax exemptions have not been obtained from governments; along with the fair value of foreign-exchange forward contracts.

71. Other receivables are reviewed to determine whether any allowance for doubtful accounts is required. As at 31 December 2013, the estimated final allowance required is USD 23.9 million, of which USD 23.4 million is for VAT receivable and USD 0.5 million is for other receivables (USD 21.7 million for VAT receivable and USD 0.4 million for other receivables in 2012).

72. The change in the allowance for doubtful accounts during 2013 is as follows:

	2012	Utilization	Increase/ (Decrease)	Revaluation Adjustment	2013
			USD millions		
Total allowance for doubtful accounts	**22.1**	**-**	**2.9**	**(1.1)**	**23.9**

73. During 2013, there were no write-offs of other receivables.

74. The revaluation adjustment reflects the revaluation of the allowance for doubtful accounts denominated in non-US currency.

75. As at 31 December 2013, the estimated final allowance required is USD 23.9 million. Accordingly, an increase of USD 2.9 million was recorded as an expense for the period and is reported in the Statement of Financial Performance.

Note 2.6: Long-Term Investments

	2013	2012
	USD millions	
US Treasury STRIPS	80.8	84.6
Current portion (Note 2.2)	(8.0)	(8.2)
Long-term portion, US Treasury STRIPS	**72.8**	**76.4**
Bonds	173.9	139.0
Equities	180.8	137.3
Total bonds and equities	**354.7**	**276.3**
Total long-term investments	**427.5**	**352.7**

76. Long-term investments consist of investments in STRIPS and investments in bonds and equities. The US Treasury STRIPS were acquired in September 2001 and are held to maturity. The maturities of the securities are phased over 30 years to fund payment of interest and principal obligations on a long-term commodity loan from a donor government agency (Note 2.13), denominated in the same currency as the STRIPS over the same period. The STRIPS bear no nominal interest and were purchased at a discount to their face value; the discount was directly related to prevailing interest rates at the time of purchase of 5.50 percent and to the maturities of the respective STRIPS. The current portion of the STRIPS is equal to the amount required to settle current obligations on the long-term loan.

77. Changes in market value of the investment in STRIPS are not recognized. At 31 December 2013, the market value of this investment was USD 96.7 million (USD 111.1 million at 31 December 2012).

78. The increase in the value of the long-term bond and equity investments of USD 78.4 million resulted from the increased value of invested assets and from the investment of cash into bonds and equities of amounts charged to funds and projects in relation to the employee benefit liabilities. The cash transfer of USD 41.7 million is invested in line with the WFP asset allocation policy of investing 50 percent in global bonds and 50 percent in global equities of funds set aside to meet employee benefit liabilities. 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.

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

80. The movement of long-term investments accounts during 2013 is as follows:

	2012	**Additions/ (deductions)**	**Interest received/ amortized**	**Net realized gains/ (losses)**	**Net unrealized gains/ (losses)**	**2013**
			USD millions			
Bonds and equities	**276.3**	41.7	4.4	7.7	24.6	**354.7**
Investment in STRIPS	**76.4**	(7.7)	4.1	-	-	**72.8**
Total long-term investment	**352.7**	**34.0**	**8.5**	**7.7**	**24.6**	**427.5**

81. During 2013, long-term investments increased by USD 74.8 million. Long-term bonds and equities are treated as available-for-sale financial assets except the investment in foreign exchange forward derivatives (notional value of USD 7.1 million) which are treated as held for trading financial assets. Accordingly, under IPSAS, the net unrealized gains of USD 27.4 million related to those financial assets treated as available-for-sale are transferred to net assets and presented in the Statement of Changes in Net Assets. The net unrealized losses of USD 0.4 million related to foreign exchange forward derivatives and the net unrealized losses of USD 2.4 million related to foreign exchange differences on monetary items are presented in the Statement of Financial Performance. The amortized interest on the investment in STRIPS of USD 4.1 million is presented in the reconciliation of surplus to operating cash flows in the Statement of Cash Flow as part of the increase in amortized value of the long-term investment of USD 4.5 million. The remaining balance, net of a reclassification from long-term to short-term of USD 7.7 million, amounting to USD 53.8 million is presented in the Statement of Cash Flow under investing activities.

Note 2.7: Property, Plant and Equipment

	2012	Additions	Disposals/ Transfers	Accumulated depreciation	2013
			USD millions		
Property, plant and equipment					
Buildings					
Permanent	11.9	4.2	-	(1.6)	14.5
Temporary	46.6	8.8	(1.4)	(26.1)	27.9
Computer equipment	7.8	1.4	(0.1)	(7.0)	2.1
Office equipment	16.8	2.6	(0.3)	(15.0)	4.1
Office fixtures and fittings	0.3	0.1	-	(0.2)	0.2
Security and safety equipment	2.9	1.3	-	(2.8)	1.4
Telecommunication equipment	4.5	1.3	(0.1)	(4.1)	1.6
Motor vehicles	90.4	17.6	(1.0)	(59.3)	47.7
Workshop equipment	3.3	0.4	(0.1)	(2.1)	1.5
Leasehold improvements	15.1	2.2	(0.2)	(9.8)	7.3
Fixed assets under construction	1.2	2.2	(1.0)	-	2.4
Total property, plant and equipment	**200.8**	**42.1**	**(4.2)**	**(128.0)**	**110.7**

82. During 2013, major additions to PP&E were for temporary buildings as well as motor vehicles (in 2012, major additions to PP&E were for temporary buildings, as well as motor vehicles). Net acquisitions (after disposals) for the period ended 31 December 2013 totalled USD 37.9 million (USD 43.0 million at 31 December 2012) of which USD 1.3 million relate to donated in-kind property, plant and equipment. Additions or disposals in PP&E are reported in the Statement of Financial Position and the depreciation expense for the year of USD 39.9 million is reported in the Statement of Financial Performance.

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

84. Assets are reviewed annually to determine if there is any impairment in their value. The review that was undertaken in 2013 did not result in any of the PP&E being impaired in value.

Note 2.8: Intangible Assets

	2012	Additions	Disposals/ Transfers	Accumulated Amortization	2013
			USD millions		
Internally generated software	**48.2**	**1.8**	**-**	**(35.9)**	**14.1**
Externally acquired software	**2.5**	**0.2**	**-**	**(1.8)**	**0.9**
Licenses and rights	**0.5**	**0.1**	**-**	**(0.4)**	**0.2**
Intangible assets under construction	**1.9**	**0.7**	**(1.9)**	**-**	**0.7**
Total intangible assets	**53.1**	**2.8**	**(1.9)**	**(38.1)**	**15.9**

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

86. The internally generated software mainly relates to the WINGS project – the customization and implementation of an integrated enterprise resource planning application. At 31 December 2013, total capitalized costs of the WINGS project amounted to USD 11.9 million (USD 19.8 million in 2012), net of accumulated amortization of USD 35.6 million (USD 27.7 million in 2012). These capitalized costs comprise the system design and realization phase of the WINGS project. Additions or disposals in intangible assets are reported in the Statement of Financial Position while the amortization expense for the year of USD 9.1 million is reported in the Statement of Financial Performance.

Note 2.9: Payables and Accruals

	2013	2012
	USD millions	
Vendor payables	130.5	112.0
Donor payables	28.0	43.6
Miscellaneous	36.8	7.7
Subtotal payables	**195.3**	**163.3**
Accruals	303.7	251.9
Total payables and accruals	**499.0**	**415.2**

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

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

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

90. Miscellaneous payables include amounts due to other United Nations agencies for services received.

Note 2.10: Provisions

	2013	2012
	USD millions	
Provision for refunds to donors	10.7	13.7
Miscellaneous provisions	-	0.6
Total provisions	**10.7**	**14.3**

91. The provision for refunds to donors estimates the level of refunds that are expected to be given back to donors for unspent cash contributions to the project. The provision is based on historical experience.

92. The change in the provision for refunds to donors during 2013 is as follows:

	2012	Utilization	Increase/ (Decrease)	2013
		USD millions		
Provision for refunds to donors	**13.7**	**(2.8)**	**(0.2)**	**10.7**

93. During 2013, refunds made to donors totalled USD 2.8 million. These refunds are recorded as a utilization of the provision for refunds to donors and reported in the Statement of Financial Position. At 31 December 2013, the estimated final provision required is USD 10.7 million. Accordingly, a decrease of USD 0.2 million was recorded as an adjustment to monetary contribution revenue for the period and is reported in the Statement of Financial Performance.

94. Miscellaneous provisions in 2012 were to meet legal liabilities, advances and payments to be made to the deceased and injured WFP staff who were victims of the 2009 bombing of a WFP country office.

Note 2.11: Employee Benefits

	2013	2012
	USD millions	
Composition:		
Current	23.7	19.5
Non-current	398.1	365.1
Total employee benefits liabilities	**421.8**	**384.6**

	2013			2012
	Actuarial valuation	WFP valuation	Total	
		USD millions		
Short-term employee benefits	-	23.7	23.7	19.5
Post-employment benefits	324.7	2.2	326.9	288.5
Other long-term employee benefits	64.7	6.5	71.2	76.6
Total employee benefit liabilities	**389.4**	**32.4**	**421.8**	**384.6**

2.11.1 Valuation of Employee Benefit Liabilities

95. Employee benefit liabilities are determined by professional actuaries or calculated by WFP based on personnel data and past payment experience. At 31 December 2013, total employee benefits liabilities amounted to USD 421.8 million, of which USD 389.4 million were calculated by the actuaries and USD 32.4 million were calculated by WFP (USD 355.9 million and USD 28.7 million, respectively, at 31 December 2012).

96. Of the total employee benefits liabilities of USD 421.8 million, the amount of USD 301.7 million has been charged against relevant funds and projects (USD 258.1 million at 31 December 2012). The balance of liabilities in the amount of USD 120.1 million has been allocated against the General Fund (USD 126.5 million at 31 December 2012). During the 2010 Annual Session, the Board approved a funding plan to provide for the unfunded employee benefit liabilities currently allocated to the General Fund. The funding plan includes an incremental annual funding of USD 7.5 million in the standard staff cost over a 15-year period starting in 2011 with a view to achieving fully funded status at the end of the 15-year period.

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

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

98. Post-employment benefits and other separation-related benefits liabilities which are calculated by actuaries totalled USD 389.4 million at 31 December 2013 net of actuarial gains and losses (USD 355.9 million in 2012). In the 2013 valuation, WFP's gross defined benefit obligations totalled USD 425.5 million (USD 471.6 million in 2012), of which USD 360.8 million (USD 402.1 million in 2012) represents post-employment benefits and USD 64.7 million (USD 69.5 million in 2012) represents other separation-related benefits.

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

100. In the 2013 valuation of employee benefits liabilities, the actuaries have determined actuarial losses under post-employment benefits of USD 36.1 million (USD 115.7 million in 2012) and actuarial gains under other separation-related benefits of USD 3.1 million (actuarial losses of USD 9.1 million in 2012).

101. Of the total actuarial losses of USD 36.1 million, USD 32.0 million relates to the After-Service Medical Coverage Plan (ASM), USD 2.1 million relates to the Separation Payments Scheme and USD 2.0 million pertains to the Compensation Plan Reserve Fund (Note 2.11.5.4). Actuarial losses for the After-Service Medical Plan, Separation Payments Scheme and Compensation Plan Reserve Fund exceeded 10 percent of the DBO. Under the corridor method, losses over 10 percent will be amortized over the average remaining service of active staff for each benefit. The average remaining service of active staff for the After Service Medical Plan, Separation Payments Scheme and Compensation Plan Reserve Fund is 13.59 years, 13.33 years and 9.81 years respectively.

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

103. The movements of employee benefits liabilities as determined by the actuaries during 2013 are as follows:

	2012	**Utilization**	**Increase/ (Decrease)**	**2013**
		USD millions		
After-Service Medical Plan	257.4	(2.6)	41.3	296.1
Separation Payments Scheme	23.1	(1.9)	1.1	22.3
Compensation Plan Reserve Fund	5.9	(0.4)	0.8	6.3
Other separation-related benefits	69.5	(7.7)	2.9	64.7
Total employee benefits liabilities	**355.9**	**(12.6)**	**46.1**	**389.4**

2.11.3 Short-Term Employee Benefits

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

2.11.4 Post-Employment Benefits

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

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

107. The Separation Payments Scheme is a plan to fund severance pay for WFP general service staff at the Rome duty station upon separation from service. The benefits under the Separation Payments Scheme were previously determined based on the final pay times a service-based multiplier. Adopted in 2013 and effective 1 March 2014, the benefits using the final pay and service as of 28 February 2014 are carried forward into the revised Separation Payments Scheme. At the end of each year, accrued balances are adjusted by a yearly rate of 1.5 percent plus 75 percent of the annual inflation rate of the consumer price index for families of workers and employees, published by the Italian National Institute of Statistics (ISTAT).

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

109. The liabilities include the service costs for 2013 less benefit payments made.

2.11.5 Other Long-Term Employee Benefits

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

2.11.5.1 Actuarial Assumptions and Methods

111. 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 2013 valuation, the assumptions and methods used are described in the following table which also indicates the assumptions and methods used for the 2012 valuation.

112. The assumptions and methods adopted for the 2013 actuarial valuation resulted in an increase in the post-employment and other separation-related benefits net liabilities in the total amount of USD 33.5 million (USD 35.5 million in 2012).

113. 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.

114. The following assumptions and methods have been used to determine the value of post-employment and other separation-related employee benefits liabilities for WFP at 31 December 2013. Assumptions relating only to certain employee benefits are specifically identified:

Discount rate	3.8 percent for accounting and funding (3.1 percent in 2012 valuation)
Medical cost increases (ASM* only)	5.0 percent per year during 2014 through 2024, 4.5 percent per year during 2025 through 2044, and 4 percent per year in 2045 and beyond (same as in 2012 valuation)
Expected return on assets	Funding – 5.6 percent (6.6 percent in 2012 valuation); Accounting – Not applicable as plans are treated as unfunded
Annual salary scale	3.00 percent plus merit component
Annual cost of living increases	2.50 percent (minimum death grant benefit for the Staff Compensation Plan remains unchanged)
Future exchange rates	United Nations rates at 31 December 2013
Medical claims cost (ASM only)	Average claims in 2014 are USD 5,865 for each adult participant (USD 5,509 in 2013 in 2012 valuation).
Annual administrative costs (ASM only)	USD 138.72 for the dollar plan and EUR 131.64 for the euro plan
Insurer's retention (ASM only)	2.30 percent of the claims in 2013 (same as in 2012 valuation)
Future participant contributions (ASM only)	Accounting and Funding – 29.00 percent (same as in 2012 valuation)
Mortality rates	Mortality rates match the 31 December 2011 valuations of the United Nations Joint Staff Pension Fund
Disability rates	Disability rates match the 31 December 2011 valuation of the United Nations Joint Staff Pension Fund
Withdrawal rates	Based on a study of WFP's withdrawal rates from 2009 to 2013
Retirement rates	Based on a study of WFP's withdrawal rates from 2009 to 2013
Participation (ASM only)	95 percent of future retirees will elect coverage in the BMIP (same as in 2012 valuation). Based on a study of experience for the Rome-based United Nations organizations, 0.2 percent of people covered by the BMIP will withdraw from coverage each year after retirement (same in 2012 valuation).
Medical plan of future retirees (ASM only)	Currently receiving pay in euro currency – euro plan Currently receiving pay in currency other than euro – dollar plan
Coverage of spouses (ASM only)	85 percent of male and 55 percent of female retirees have a spouse who elects coverage in the Basic Medical Insurance Plan (same as in 2012 valuation). Wives are assumed to be four years younger than their male spouse.
Proportion of future deaths and disablements attributable to performance of official duties (CPRF** only)	10.00 percent of deaths and 4.00 percent of disablements (same as in 2012 valuation)
Nature of disablements (CPRF only)	All disablements are assumed to be total and permanent
Eligibility of benefits offsets (CPRF only)	Deaths or disablements under CPRF are assumed to receive UNJSPF benefits
Benefits excluded due to lack of materiality (CPRF only)	Preparation of remains and funeral expenses; children's benefit for future deaths and disablements, etc.
Benefits excluded due to inclusion in other valuations (CPRF only)	Medical and hospital expenses Return transportation of the deceased and family members
Members receiving repatriation benefits (OSRB*** only)	Repatriation benefits were assumed to be payable to 80.00 percent of those staff members who retire or withdraw from service (same in 2012 valuation). 80.00 percent of eligible males were assumed to be married and 50.00 percent of female staff members were assumed to be married. (same in 2012 valuation)
Repatriation travel and removal costs (OSRB only)	USD 11,811 for unmarried staff and USD 16,778 for married staff in 2014, growing with inflation thereafter. (USD 11,523 for unmarried staff and USD 16,369 for married staff, in 2012 valuation).
Accrued leave payable at separation (OSRB only)	Average accrued leave benefit was assumed to be 26 days' pay (same as in 2012 valuation)
Actuarial method	After-Service Medical Plan, Separation Payments Scheme, and Staff Compensation Plan: Projected unit credit with an attribution period from the entry on duty date to the date of full eligibility for benefits (one-year term cost for Staff Compensation Plan). Other Separation-Related Payment Schemes: For accrued leave, projected unit credit with all liability attributed to past service. For other benefits, included in the valuation, projected unit credit with an attribution period from the entry on duty date to separation.
Value of assets	Funding - Market value Accounting - Plans treated as unfunded

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

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

2.11.5.2 Reconciliation of Defined Benefit Obligation

	After-Service Medical Plan	Other separation-related payment	Separation payments scheme	Staff compensation plan	Total
			USD millions		
Net defined benefit obligation at 31 December 2012	**364.9**	**69.5**	**28.0**	**9.2**	**471.6**
Service cost for 2013	24.7	4.0	2.5	0.4	31.6
Interest cost for 2013	11.3	2.0	0.8	0.3	14.4
Actual gross benefit payments for 2013	(3.9)	(7.7)	(1.9)	(0.4)	(13.9)
Participant contributions	1.3	-	-	-	1.3
Plan changes	-	-	(2.4)	-	(2.4)
Exchange rate movements	10.3	0.1	1.1	-	11.5
Other actuarial (gain)/loss	(80.5)	(3.2)	(3.7)	(1.2)	(88.6)
Defined benefit obligation at 31 December 2013	**328.1**	**64.7**	**24.4**	**8.3**	**425.5**

2.11.5.3 Annual Expense for Calendar Year 2013

	After-Service Medical Plan	Other separation-related payment schemes	Separation payments scheme	Staff compensation plan	Total
			USD millions		
Service cost	24.7	4.0	2.5	0.4	31.6
Interest cost	11.3	2.0	0.8	0.3	14.4
(Gain)/Loss amortization	5.2	(3.1)	0.2	0.2	2.5
Prior service (credit)/cost recognition	-	-	(2.4)	-	(2.4)
Total expense recognized in 2013	**41.2**	**2.9**	**1.1**	**0.9**	**46.1**

2.11.5.4 Reconciliation of Present Value of Defined Benefit Obligation

	After-Service Medical Plan	Other separation-related payments schemes	Separation payments scheme	Staff compensation plan	Total
	USD millions				
Defined benefit obligation					
Inactive	112.1	-	-	6.6	118.7
Active	216.0	64.7	24.4	1.7	306.8
Total	**328.1**	**64.7**	**24.4**	**8.3**	**425.5**
(Surplus)/deficit	328.1	64.7	24.4	8.3	425.5
Unrecognized loss	(32.0)	-	(2.1)	(2.0)	(36.1)
Net balance sheet liability	**296.1**	**64.7**	**22.3**	**6.3**	**389.4**

2.11.5.5 After-Service Medical Plan – Sensitivity Analysis

116. 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.

117. In the 2013 valuation, it was assumed that medical costs will increase at 5 percent from 2014 to 2024, 4.5 percent per year during 2025 through 2044, and 4 percent per year in 2045 and beyond. It was also assumed that the future exchange rates between the euro and US dollar will average about USD 1.379 per euro, which was the United Nations operational rate of exchange at 31 December 2013. Further assumed was a discount rate of 3.8 percent, the spot discount rate at 31 December 2013 (3.1 percent in 2012 valuation).

118. 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.

119. Using the current assumptions, the defined benefit obligation is USD 328.1 million. For the liability sensitivity analysis, a medical inflation rate of 5 percent per year would, other assumptions being equal, result in a defined benefit obligation of USD 414.9 million. An exchange rate of USD 1.479 per euro would, other assumptions being equal, result in a defined benefit obligation of USD 344.2 million. A discount rate of 2.8 percent would, other assumptions being equal, result in a defined benefit obligation of USD 418.7 million.

120. Using the current assumptions, the 2014 service cost is USD 19.0 million. For the service cost sensitivity analysis, a medical inflation rate of 5 percent per year would, other assumptions being equal, result in a service cost equal to USD 26.0 million. An exchange rate of USD 1.479 per euro would, other assumptions being equal, result in a service cost equal to USD 20.0 million. A discount rate of 2.8 percent would, other assumptions being equal, result in a service cost of USD 26.0 million.

2.11.5.6 Expected Costs during 2014

121. The expected contribution of WFP in 2014 to the defined benefits plans is USD 11.0 million which is determined based on expected benefit payments for that year.

2.11.6 United Nations Joint Staff Pension Fund

122. The Pension Fund's Regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the Open Group Aggregate Method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

123. WFP's financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9 percent for participants and 15.8 percent for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

124. The actuarial valuation performed as of 31 December 2011 revealed an actuarial deficit of 1.87 percent (0.38 percent in the 2009 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve a balance as of 31 December 2011 was 25.57 percent of pensionable remuneration, compared to the actual contribution rate of 23.7 percent. The actuarial deficit was primarily attributable to the lower than expected investment experience in recent years. The next actuarial valuation will be conducted as of 31 December 2013.

125. At 31 December 2011, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 130 percent (140 percent in the 2009 valuation). The funded ratio was 86 percent (91 percent in the 2009 valuation) when the current system of pension adjustments was taken into account.

126. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2011, for deficiency payments under Article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of Article 26.

127. In July 2012, the Pension Board noted in its report of the fifty-ninth session to the General Assembly that an increase in the normal age of retirement for new participants of the Fund to 65 is expected to significantly reduce the deficit and would potentially cover half of the current deficit of 1.87 percent. In December 2012 and April 2013, the General Assembly authorized an increase to age 65 in the normal retirement age and in the mandatory age of separation respectively for new participants of the Fund, with effect not later than from 1 January 2014.The related change to the Pension Fund's Regulations was approved by the General Assembly in December 2013. The increase in the normal retirement age will be reflected in the actuarial valuation of the Fund as of 31 December 2013.

128. During 2013, contributions paid to the UNJSPF amounted to USD 61.7 million (USD 61.9 million in 2012). Expected contributions due in 2014 are USD 64.4 million.

129. The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the United Nations Joint Staff Pension Fund Board on the audit every year. The UNJSPF publishes quarterly reports on its investments and these can be viewed by visiting the UNJSPF at www.unjspf.org.

2.11.7 Social Security Arrangements for Employees under Service Contracts

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

Note 2.12: Loans

	2013	2012
	USD millions	
CERF loan	**27.0**	**-**
Current portion of long-term loan – see Note 2.13	**5.8**	**5.8**
Total loans	**32.8**	**5.8**

131. The Central Emergency Response Fund (CERF) is a cash-flow mechanism of the United Nations which is designed to bridge the gap between needs and available funding. The CERF is funded by donors and loan proceeds are released to United Nations operational agencies interest-free. The mechanism requires that agencies borrowing from the fund pay back the loan within one year.

132. During 2013, WFP used this facility to borrow USD 27.0 million to establish a contingency fund for the emergency operations in the Syrian Arab Republic and the surrounding region (Egypt, Iraq, Jordan, Lebanon and Turkey).

Note 2.13: Long-Term Loan

	2013	2012
	USD millions	
Long-term loan	**101.2**	**107.0**
Less: Current portion of long-term loan – See Note 2.12	**(5.8)**	**(5.8)**
Long-term loan	**95.4**	**101.2**

133. 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 USD 164.1 million, of which USD 106.0 million was used to purchase food commodities against a long-term loan contract with a government agency of the donor country.

134. The loan is payable over 30 years and interest on the loan is at the rate of 2 percent per year for the first ten years and 3 percent per year on the declining balance each year thereafter. Current portion of long-term loan includes an annual principal amount of USD 5.3 million and an amortization cost of USD 0.5 million using the effective interest method. 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 USD 106.0 million.

135. The loan is reflected at amortized cost using the effective interest rate of 2.44 percent. At 31 December 2013, total amortized cost was USD 101.2 million (USD 107.0 million at 31 December 2012) with an amount due within one year of USD 5.8 million and a long-term portion of USD 95.4 million (USD 5.8 million and USD 101.2 million, respectively in 2012). Interest paid for the year is USD 3.0 million.

136. Interest expense during 2013 totalled USD 2.5 million (USD 2.6 million at 31 December 2012) as reflected in the Statement of Financial Performance, of which USD 3.0 million represents the annual interest paid in May 2013 and USD (0.5) million represents the amortized cost resulting from the recognition of the long-term loan to its net present value.

137. In the Statement of Cash Flow, interest paid during the year in the amount of USD 3.0 million is presented under financing activities while amortized interest of USD (0.5) million is presented under reconciliation to net cash flows from operating activities.

Note 2.14: Financial Instruments

2.14.1 Nature of Financial Instruments

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

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

	2013	**2012**
	USD millions	
Financial assets at fair value through surplus or deficit	777.1	829.3
Held-to-maturity investments	80.8	84.6
Loans and receivables	2 624.4	2 360.2
Available-for-sale financial assets	353.1	274.3
Subtotal	**3 835.4**	**3 548.4**
Non-financial assets	897.0	997.0
Total	**4 732.4**	**4 545.4**

140. Financial assets at fair value through surplus or deficit are classified as held-for-trading category.

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

142. The following table presents the WFP assets that are measured at fair value at 31 December 2013 and 2012, respectively.

	2013				2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	USD millions				*USD millions*			
Financial assets at fair value through surplus or deficit	-	723.4	53.7	777.1	-	824.1	5.2	829.3
Available-for-sale financial assets	182.1	144.3	26.7	353.1	137.9	115.0	21.4	274.3
Total	**182.1**	**867.7**	**80.4**	**1 130.2**	**137.9**	**939.1**	**26.6**	**1 103.6**

143. The different levels of fair value have been defined as follows: Quoted prices (unadjusted) in active markets for identical assets (Level 1). Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2). Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (Level 3).

144. WFP investment guidelines are very conservative in nature with the primary objective being capital preservation and liquidity. Both the held-for-trading and the available-for-sale financial assets are rated high quality as per international credit ratings (see Note 2.14.2 – Credit Risk). Investment managers are bound by WFP investment guidelines that require them to select highly liquid securities for the investment portfolios. Fair value levels largely depend on whether an active market exists for a security. Active markets provide direct data inputs and may, on average, provide better liquidity, lowering trading costs via tighter bid and ask prices. A different fair value level does not necessarily imply a different or higher level of risk for a security, all things being equal. The fair value hierarchy reflects the nature of the inputs used in determining fair values, but not the level of risk inherent in a security as the probability of a partial or full default on cash flows from issuers or counterparts is independent from the fair value level category.

145. The following table presents the changes in Level 3 financial instruments for the year ended 31 December 2013 and 2012, respectively.

	2013			2012		
	Financial assets at fair value through surplus or deficit	**Available-for-sale financial assets**	**Total**	**Financial assets at fair value through surplus or deficit**	**Available-for-sale financial assets**	**Total**
	USD millions			***USD millions***		
Opening balance	5.2	21.4	26.6	3.8	15.1	18.9
Gains/(losses) recognized in Statement of Financial Performance	-0.8	-1.4	-2.2	0.1	1.1	1.2
Gains/(losses) recognized in Statement of Net Assets	0	-3.1	-3.1	0	-2.9	-2.9
Purchases	33.9	21.0	54.9	5.2	14.9	20.1
Sales	-1.8	-9.9	-11.7	-1.5	-6.3	-7.8
Settlements	-0.3	0	-0.3	0	0	0
Capital change	1.6	-1.3	0.3	-2.4	-0.1	-2.5
Transfer	15.9	0	15.9	0	-0.4	-0.4
Closing balance	**53.7**	**26.7**	**80.4**	**5.2**	**21.4**	**26.6**

146. There were no transfers out of Level 1 into Level 2 and out of Level 2 into Level 1 during 2013 and 2012.

2.14.2 Credit Risk

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

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

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

2.14.3 Interest Rate Risk

150. WFP is exposed to interest rate risk through short-term investments and long-term bonds. At 31 December 2013, the effective interest rates of these two investment portfolios were 0.51 percent and 1.97 percent, respectively, (0.57 percent and 1.83 percent, respectively, in 2012). A measurement of interest rate sensitivity indicates that the effective duration is 0.69 years for the short-term investments and 6.28 years for the long-term bonds (0.97 years and 5.49 years, respectively, in December 2012). Fixed income derivatives are used by external investment managers to manage interest rate risk under strict investment guidelines.

2.14.4 Foreign Currency Risk

151. At 31 December 2013, 87 percent of cash, cash equivalent and investments are denominated in the US dollar base currency and 10 percent are denominated in euros and remaining 3 percent in other currencies (84 percent in the US dollar base currency and 11 percent in euros and remaining 5 percent in other currencies at 31 December 2012). Non-US dollar holdings have the primary objective of supporting operating activities. In addition, 59 percent of contributions receivable is denominated in the US dollar base currency, 15 percent is denominated in euros, 11 percent in pounds sterling and 15 percent is denominated in other currencies (59 percent in the US dollar base currency, 14 percent in euros, 7 percent in pounds sterling and 20 percent in other currencies at 31 December 2012).

152. Foreign exchange forward contracts are used to hedge the euro versus US dollar exchange exposure on Programme Support and Administrative staff costs incurred at Headquarters in line with the hedging policy approved by the Board at its Annual Session in 2008. During the year ended 31 December 2013, 12 contracts were settled at a realized gain of USD 2.9 million (12 contracts were settled during the year ended 31 December 2012 at a realized loss of USD 9.1 million). In addition, a new hedging strategy was implemented for 2014, in which WFP entered into 12 foreign exchange forward contracts to purchase euro 6.0 million on a monthly basis at a fixed exchange rate. At 31 December 2013, the 12 contracts have a notional value of USD 95.8 million and an unrealized gain of USD 3.5 million using the forward rate at 31 December 2013. Both the realized and unrealized gains are included in currency exchange differences presented in the Statement of Financial Performance.

2.14.5 Market Risk

153. WFP is subject to market risk in both the short-term and long-term investments. The market value of its fixed income, equity, financial derivatives and foreign exchange forwards change on a daily basis. All of the sensitivity analyses provided below have been prepared on the basis that all variables are held constant, other than that specifically mentioned.

154. Interest rate sensitivity – For short-term investments, if interest rates were to rise (fall) by 1 percent, the impact to the Statement of Financial Performance is a USD 6.7 million unrealized loss (gain). For the long-term bond portfolio, if interest rates were to rise (fall) by 1 percent, the impact to the Statement of Changes in Net Assets is a USD 11.0 million unrealized loss (gain).

155. Futures price sensitivity – For short-term investments, if futures prices were to rise (fall) by 1 percent, the impact to the Statement of Financial Performance is a USD 0.5 million unrealized loss (gain). For the long-term bond portfolio, if futures prices were to rise (fall) by 1 percent, the impact to the Statement of Changes in Net Assets is a USD 0.3 million unrealized gain (loss).

156. Equity price sensitivity – The equity investments track the MSCI All Country World Index, a recognized index of stocks of all world markets. If equity prices were to rise (fall) by 1 percent proportionally across the six regional equity funds, the impact to the Statement of Changes in Net Assets is a USD 1.8 million unrealized gain (loss).

157. Foreign Exchange forwards sensitivity – For the remaining 12 PSA hedge forward contracts, if USD/EUR rate were to rise (fall) by 1 percent, the impact to the Statement of Financial Performance is a USD 1.0 million unrealized gain (loss), with all other variables held constant. For short-term investments, if foreign currency prices were to appreciate (depreciate) versus the USD by 1 percent across the forward currency positions currently held, the impact to the Statement of Financial Performance is a USD 0.1 million unrealized loss (gain). For long-term investments, if foreign currency prices were to appreciate (depreciate) versus the USD by 1 percent across the forward currency positions currently held, the impact to the Statement of Financial Performance is a USD 0.1 million unrealized loss (gain).

Note 2.15: Fund Balances and Reserves

158. 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 WFP's assets after deducting all its liabilities. The following table presents WFP's fund balances.

	2013					2012
	Programme category funds (fund balance)	Bilateral operations and trust funds (fund balance)	General Fund and Special Accounts (fund balance)	General Fund and Special Accounts Reserves	Total	
	USD millions					
Opening balance at 01 January, 2013	**2 635.8**	**369.7**	**345.7**	**273.1**	**3 624.3**	**3 787.5**
Surplus (deficit) for the year	**(148.8)**	**(41.3)**	**211.1**	**-**	**21.0**	**(184.3)**
Subtotal	**2 487.0**	**328.4**	**556.8**	**273.1**	**3 645.3**	**3 603.2**
Movements during the year:						
Advances to projects	163.9	-	-	(163.9)	-	-
Repayments by projects	(86.9)	-	-	86.9	-	-
Approved Board allocations	-	-	11.7	(11.7)	-	-
Repayments of unspent Board allocations	-	-	(1.9)	1.9	-	-
Replenishments	-	-	(49.6)	49.6	-	-
Surplus of ISC revenue over PSA expenses	-	-	(36.6)	36.6	-	-
Transfers between funds	232.5	16.2	(248.7)	-	-	-
Net unrealized gains (losses) on long-term investments	-	-	27.4	-	27.4	21.1
Total movements during the year	**309.5**	**16.2**	**(297.7)**	**(0.6)**	**27.4**	**21.1**
Closing balance at 31 December 2013	**2 796.5**	**344.6**	**259.1**	**272.5**	**3 672.7**	**3 624.3**

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

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

161. Reserves are established by the Board as facilities for funding and/or financing specific activities under specific circumstances. During 2013, WFP had 3 active reserves: i) Operational Reserve; ii) Immediate Response Account; and the iii) PSA Equalization Account. The following table presents WFP's reserves.

	2013				
	2.15.1 Operational Reserve (OR)	**2.15.2 Immediate Response Account (IRA)**	**2.15.3 PSA Equalization Account (PSAEA)**	**Total**	**2012**
	USD millions				
Opening balance at 01 January, 2013	**92.9**	**77.4**	**102.8**	**273.1**	**237.3**
Advances to projects	-	(163.9)	-	(163.9)	(125.2)
Repayments by projects	-	86.9	-	86.9	81.6
Approved Board allocations	8.3	-	(20.0)	(11.7)	(21.6)
Repayments of unspent Board allocations	-	-	1.9	1.9	3.5
Replenishments	-	49.6	-	49.6	91.0
Surplus of ISC revenue over PSA expenses	-	-	36.6	36.6	6.5
Closing balance at 31 December 2013	**101.2**	**50.0**	**121.3**	**272.5**	**273.1**

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

2.15.1 Operational Reserve

163. Financial Regulation 10.5 calls for the maintenance of an Operational Reserve to ensure the continuity of operations in the event of a temporary shortfall of resources. In addition, the Operational Reserve is used to manage the risk associated with the Working Capital Financing Facility.

164. The Operational Reserve was initially established at a level of USD 57.0 million. In November 2010, the level was increased to USD 92.9 million as a result of the transfer of the Direct Support Cost Advance Facility (DSCAF) reserve to the Operational Reserve with the objective of creating a single advance financing reserve.

165. In 2013, the Operational Reserve was increased by USD 8.3 million enabling the Working Capital Financing Facility to be increased from USD 557.0 million to USD 607.0 million (Decision 2013/EB.2/6 vii)).

166. The balance at 31 December 2013 is USD 101.2 million.

2.15.2 Immediate Response Account

167. 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.

168. In 2013, the IRA received USD 49.6 million in replenishments. Advances made to projects totalled USD 163.9 million and repayments by projects amounted to USD 86.9 million. The IRA balance at 31 December 2013 is USD 50.0 million which is below the target level of USD 70.0 million. Outstanding advances to projects made by the IRA at 31 December 2013 totalled USD 229.6 million (USD 309.5 million in 2012).

2.15.3 Programme Support and Administrative Budget Equalization Account

169. The PSAEA is a reserve set up to record the difference between indirect support costs revenue and PSA expenses for the financial period.

170. During the Second Regular Session of the Board in November 2012, the Board approved one-time investments in the WFP Management Plan 2013–2015 for organizational changes from PSAEA (Decision 2012/EB.2/3 v)) totalling USD 20.0 million which was allocated in 2013.

171. USD 1.9 million unspent balances pertaining to allocations approved by the Board from PSAEA in the previous periods were returned back to PSAEA in 2013 pursuant to Financial Regulation 9.9.

172. The excess of indirect support costs (ISC) revenue over PSA expenses totalling USD 36.6 million was transferred to PSAEA in 2013 (USD 6.5 million surplus in 2012). The PSAEA balance at 31 December 2013 is USD 121.3 million. As approved in the WFP Management Plan (2014–2016) (Decision 2013/EB.2/6 iv)), this balance is reduced in early 2014 by USD 9.2 million supplementary PSA investments to be used for business process review, human resources talent management, corporate reporting and other organizational processes review.

NOTE 3: REVENUE

		2013	2012
		USD (millions)	
3.1	**Monetary contributions**		
	Contributions for direct costs	3 657.6	3 194.0
	ISC contributions	283.5	255.0
	Subtotal	**3 941.1**	**3 449.0**
	Less:		
	Refunds, reprogrammes and reductions in contribution revenue	(72.7)	(111.0)
	Total monetary contributions	**3 868.4**	**3 338.0**
3.2	**In-kind contributions**		
	Commodities in-kind contributions	482.7	681.1
	Service in-kind contributions	28.0	29.1
	Subtotal	**510.7**	**710.2**
	Add (deduct):		
	Increase (decrease) in contribution revenue	0.5	(3.9)
	Total in-kind contributions	**511.2**	**706.3**
3.3	**Currency exchange differences**	**19.8**	**42.6**
3.4	**Return on investments**		
	Net realized gains (losses) on investments	2.7	(5.3)
	Net unrealized gains (losses) on investments	(5.2)	4.7
	Interest earned	22.6	24.6
	Total return on investments	**20.1**	**24.0**
3.5	**Other revenue**		
	Revenue generated from provision of goods and services	94.1	78.6
	Miscellaneous revenue	22.2	21.9
	Total other revenue	**116.3**	**100.5**
	Total revenue	**4 535.8**	**4 211.4**

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

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

175. Contribution revenues recognized in 2013 representing resources which are to be used in future years (with comparative figures for 2012) are as follows:

	Applicable to Years					
	2013	**2014**	**2015**	**2016**	**2017**	**Total**
	USD millions					
Future year contribution revenue recognized in 2013	**-**	**132.5**	**90.3**	**14.8**	**5.3**	**242.9**
Future year contribution revenue recognized in 2012	**178.6**	**74.7**	**51.2**	**21.6**	**-**	**306.6**

176. During 2013, other revenue amounted to USD 116.3 million, of which USD 94.1 million was generated from the provision of goods and services (USD 78.6 million at 31 December 2012) and USD 22.2 million from miscellaneous revenue (USD 21.9 million at 31 December 2012). Revenue generated from the provision of goods and services included mainly air operations, provisions of goods and services by the United Nations Humanitarian Response Depot and the Logistics Services Special Account. Miscellaneous revenue included proceeds from sale of damaged commodities and other unserviceable properties.

NOTE 4: EXPENSES

		2013	2012
		USD (millions)	
4.1	**Cash and vouchers distributed**	**498.1**	**191.8**
4.2	**Food commodities distributed**	**2 053.4**	**2 264.6**
4.3	**Distribution and related services**	**578.6**	**602.5**
4.4	**Wages, salaries, employee benefits and other staff costs**		
	International and national staff	580.4	574.6
	Consultants	46.6	43.1
	United Nations volunteers	4.1	4.3
	Temporary staff	70.5	52.2
	Other personnel costs	16.5	17.2
	Total wages, salaries, employee benefits and other staff costs	**718.1**	**691.4**
4.5	**Supplies, consumables and other running costs**		
	Telecommunications and Information Technology	10.9	8.8
	Equipment	71.9	87.2
	Office supplies and consumables	47.6	30.5
	Utilities	8.0	10.3
	Vehicle maintenance and running costs	20.6	19.9
	Total supplies, consumables and other running costs	**159.0**	**156.7**
4.6	**Contracted and other services**		
	Air operations	153.1	154.9
	Other contracted services	154.1	148.1
	Telecommunications/IT related services	31.3	30.8
	Security and other services	38.9	34.7
	Leases	27.9	21.2
	Total contracted and other services	**405.3**	**389.7**
4.7	**Finance Costs**	**2.5**	**2.6**
4.8	**Depreciation and amortization**	**49.0**	**43.8**
4.9	**Other expenses**		
	Maintenance services	4.3	4.7
	Insurance	8.1	11.7
	Bank charges/investment manager and custodian fees	2.6	2.9
	Doubtful accounts and impairment	11.8	13.4
	Trainings and meetings	20.7	17.7
	Other	3.3	2.2
	Total other expenses	**50.8**	**52.6**
	Total expenses	**4 514.8**	**4 395.7**

177. During 2013, cash and vouchers distributed totalled USD 498.1 million (USD 191.8 million in December 2012).

178. During 2013, food commodities and non-food items distributed totalled USD 2,053.4 million, as reported in the Statement of Financial Performance (USD 2,264.6 million in December 2012).

179. 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 USD 18.7 million (USD 12.3 million in December 2012) (Note 9).

180. Given WFP's accounting policy to expense when food is handed over to the cooperating partners, at 31 December 2013, there remains food commodities of USD 86.0 million (121,795 mt) that have yet to be distributed to beneficiaries (USD 116.9 million (174,836 mt)) at 31 December 2012).

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

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

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

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

NOTE 5: STATEMENT OF CASH FLOW

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

NOTE 6: STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

186. WFP's budget and financial statements are prepared using a different basis. The Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets and Statement of Cash Flow are prepared on a full accrual basis using a classification based on the nature of expenses in the Statement of Financial Performance, whereas the Statement of Comparison of Budget and Actual Amounts is prepared on a commitment accounting basis.

187. 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.

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

189. 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.

190. 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.

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

192. 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.

193. 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 2013 is presented below:

	2013			
	Operating	**Investing**	**Financing**	**Total**
	USD millions			
Actual amount on comparable basis (Statement V)	**(4 170.1)**	**-**	**-**	**(4 170.1)**
Basis differences	195.7	(35.7)	18.7	178.7
Presentation differences	4 382.9	-	-	4 382.9
Entity differences	(177.3)	-	-	(177.3)
Actual amount in the Statement of Cash Flow (Statement IV)	**231.2**	**(35.7)**	**18.7**	**214.2**

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

195. Budget amounts have been presented on a functional classification basis in accordance with the Management Plan (2013–2015) 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

	2013					2012
	Programme Category Funds	General Fund and Special Accounts	Bilateral Operations and Trust Funds	Inter-Segment Transac-tions	Total	
	(USD millions)					
ASSETS						
Current Assets						
Cash and short-term investments	1 079.4	83.7	273.1	-	1 436.2	1 274.0
Contributions receivable	1 431.4	238.4	104.3	-	1 774.1	1 723.9
Inventories	576.0	82.8	6.1	-	664.9	709.9
Other receivables	77.8	537.9	4.9	(483.2)	137.4	147.9
	3 164.6	**942.8**	**388.4**	**(483.2)**	**4 012.6**	**3 855.7**
Non-current Assets						
Contributions receivable	91.4	65.2	9.1	-	165.7	202.4
Long-term investments	-	427.5	-	-	427.5	352.7
Property, plant and equipment	78.4	29.1	3.2	-	110.7	110.5
Intangible assets	0.5	15.3	0.1	-	15.9	24.1
	170.3	**537.1**	**12.4**	**-**	**719.8**	**689.7**
TOTAL ASSETS	**3 334.9**	**1 479.9**	**400.8**	**(483.2)**	**4 732.4**	**4 545.4**
LIABILITIES						
Current Liabilities						
Payable and accruals	509.1	425.3	47.8	(483.2)	499.0	415.2
Provisions	2.3	-	8.4	-	10.7	14.3
Employee benefits	-	23.7	-	-	23.7	19.5
Loans	27.0	5.8	-	-	32.8	5.8
	538.4	**454.8**	**56.2**	**(483.2)**	**566.2**	**454.8**
Non-current Liabilities						
Employee benefits	-	398.1	-	-	398.1	365.1
Long-term loan	-	95.4	-	-	95.4	101.2
	-	**493.5**	**-**	**-**	**493.5**	**466.3**
TOTAL LIABILITIES	**538.4**	**948.3**	**56.2**	**(483.2)**	**1 059.7**	**921.1**
NET ASSETS	**2 796.5**	**531.6**	**344.6**	**-**	**3 672.7**	**3 624.3**
FUND BALANCES AND RESERVES						
Fund balances	2 796.5	259.1	344.6	-	3 400.2	3 351.2
Reserves	-	272.5	-	-	272.5	273.1
TOTAL FUND BALANCES AND RESERVES, 31 December 2013	**2 796.5**	**531.6**	**344.6**	**-**	**3 672.7**	**3 624.3**
TOTAL FUND BALANCES AND RESERVES, 31 December 2012	**2 635.8**	**618.8**	**369.7**	**-**	**3 624.3**	

Note 7.2: Statement of Financial Performance by Segment

	2013					2012
	Programme Category Funds	General Fund and Special Accounts	Bilateral Operations and Trust Funds	Inter-Segment Transactions	Total	
	(USD millions)					
REVENUE						
Monetary contributions	3 181.5	551.7	135.2	-	3 868.4	3 338.0
In-kind contributions	497.5	13.1	0.6	-	511.2	706.3
Currency exchange differences	10.1	10.0	(0.3)	-	19.8	42.6
Return on investments	-	19.6	0.5	-	20.1	24.0
Other revenue	74.4	333.2	-	(291.3)	116.3	100.5
TOTAL REVENUE	**3 763.5**	**927.6**	**136.0**	**(291.3)**	**4 535.8**	**4 211.4**
EXPENSES						
Cash and vouchers distributed	497.0	-	1.1	-	498.1	191.8
Food commodities distributed	1 973.7	215.7	52.8	(188.8)	2 053.4	2 264.6
Distribution and related services	566.1	4.3	8.3	(0.1)	578.6	602.5
Wages, salaries, employee benefits and other staff costs	386.5	272.3	67.9	(8.6)	718.1	691.4
Supplies, consumables and other running costs	129.9	26.8	16.0	(13.7)	159.0	156.7
Contracted and other services	298.3	140.4	25.2	(58.6)	405.3	389.7
Finance costs	-	2.5	-	-	2.5	2.6
Depreciation and amortization	28.2	19.7	1.1	-	49.0	43.8
Other expenses	32.6	34.8	4.9	(21.5)	50.8	52.6
TOTAL EXPENSES	**3 912.3**	**716.5**	**177.3**	**(291.3)**	**4 514.8**	**4 395.7**
SURPLUS FOR THE YEAR, 2013	**(148.8)**	**211.1**	**(41.3)**	**-**	**21.0**	**(184.3)**
DEFICIT FOR THE YEAR, 2012	**(617.1)**	**388.0**	**44.8**	**-**	**(184.3)**	

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

	2013	2012
	USD millions	
Cash and cash equivalents	652.7	438.5
Short-term investments	783.5	835.5
Total cash and cash equivalents and short-term investments	**1 436.2**	**1 274.0**

197. 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.

198. During the year ended 31 December 2013, activities have created inter-segment balances in the amount of USD 483.2 million in the Statement of Financial Position and USD 291.3 million in the Statement of Financial Performance.

199. Of the total PP&E of USD 110.7 million at 31 December 2013 (USD 110.5 million at 31 December 2012), USD 37.9 million relates to acquisitions, net of disposals in 2013 (USD 43.0 million at 31 December 2012).

200. 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.

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

NOTE 8: COMMITMENTS AND CONTINGENCIES

Note 8.1: Commitments

8.1.1 Property Leases

	2013	2012
	USD millions	
Obligations for property leases:		
Within 1 year	28.1	29.2
Later than 1 year and not later than 5 years	47.4	58.8
Beyond 5 years	7.2	11.1
Total property leases obligations	**82.7**	**99.1**

202. At 31 December 2013, property lease obligations for the WFP Headquarters building in Rome represent 30 percent of the total obligations under the within 1 year category and 53 percent under the later than 1 year and not later than 5 years category (25 percent and 54 percent, respectively, at 31 December 2012). The lease can be renewed at WFP's option. Costs incurred in leasing the Headquarters building are reimbursed by the host government.

8.1.2 Other Commitments

203. At 31 December 2013, WFP had commitments for the acquisition of food commodities, transportation, services, non-food items, and capital commitments contracted but not delivered as follows:

	2013	2012
	USD millions	
Food commodities	205.9	185.5
Transportation – Food commodities	106.6	161.4
Services	70.2	64.6
Non-food items	55.8	46.3
Capital commitments	8.5	16.0
Total open commitments	**447.0**	**473.8**

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

Note 8.2: Legal or Contingent Liabilities and Contingent Assets

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

206. There is one material contingent asset resulting from an arbitration award in 2010.

207. In 2005, cases of fraud by two WFP employees were discovered in the WFP regional bureau in South Africa. The loss was estimated at USD 6.0 million. A criminal trial began in 2008. As part of the criminal proceedings, the employees' known assets, reportedly valued at ZAR 40 million (approximately USD 3.7 million at 31 December 2013), were placed under restraint order at the request of the Prosecuting Authority.

208. In parallel to the criminal proceedings, WFP initiated arbitration against the two employees (the defendants) under the terms of their employment contracts, seeking recovery of the misappropriated funds. This action was pursued in order to establish WFP's claim against the restrained assets irrespective of the outcome of the criminal proceedings. In January 2010, the Arbitral Tribunal issued a default award in favour of WFP on all claims. The total award amounted to approximately USD 6.0 million, plus interest and costs. Following the required waiver by the United Nations and the FAO of WFP's immunity, WFP filed an application with the High Court of South Africa to have the arbitral award made an order of court for the purpose of enforcement in South Africa.

209. In October 2011, the High Court issued a judgement in favour of WFP, ordering that the arbitral award be made an order of court. This judgement is now final.

210. In December 2012, a judgement in the criminal proceedings was rendered which found the defendants guilty on all accounts of fraud and on 30 August 2013, the court gave each of the defendants a cumulative sentence of 25 years of imprisonment. On 31 October 2013, the trial court rejected the defendants' applications for leave to appeal their conviction and sentence. The defendants indicated they would be petitioning the

South African High court for leave to appeal. The appeals process is expected to conclude 12 to 18 months after sentencing.

211. Enforcement of the arbitral award can only occur following the conclusion of criminal proceedings including the appeals process. At that juncture, WFP will intervene under the relevant sections of the Prevention of Organized Crime Act to seek recovery.

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

212. WFP Financial Regulation 12.3 provides that "The Executive Director may make such *ex-gratia* payments as the Executive Director deems necessary in the interest of WFP. The Executive Director shall report all such payments to the Board with the financial statements". In addition, Financial Regulation 12.4 provides that "The Executive Director may, after full investigation, authorize the writing off of losses of cash, commodities and other assets, provided that a statement of all amounts written off shall be submitted to the External Auditor with the financial statements."

213. The following table details the *ex-gratia* payments and losses of cash, food commodities and other assets for 2013.

	2013	2012
	USD millions	
Ex-gratia payments	0.1	0.1
Contributions receivable	0.5	0.4
Food commodity losses	18.7	12.3
Non-food item losses	-	0.4
Other assets and cash losses	-	0.6
	In mt	
Commodity losses (quantity)	25 054	16 407

214. The *ex-gratia* payments mainly pertain to Field Emergency Claims. Contributions receivable relates to the write-off of receivables from donors. The food commodity losses occurred after the related food arrived at the recipient country. The non-food item losses related mainly to warehouse losses. The other assets and cash losses related mainly to write-offs of a VAT receivable and other receivables from customers and service providers.

215. Fraud reported in 2013 comprised of vendor fraud, theft and misappropriation of food commodities, non-food items, and cash involving WFP staff and third parties valued at USD 444,349 of which USD 4,382 has been recovered to date (USD 99,533 in 2012).

NOTE 10: RELATED PARTY AND OTHER SENIOR MANAGEMENT DISCLOSURE

Note 10.1: Key Management Personnel

	Number of individuals	Number of positions	Compensation and post adjustment	Entitlements and benefits	Pension and health plans	Total remuneration	Outstanding advances against entitlements	Outstanding loans
			USD millions					
Key management personnel, 2013	7	6	1.1	0.7	0.2	2.0	-	-
Key management personnel, 2012	7	6	1.1	0.6	0.2	1.9	0.2	-

216. Key management personnel are the Executive Director, Deputy Executive Directors and Assistant Executive Directors as they have the authority and responsibility for planning, directing and controlling the activities of WFP.

217. The table above details the number of key management personnel positions and the number of key management staff who held these positions over the course of the year. The Executive Board consists of 36 Member States without personal appointment.

218. 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, post-employment benefits, other long-term employee benefits and employer pension and current health insurance contributions.

219. Key management personnel qualify for post-employment benefits and other long-term employee benefits at the same level as other employees. The actuarial assumptions applied to measure such employee benefits are disclosed in Note 2.11. Key management personnel are ordinary members of the UNJSPF.

Note 10.2: Other Senior Management

	Number of individuals	Number of positions	Compensation and post adjustment	Entitlements and benefits	Pension and health plans	Total remuneration	Outstanding advances against entitlements	Outstanding loans
					USD millions			
Other senior management, 2013	**33**	**27**	**4.9**	**2.4**	**1.1**	**8.4**	**0.8**	**-**
Other senior management, 2012	**31**	**27**	**4.4**	**2.0**	**1.0**	**7.4**	**0.7**	**-**

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

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

222. During 2013, compensation provided to close members of the family of other senior management amounted to USD 0.6 million (USD 0.3 million in 2012).

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

224. 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.

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

NOTE 11: THIRD-PARTY AGREEMENTS

Third-party agreements reconciliation	**2013**		**2012**	
	USD millions			
Opening balance at 01 January		**27.2**		**16.3**
Add-back: allowance for doubtful accounts		0.3		0.3
New third-party agreements set up in the year	84.9		67.4	
Less: receipts/additions during the year	(74.7)	10.2	(57.6)	9.8
Third-party agreements payables during the year	(76.1)		(82.2)	
Less: disbursements/deductions during the year	60.3	(15.8)	83.3	1.1
Total TPA receivables (Note 2.5)		21.9		27.5
Allowance for doubtful accounts		(0.3)		(0.3)
Closing balance at 31 December		**21.6**		**27.2**

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

227. The above table shows the movement of TPA transactions during 2013 showing a net receivable from third parties of USD 21.6 million (USD 27.2 million at 31 December 2012).

NOTE 12: EVENTS AFTER REPORTING DATE

228. WFP's reporting date is 31 December 2013. On the date of signing of these accounts by the External Auditor, there have been no material events, favourable or unfavourable, incurred between the balance sheet date and the date when the financial statements have been authorized for issue that would have impacted these statements.

ANNEX I

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

SECTION II

Shashi Kant Sharma

सत्यमेव जयते

भारत के नियंत्रक - महालेखापरीक्षक
COMPTROLLER & AUDITOR GENERAL OF INDIA

No. 271/IR16-2013
4 April 2014

Dear Executive Director,

Audit Report of the External Auditor on the Financial Statements of the World Food Programme for the year ended 31 December 2013

I have the honour to transmit the financial statements of the World Food Programme for the year ended 31 December 2013 which were submitted to me in accordance with Financial Regulation 13.3. I have audited these statements and have expressed my opinion thereon. Please find enclosed the audit report which may kindly be transmitted to the Executive Board.

I would like to express my appreciation for the cooperation and assistance that I have received in this regard.

Please accept the assurances of my highest consideration.

Yours sincerely,

Shashi Kant Sharma
Comptroller and Auditor General of India
External Auditor

Ms Ertharin Cousin
Executive Director
World Food Programme
Via Cesare Giulio Viola, 68/70
00148 Rome,
Italy

9, Deen Dayal Upadhyaya Marg, New Delhi - 110124
Tel. No. : ++91 11 23235797 • Fax : ++91 11 23233618 • e-mail : cag@cag.gov.in

INDEPENDENT AUDITOR'S REPORT

To

The Executive Board
World Food Programme

Report on the Financial Statements

We have audited the accompanying financial statements of the World Food Programme (WFP), which comprise the statement of financial position at 31 December 2013, and the statement of financial performance, statement of changes in net assets, statement of cash flow, statement of comparison of budget and actual amounts for the year ended 31 December 2013 and notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards (IPSAS). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the World Food Programme as at 31 December 2013, and its financial performance and of its cash flows for the year ended 31 December 2013 in accordance with IPSAS.

Report on Other Legal and Regulatory Requirements.

Further, in our opinion, the transactions of the World Food Programme that have come to our notice or which we have tested as part of our audit have, in all significant respects, been in accordance with the WFP Financial Regulations.

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

Shashi Kant Sharma
Comptroller and Auditor General of India
External Auditor

New Delhi, India
4 April 2014

Report of the External Auditor on the Financial Statements of the

World Food Programme For the year ended December 2013

सत्यमेव जयते

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

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

For further information please contact:

Ms. Alka R Bhardwaj
Director of External Audit
World Food Programme
Via Cesare Giulio Viola, 68/70
00148 Rome,
Italy.
Tel : 0039-06-65133071
Email: alka.bhardwaj@wfp.org

Results of Audit

1. We have audited the Financial Statements of the World Food Programme (WFP) for the year ended 31 December 2013 in accordance with the Financial Regulations and in conformity with International Standards on Auditing.

2. In our opinion, the Financial Statements present fairly in all material respects the financial position of the WFP as on 31 December 2013 and of its financial performance during the period from 1 January 2013 to 31 December 2013. WFP has followed the provisions of International Public Sector Accounting Standards in preparation and presentation of the Financial Statements.

Our Programme of Work

3. Our programme of work 2013-14 was presented to the November 2013 session of the Executive Board. The Reports summarising our Performance audit work are:

- Report on Food Procurement in WFP
- Report on United Nations Humanitarian Response Depot

4. The above Reports have been prepared for the June 2014 session of the Executive Board, as scheduled in the Work Plan.

5. In addition to these performance audit reports, our work programme included field visits to six Country Offices (COs) of WFP and three Regional Bureaux (RB).[1] We reviewed the operations in these field offices and also undertook substantive testing of transactions, sampled on the basis of a risk assessment in each of the field audits. At the end of each field audit, we issued Management Letters to the Secretariat with our findings and recommendations.

[1]*The six Country offices audited were Ethiopia, Burkina Faso, Mali, El Salvador, Honduras, and Yemen . The three Regional Bureaux at Dakar, Nairobi and Panama were also covered in our field audit.*

Current Report

6. The current Report is on the results of financial audit at WFP Headquarters (HQ). Our Report contains an assessment of (a) performance of WFP on key operational and financial parameters and (b) comments on the Financial Statements. We have made five recommendations in the Report. We also reviewed the progress made in implementation of our recommendations on financial audit of the previous three years.

Summary of Recommendations

1. **Budget**
   The information on actual funds available during the year may be suitably disclosed to improve understanding and usability of the Budget.

2. **Expenditure Recognition**
   Stronger system of procedural checks and accounting controls be instituted to a) improve timely recording, including improving accuracy of closing accrual adjustments and b) improve accuracy of data in the document date field.

3. **Inventory: Reconciliation between SAP and COMPAS**
   The process of reconciliation carried out between SAP and COMPAS system needs to be strengthened, particularly in relation to the reconciling items arising from closed projects.

4. **Property, Plant and Equipment**
   In respect of asset management, controls surrounding the a) asset class determination, b) adherence to the fixed asset capitalization threshold and c) accuracy of data entered in the depreciation date field should be strengthened.

5. **Trust Funds**
   The management of Trust Funds in the RBs and COs needs to be streamlined and standardised under corporate guidance.

I. Introduction

7. The audit of World Food Programme (WFP) was assigned to the Comptroller and Auditor General of India (CAG) for the year July 2010 to June 2016 in accordance with the Financial Regulation 14.1 and the Additional Terms of Reference governing External Audit set out in the Annex to these Regulations. The CAG of India may make observations with respect to the efficiency of the financial procedures, the accounting systems, the internal financial controls and, in general, the administration and management of WFP in accordance with Financial Regulation 14.4.

8. The main objectives of the audit were to verify that the Annual Financial Statements

- present fairly in all material respects the financial position of WFP as on 31 December 2013 and of the financial performance of WFP during the year 2013;
- are prepared in accordance with the Financial Regulations and the Accounting Policies of WFP; and
- are in conformity with International Public Sector Accounting Standards (IPSAS).

9. Our audit involved examination of the Financial Statements along with supporting documents and information available in two IT systems:

- WFP Information Network & Global Systems Version II (WINGS II), a SAP IT Application used for accounting purposes and;
- Commodity Movement Processing & Analysis System (COMPAS), an IT Application for tracking inventory.

10. Our audit involved Entry and Exit meetings with the senior management besides discussions and review meetings with officials of Resource Management (RM) Department of WFP.

11. Important findings observed during the field audits of COs and RBs of WFP were also considered during this audit. Views of the Management received at various stages of audit were considered while finalizing this report.

II. Responsibility for the Financial Statements

12. WFP is responsible for the preparation and fair presentation of the Financial Statements in accordance with their Policy Guidance Manual prepared in accordance with IPSAS. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

III. Responsibility of the External Auditor

13. Our responsibility as the external auditor is to express an opinion on these Financial Statements based on the examination of records and information provided by WFP Management. We conducted our audit in accordance with the International Standards on Auditing. The standards require that we comply with ethical requirements and plan and audit with a view to obtaining reasonable assurance whether the Financial Statements are free from material misstatement. The terms of reference of the external auditor included in the Financial Regulations of WFP have been kept in view while carrying out the audit.

IV. Audit Opinion on the 2013 Financial Statements

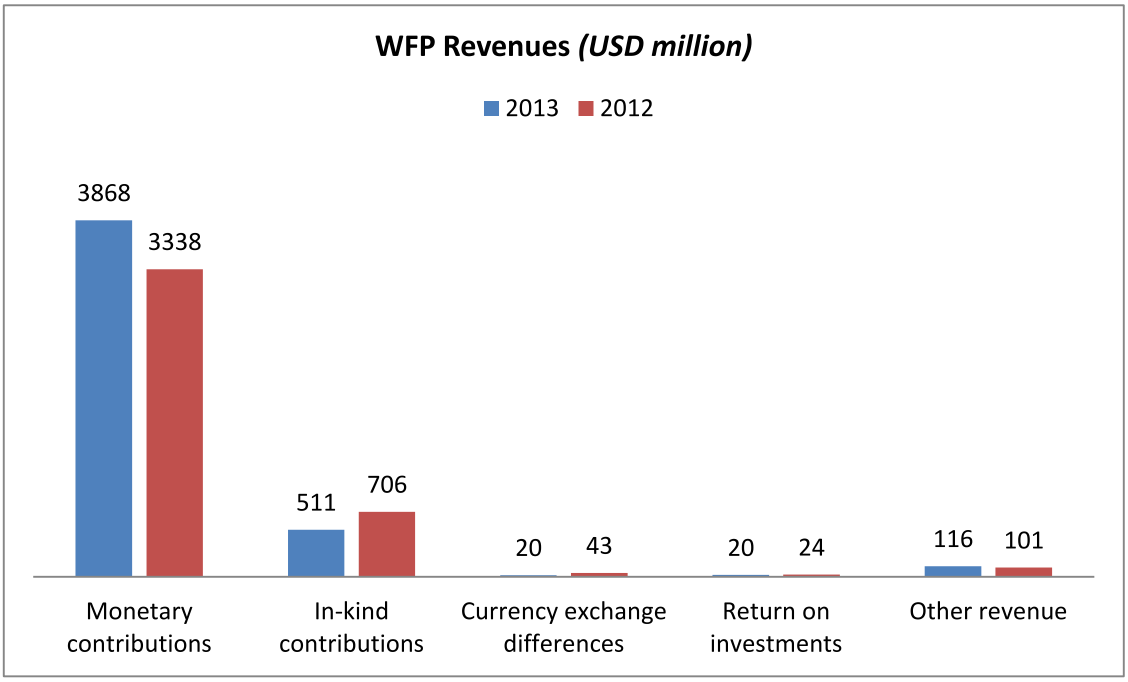
14. Audit of the Financial Statements for the financial period 2013 revealed no weakness or errors which I considered material to the accuracy, completeness and validity of the financial statements as a whole. Accordingly, I have placed an unqualified audit opinion on the WFP's financial statements for the financial period ended 31 December 2013.

V. Performance against Key Indicators

Revenue and Expense

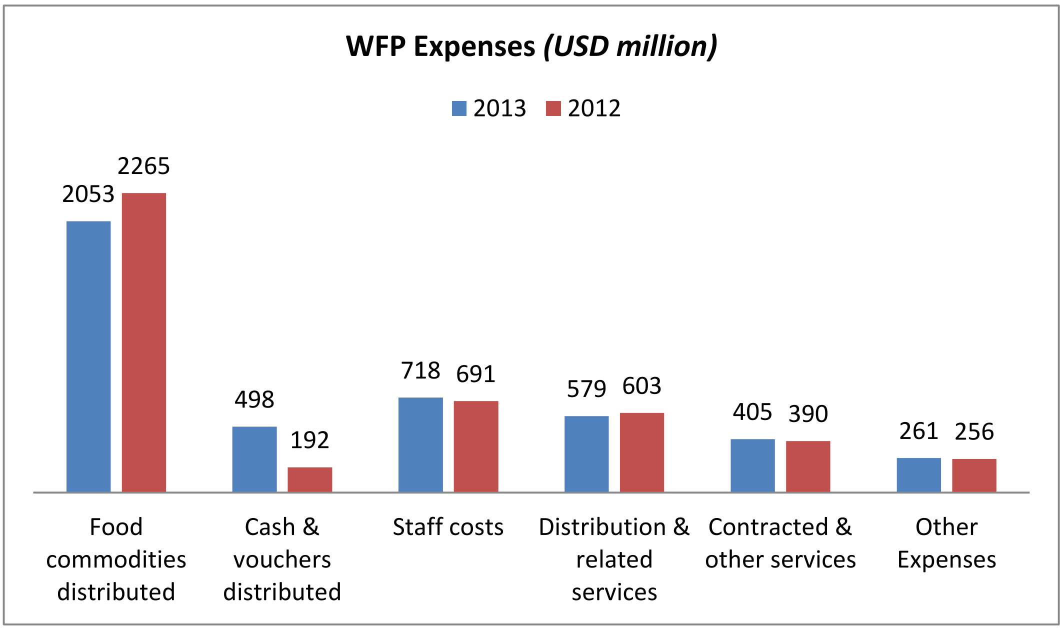
15. Most of WFP's revenue comes from donor contributions, monetary and in-kind, which together constituted 96.6 *per cent* of WFP's total revenue during 2013 (96.0 *per cent* in 2012). The rest came from currency exchange differences, return on investments, revenue generated from the provision of goods and services and other sources like proceeds from the sale of damaged commodities etc. The monetary contribution revenue constituted 88 *per cent* of the total contributions in 2013 (82.5 *per cent* in 2012).

Chart 1



16. The aid component- food commodities as well as cash and vouchers – amounting to USD 2,551.5 million accounted for 56.5 *per cent* of WFP's expenses in 2013 (55.9 *per cent* in 2012), followed by staff costs which represented 15.9 *per cent* of its expenses during the year (15.7 *per cent* in 2012). Distribution and related services accounted for 12.8 *per cent* of total expenses (13.7 *per cent* in 2012) while Contracted and other services accounted for 9 *per cent* of expenses, almost the same proportion as the last year. The rest of expenses were incurred on supplies, consumables and other running costs (3.5 *per cent*) and on other expenses like training and meeting related costs, allowances for doubtful accounts, maintenance of facilities and services, insurance, finance costs etc. The comparison of revenue and expenses during 2012 and 2013 is shown in Charts 1 and 2 respectively.

Chart 2



17. Among the expenses, an increased use of cash and vouchers distributed was noticed, with the result that while expenses on account of food commodities distributed decreased by USD 211.2 million (9.3 *per cent*) over the previous year, this decrease was more than offset by an increase of USD 306.3 million (160 *per cent*) in cash and vouchers distributed during the year. While expenses in respect of supplies, consumables and running costs (USD 159.0 million) practically remained at the same level as last year's and expenses in respect of Contracted and Other Services (USD 405.3 million) showed only marginal increase over the last year (USD 389.7 million), expenses in respect of wages, salaries, employee benefits and other staff costs increased by USD 26.7 million (3.9 *per cent*). There was no appreciable variation in respect of the other items of expenses.

18. As regards revenue, while monetary contributions increased by USD 530.4 million (15.9 *per cent*), in-kind contributions decreased by USD 195.1 million (27.6 *per cent*), which reflected the same trend of increasing use of cash and vouchers. While other revenues showed marginal improvement by USD 15.8 million over the previous year's level of USD 100.5 million, Return on Investments (ROI) showed a marginal drop of USD 3.9 million from the last year's level of USD 24 million.

Operating Surplus/Deficit

19. Under IPSAS, WFP recognizes a contribution as revenue when it is confirmed by donors in writing. Expenses are recognized when goods and services are received or when food commodities are handed over to Cooperating Partners (CP) for distribution.

20. The surplus/deficit is the difference between the revenue of WFP during the year and the expenses. There was an improvement in 2013 from the downward trend in operating deficit that was noticed in 2012. There was an operating net surplus of USD 21.0 million for 2013 against a deficit of USD 184.3 million in 2012. This change was the net result of i) increase in contribution revenue by USD 335.3 million (from USD 4,044.3 million in 2012 to USD 4,379.6 million in 2013, i.e. by 8.3 *per cent*) and ii) an overall increase in spending by USD 119.1 million (from USD 4,395.7 million in 2012 to USD 4,514.8 million in 2013, i.e. by 2.7 *per cent*). The surplus/deficit position is shown in Charts 3 and 4.

21. Analysis of the deficit across different segments is shown in table 1. There was substantial improvement in the deficit position in programme category funds in 2013, in contrast to an ever-increasing trend of deficits noticed during the earlier years. The reversal of the increasing trend of deficits was due primarily to the increase in revenue (USD 527.5 million or 16.3 *per cent*) by an amount which far exceeded the increase in expenses (USD 59.3 million or 1.5 *per cent*) over the previous year.

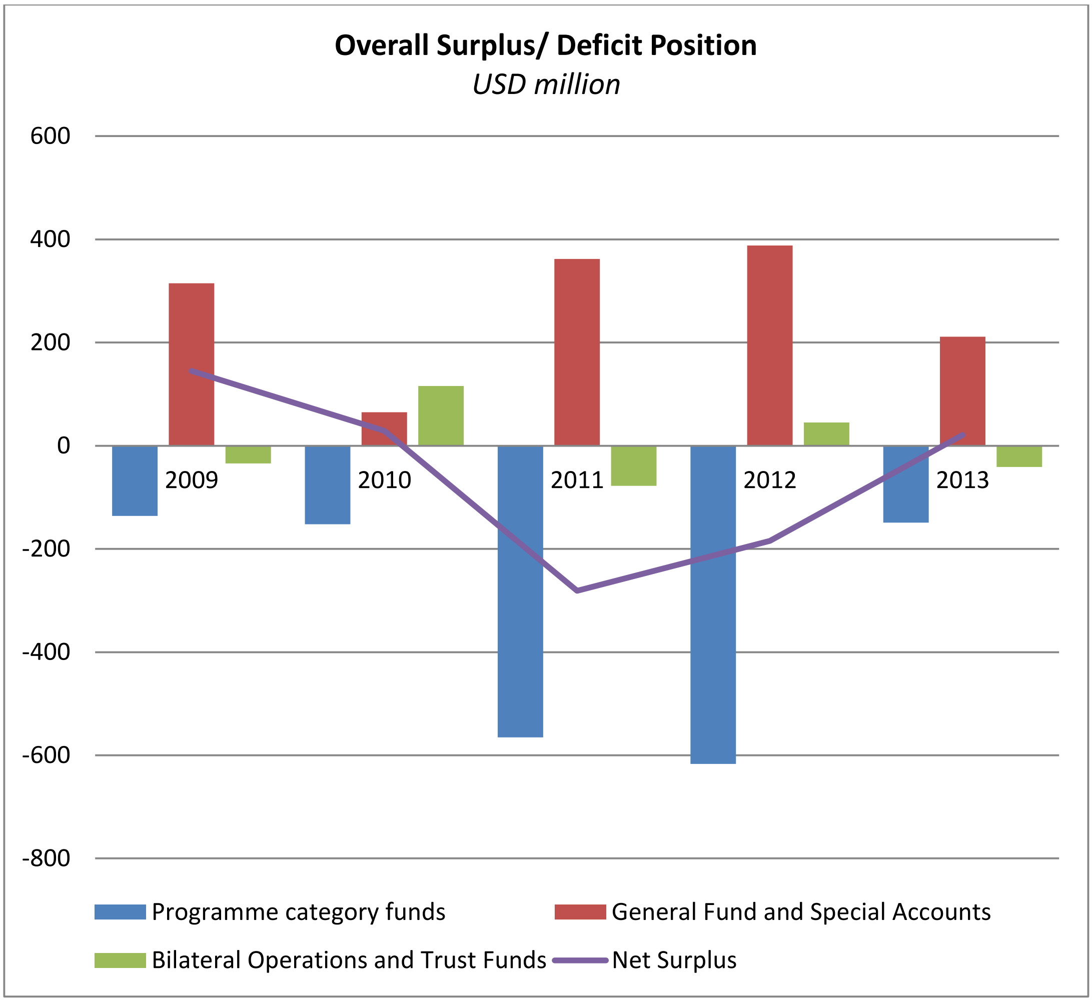
Table 1: Segment-wise Financial Performance: 2009-2013

(Figures in millions of USD)

Segments	2009	2010	2011	2012	2013
I. Programme category funds					
Revenue	3,556	3,577	2,894	3,236	3,763.5
Expenses	3,692	3,729	3,459	3,853	3,912.3
Deficit	(-)136	(-)152	(-)565	(-) 617	(-) 148.8
Surplus/Deficit in other segments					
II. General Fund and Special Accounts	315	65	362	388	211.1
III. Bilateral Operations and Trust Funds	(-)34	116	(-)77.9	44.8	(-) 41.3
Total surplus/deficit	145	29	(-)281	(-)184.3	21.0

22. The combined deficit in programme category funds and bilateral operations and trust funds was more than offset by surplus in General Fund and Special Accounts to leave a net surplus of USD 21.0 million, as against an overall deficit of USD 184.3 million in 2012. During the two years 2011 and 2012, WFP operations had registered high levels of deficits and restoration of balance between expenses and revenue in 2013 was a welcome development.

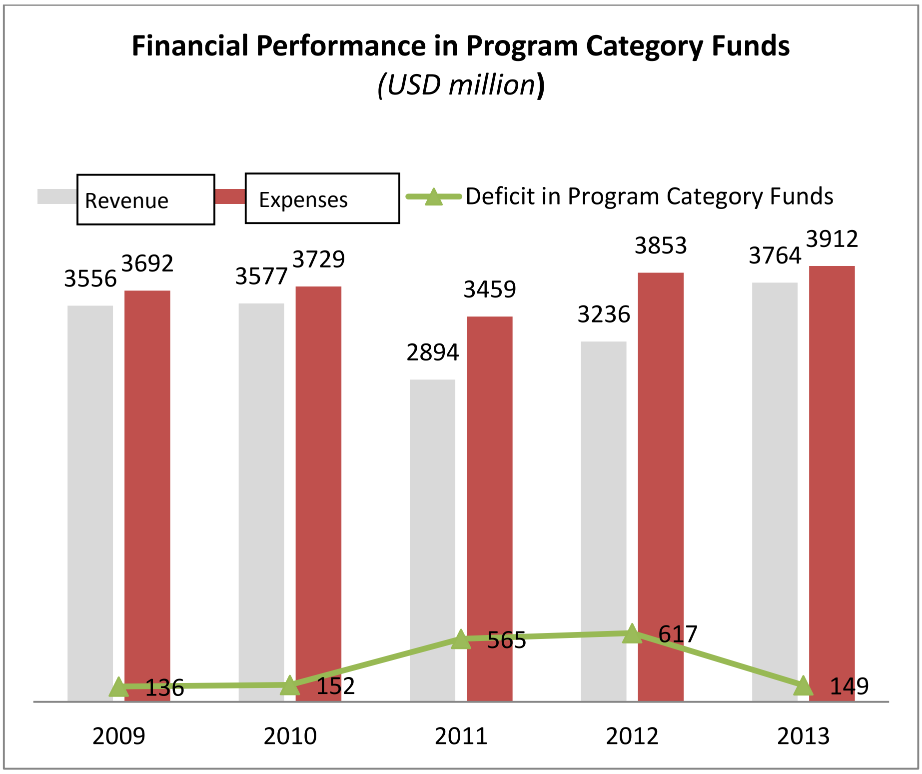
Chart 3



Segment-Wise Revenue, Expenses and Surplus/Deficit

23. Among the three segments of WFP activities, viz., Programme Category Funds, General Fund and Special Accounts and Bilateral Operations and Trust Funds, while total contributions increased in respect of Programme Category Funds, contributions in respect of the other two segments – monetary as well as in-kind – decreased from the previous year's level (18.3 *per cent* for General Fund and Special Accounts and 28 *per cent* for Bilateral Operations and Trust Funds). In-kind contributions were, in fact, reduced to only USD 0.6 million from USD 11.3 million received in 2012 in respect of Bilateral Operations and Trust Funds.

Chart 4



24. In respect of Programme Category Funds, the contributions revenue (cash and in-kind) had increased from USD 3,164.7 million in 2012 to USD 3,679.0 million in 2013. The increase in contributions came mainly as a result of the donors' response to the crisis in Syria. Total revenue in 2013 was USD 4,535.8 million which represented 7.7 *per cent* increase compared to 2012 (USD 4,211.4 million). In-kind contributions showed 27.6 *per cent* decrease from USD 706.3 million received in 2012.

25. Revenues in respect of General fund and Special accounts increased by USD 60.6 million in 2013 mainly on account of an increase of USD 227.6 million from other revenues despite a drop in contributions by USD 126.1 million. Bilateral operations and Trust funds showed a drop in total revenues by USD 52 million due to drop in contributions.

26. Expenses in respect of General fund and Special accounts increased by USD 237.5 million, mainly due to significant increase in the cost of food commodities distributed, from USD 22.2 million to USD 215.7 million. Food commodities distributed in the General Fund and Special Accounts Segment relates to activities of the five WFP Special Accounts, of which the Forward Purchase Facility Special Account (SFPC functional area) procures food commodities for further use in the WFP projects. Procured commodities are sold out to the projects.

27. The surplus also decreased from USD 388 million in 2012 to USD 211.1 million in 2013 in the General fund and Special Accounts segment. Expenses in respect of Bilateral operations and Trust funds increased modestly by USD 34.1 million in 2013 from USD 143.2 million a year ago, while the net operations in this segment registered a deficit of USD 41.3 million in place of surplus of USD 44.8 million in 2012.

Assets and Liabilities

28. The total assets increased by USD 187 million during 2013, from USD 4,545.4 million in 2012 to USD 4,732.4 million in 2013. Major increases were noticed in Cash and Cash Equivalents (by USD 214.2 million), Long Term Investments (USD 74.8 million) and the current portion of Contributions receivable (USD 50.2 million), while modest decreases occurred in Short-term investments (USD 52 million), Inventories (USD 45 million) and the non-current portion of contributions receivable (USD 36.7 million). Contributions receivable, current and non-current, constituted 41.0 *per cent* of the assets, followed by Investments, both short and long term, constituting 25.6 *per cent* of the total assets.

29. Total liabilities increased by USD 138.6 million from USD 921.1 million in 2012 to USD 1,059.7 million during the year, mainly on account of increases in Payables and Accruals (USD 83.8 million) and Employee Benefits (USD 37.2 million). Of the total employee benefit liabilities of USD 421.8 million, USD 301.7 million (71.5 *per cent*) was charged against the relevant funds and the balance of USD 120.1 million was allocated against the General Fund. 47 *per cent* of the total liabilities were on account of Payables and Accruals, while 39.8 *per cent* of the liabilities were on account of employee benefits. The net assets of WFP after adjusting for liabilities stood at USD 3,672.7 million at the end of 2013, registering an increase of only USD 48.4 million (1.3 *per cent*) over the previous year. Liabilities and Assets of WFP for 2012 and 2013 have been shown in Charts 5 and 6 respectively.

Chart 5

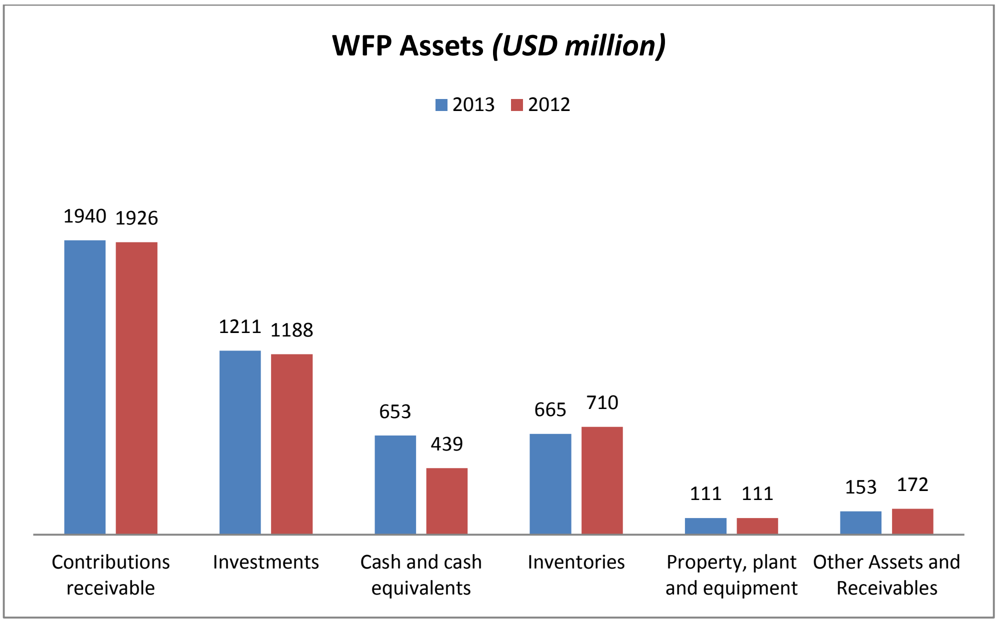
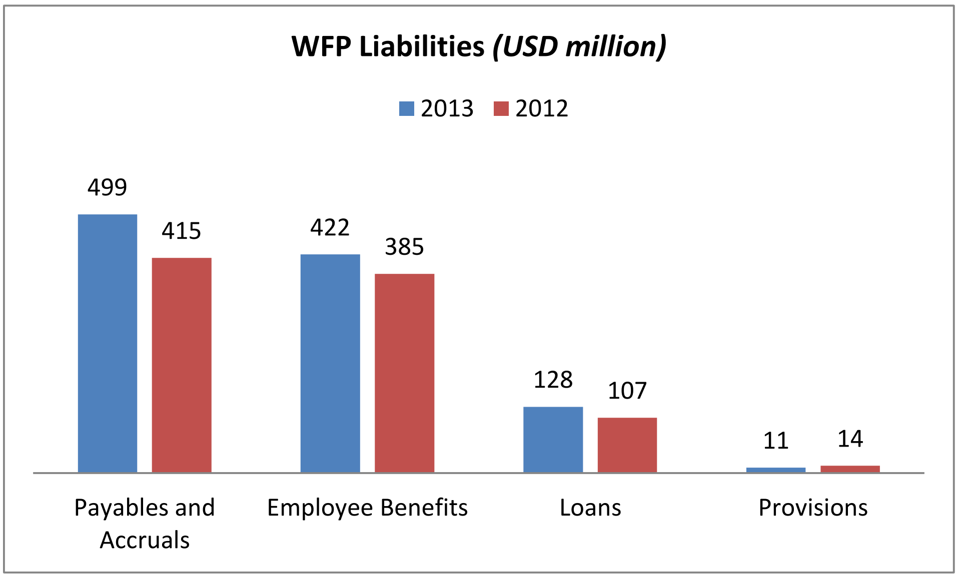


Chart 6



Investments and Returns

30. Total investments of WFP stood at USD 1,211 million at the end of 2013 (USD 1,188.2 million at the end of 2012). Investments and returns thereon are shown in Charts 7 and 8 respectively. Decrease in short term investment during the year was more or less offset by increase in long term investments. Return on Investments (ROI) decreased by USD 3.9 million, the ROI in 2013 being 1.66 *per cent* (2.02 *per cent* in 2012).

Chart 7

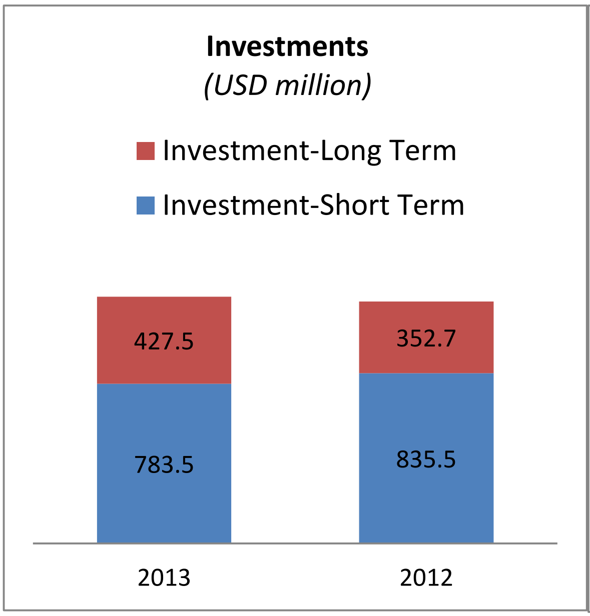
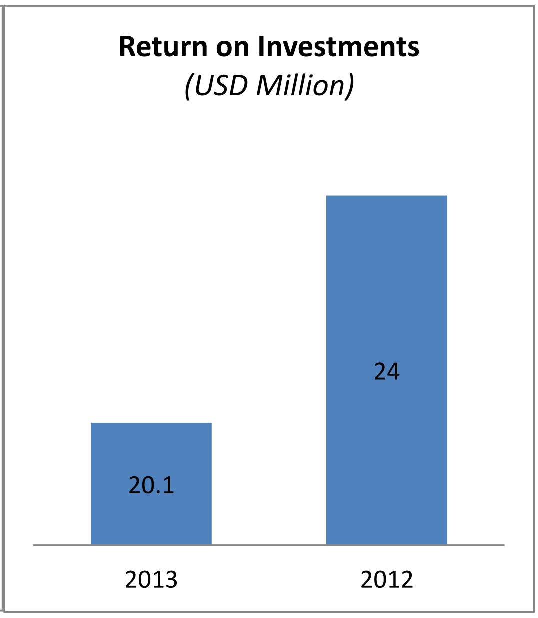


Chart 8



WFP Operations

31. WFP operations concern the distribution of aid either through food or through cash and vouchers. The distribution of aid though these tools – food distribution and cash and vouchers distribution – during the five-year period 2009-13 is shown in Chart 9, from which it is apparent that WFP has increasingly been using the cash and vouchers tool, with the result that the tonnage of food distributed has been reducing while food aid extended though cash and vouchers has been increasing over recent years. The quantity of food distributed and the number of beneficiaries have also been decreasing over the years as shown in Chart 10.

Chart 9

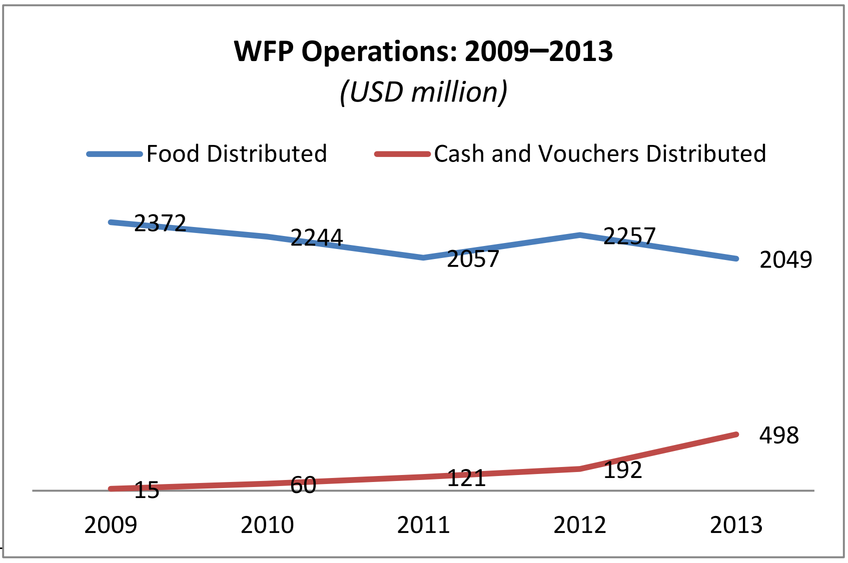
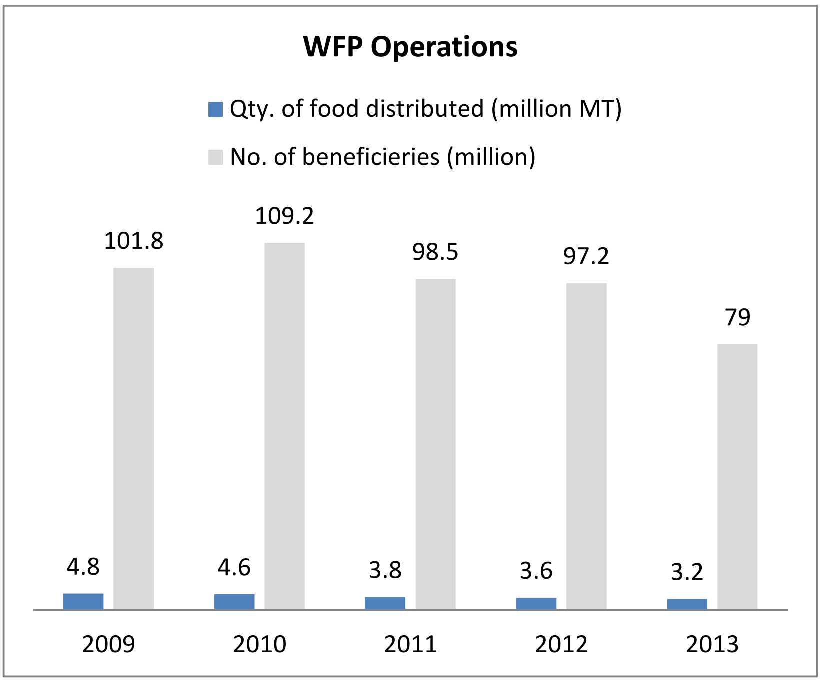


Chart 10



Fund Balances and Reserves

32. The Reserves of WFP stood at USD 272.5 million on 31 December 2013, practically at the same level as the last year (USD 273.1 million). Fund balances represent the unexpended portion of contributions that are intended to be utilised in future operational requirements of the programme. These are WFP's residual interest in WFP's assets after deducting all liabilities. Fund Balances and Reserves, as on 31 December 2013, were USD 3,672.7 million which got increased from USD 3,624.3 million in 2012.

Budget Utilisation

33. The budgetary process of WFP has an inherent uncertainty in funding by the contributors. The uncertainty in funding might have had an effect in the low and sub-optimal utilisation of budgetary allocations as shown in the Table 2 during the financial year 2013. The final budget of WFP for 2013 was USD 6,545.5 million. From Table 2 showing utilisation for different components of the budget, it is seen that except the Programme Support and Administrative (PSA) budget which covers WFP's indirect support costs which are not linked to any specific operation, the utilisation emerged to be low in respect of all other components. For example, in respect of food budget, the utilisation was only 59 *per cent*, in respect of cash and vouchers, it was 67.2 *per cent* and in respect of total direct project costs, it was only 62.2 *per cent*. The total final budget utilization *percent*age was 63.7 *per cent*. The figures of utilisation for 2013 were not materially different from those registered in the earlier years also.

34. It is also noticed that for the direct project costs, the original budget of USD 4,969.2 million would have sufficed for the actual expenditure of USD 3,909.3 million as recorded in the financial statements (Statement V), but the original budget was augmented to USD 6,276.0 million of which only 62.2 *per cent* could be utilised. Thus, on the face of it, it appears that there was no compulsion for increasing the budget as the level of expenditure indicated in the original budget could not be spent.

Table 2: Budget Utilisation 2013

Components	**Original Budget *(USD million)***	**Final Budget *(USD million)***	**Utilisation - 2013 (*per cent*)**	**Utilisation - 2012 (*per cent*)**
Food Budget	**3,543.6**	**4,286.5**	**59.0**	**58.7**
Food Transfers	2,153.7	2,644.5	59.2	58.3
External Transport	296.7	317.9	45.9	47.9
LTSH (Land Transport, Storage and Handling)	897.6	1,031.5	62.6	65.7
ODOC (Other Direct Operational Cost)	195.6	292.6	58.3	51.0
Cash and Vouchers	**464.4**	**903.4**	**67.2**	**54.9**
C&V Transfers	409.8	834.2	68.3	54.3
Other C&V	35.3	69.2	46.2	48.5
Delivery C&V	19.3	0	---	----

Components	Original Budget *(USD million)*	Final Budget *(USD million)*	Utilisation - 2013 (*per cent*)	Utilisation - 2012 (*per cent*)
Capacity Development & Augmentation	303.7	318.1	74.1	61.5
Direct Operational Costs	4,311.7	5,508.0	61.2	58.6
Direct Support Costs	657.5	768.0	69.2	67.7
Total Direct Project Costs	4,969.2	6,276.0	62.2	59.7
Regular PSA Costs	249.1	249.1	99.3	99.2
Capital and Capacity Funds	20.4	20.4	95.1	95.2
Total Indirect Costs	269.5	269.5	99.0	98.8
Total	5,238.7	6,545.5	63.7	61.3

35. The Management highlighted that budgetary utilization within the year was constrained by the amount, timing and predictability of contributions, as well as, inherent operational constraints. Executive Director's Statement also confirms that the gap between final project cost budget and utilisation reflected these constraints.

VI. Audit Findings

1. Budget

36. Statement of Comparison of Budget and Actual Amounts (Statement V) in WFP's Financial Statements gives an overview of WFP's Original Budget, Final Budget and Actual Expenditure on comparable basis during the financial year. The Original Budget is prepared on needs-based requirements and is subsequently adjusted and modified based on new projects; budget revisions to approved projects during the course of the year; and approved changes to programme support, administrative and capital costs to arrive at the Final Budget figures.

37. We note that the final budget figures, as shown in Statement V, do not reflect the actual amount of funds available with WFP for carrying out the activities identified in the Budget. Comparison between final budget figures and actual expenditure on comparable basis as depicted in Statement V does not reflect reality as this comparison is made with need based requirements, and not with funds actually available for spending.

38. The Budget utilisation calculated and reported in the Executive Director's statement which is a part of the Financial Statements package also does not reflect the actual utilisation of resources. Thus, although the financial statements of WFP are IPSAS compliant, we feel that there is scope for further disclosure regarding the availability of funds against the budgeted amounts as shown in Statement V.

39. The Management agreed that it would be of value to provide additional information in Statement V on the amount of confirmed contributions in the budget year available for WFP to implement its projects. By providing such information, the reasons for any material differences between actual amounts and the budget amounts will fall in two main areas; a) funding performance vis-à-vis budget requirements and b) operational performance vs available resources. This breakdown of material differences between actual amounts and the budget amounts will better enable users of the financial statement to identify whether resources were obtained and used in accordance with the approved budget. In March 2012, the Audit Committee had also recommended that financial reporting, especially in relation to Statement V, could be improved to involve forecasted and actual revenues and expenditure.

40. The Management further informed that it was reviewing how to improve the disclosure of the relationship between the needs-based budget and the actual revenue and expenditure. In particular, potentially adding a new column in Statement V of confirmed contributions and that it had already informed the Audit Committee in March 2013 that the earliest implementation date would be for the 2014 reporting year due to other priorities in 2013, namely the Financial Framework Review (FFR) implementation.

Recommendation 1

We recommend that the information on actual funds available during the year may be suitably disclosed to improve understanding and usability of the Budget.

41. The Management noted the observation and confirmed that this review was currently underway with expected implementation in 2014.

2. Recognition of Expenditure

Receipt of food commodities

42. Para 3.2.5 of WFP's Policy Guidance Manual for IPSAS in respect of purchases of goods and services requires that asset or expenditure should be recognized at the point of receipt of goods and services. The point of recognition is therefore, the date when goods/services are received by WFP as recorded in the field 'Doc Date' in the SAP system of WFP (WINGS II) – i.e. the date on which the document confirming the receipt of Goods or Services (usually the Goods Receipt Note) was issued. From the scrutiny of the 'Doc Date' entries in WINGS II, we observed that food commodities received during 2013 also included food commodities received in 2012. The total quantity of food commodities not pertaining to 2013 but included in the list of food commodities received during 2013 was 1425 MT worth USD 0.586 million.

43. The Management stated that 'absolute assurance cannot be placed' on the correct entry of document date in the system as it is entered by users. It further stated that significant efforts were directed to ensure that the IPSAS expense recognition policy was embedded into the daily operational processes managed by WFP COs and HQ Divisions.

Post-Closure adjustments in respect of food commodities

44. We observed that the food commodities worth USD 6.3 million were actually received in 2013 but not recognised in that year. There were also delays extending up to 372 days in recognising the amount.

45. The Management explained that in respect of food commodities, a physical stock count is conducted on a quarterly basis, followed by a detailed reconciliation of the metric tons and closure period is extended until 15 January to ensure all COs and HQ units review their outstanding commitments and recognize expenses for goods/services delivered for the period ended 31 December 2013. Additional reviews were performed post-closure for the period up to 24 January to identify and estimate potential cut-off errors. The Management further explained that during the period 25 January to 21 February 2014, two cases of cut-off errors occurred, where documentation was received only at the end of December and could not be registered on time and hence these two transactions were delayed in their recording. The Management considered these as isolated cases, which together amounted to a total quantity of 15,820 MT valued at USD 5.2 million. The remaining unrecognised amount of USD 1.1 million comprised good receipts and adjustments to goods receipts notes for a total of 625.66 MT.

46. We feel that the amount of USD 6.3 million was about 1% of total inventory of USD 664.9 million and cannot be considered as insignificant. Further, it highlights a need for having stronger checks in post-closure adjustments.

Post Closure adjustments: Non-food commodities and services

47. As in the case of food commodities, we noticed that non-food commodities and services worth USD 2.3 million were actually received in 2013 but not recognised in that year. The Management replied that in respect of non-food items, post-closure adjustment entries in the form of Journal Vouchers (JVs) were passed for a total amount of USD 15.69 million pertaining to 2013.

48. The Management further stated that out of USD 15.69 million, there were no PO references in respect of USD 4.63 million in the WINGS II system. This amount (USD 4.63 million) provided substantial coverage without any risk of material understatement of expenditure. The potential cut off error of USD 2.3 million represented a small portion (0.05%) of the 2013 expenditure of USD 4,514.8 million.

49. We feel that the post-closure adjustments of WFP needed further strengthening of checks and controls to minimise the risk of material errors creeping in through entries without PO references. Passing JVs without any PO reference in the WINGS system should be avoided as far as possible and proper accounting controls should be instituted so that entries can be matched in the WINGS system which is possible only when all appropriate references are available.

Recommendation 2

We recommend that stronger system of procedural checks and accounting controls be instituted to a) improve timely recording, including improving accuracy of closing accrual adjustments and b) improve accuracy of data in the document date field.

3. Inventory

SAP- COMPAS Reconciliation

50. WINGS II system of WFP records transactions on food commodity stocks till the stage of expensing of inventory while COMPAS system captures the information on the movement of stocks. The two systems do not run on the same platform and have different validation rules with different data quality checks. The data migration between the two systems is facilitated by a SAP-COMPAS Interface for food commodity management that was introduced in 2009 as an interim solution. The Funds Analysis and Commodity Accounting and Support Branch in the Logistics wing at WFP HQ carries out physical count reconciliation between COMPAS and WINGS on an annual basis on the tonnage of food stock. RMFG (General Accounts Branch) then manually processes a JV adjustment to align WINGS system stock and the physical count on the basis of the report generated by Logistics.

51. We observed that difference of inventory stock between SAP and COMPAS has been increasing as can be seen from the table below:

2011	2012	2013
4,898 MT	8,436 MT	13,966 MT

52. It was further observed that the difference arose mainly on account of reconciling items related to closed projects[2]. In the year 2013, 39 *per cent* of the difference of 13,966 MT was attributable to inventory items related to closed projects.

53. The Management stated that a series of measures and guidelines had been initiated to reduce such misalignments and to 'mitigate the risk of inaccurate inventory reporting in the financial statements'.

Recommendation 3

We recommend that the process of reconciliation carried out between SAP and COMPAS system needs to be strengthened, particularly in relation to the reconciling items arising from closed projects.

54. The Management informed that the interim solution of SAP-COMPAS interface would continue to have misalignments until the single system solution - Logistics Execution Support System (LESS) was fully implemented.

Post Delivery Losses

55. Post-delivery losses amounted to USD 18.7 million in 2013 (USD 12.3 million in 2012). We noted that in Financial Statements 2013, there were 698 line items amounting to USD 0.5 million in respect of post-delivery losses where document date recorded pertained to periods prior to 2013.

[2] These included items under Final Standard Project Reports issued, Financially closed projects, and closed projects.

56. The same issue was flagged during the audit of Financial Statements 2012 and it was recommended to put in place a system to ensure that the post-delivery losses be recorded in the year to which they pertained. We are happy to note that both the amount and number of such items had been brought down substantially in 2013 (from USD 1.2 million in respect of 953 items to USD 0.5 million in respect of 698 items), though there remains scope for further improvements in this respect.

57. We also noted that the total post-delivery losses recorded in the current year had increased by 52 *per cent* over that reported in 2012, demanding better controls in this area.

4. Property, Plant and Equipment

Incorrect mapping of business rules into SAP system in respect of Asset Classes

58. IPSAS 17 provides guidance in respect of capitalization, recording, maintenance, depreciation, disposal and disclosure of property, plant and equipment. Besides this, WFP has prescribed its own sets of guidelines based on IPSAS for correct accounting of fixed assets.

59. WFP provided details of property, plant and equipment in the form of Asset Master Record (AMR) derived from WINGS-II system. The AMR contained 9,381 records having distinct Asset Numbers as on 31 December 2013. Examination of AMR and various SAP Reports in WINGS-II revealed the following discrepancies/deficiencies in recording and accounting of individual assets as well deficiencies in IT controls and incorrect customization in the system.

60. Every asset in AMR is assigned to one Asset Class. The estimated useful lives of various Asset Classes were stated in the Note 1, Para 21 on Property, Plant and Equipment in the Notes to Financial Statements. Scrutiny of AMR and related reports in WINGS-II revealed that out of all the assets recorded in the system, useful lives of 32 assets were not correctly mapped in the system with respect to their respective Asset Classes, resulting in incorrect asset accounting. Though the impact on Financial Statements due to such erroneous entry was only USD 70,705 in depreciation expense, it indicated that the accounting requirements were not correctly mapped into the system.

61. The Management agreed that 32 assets were not correctly mapped but stated that the resulting error rate was less than 0.4% of total items and hence it did not consider this as a significant weakness requiring amendment to the current system and controls which in its opinion were effective. We agree that error rate was not significant but feel that there is no alternative to mapping the asset classes correctly in the business applications.

Incorrect Capitalisation of Items

62. As per the Notes on Financial Statements, Property, Plants and Equipment are capitalized if their cost is greater than or equal to the threshold limit of USD 5,000. This means that procurement of items below USD 5,000 has to be expensed. Scrutiny of AMR, however, revealed that as many as 25 assets costing less than USD 5,000 each had been capitalized instead. This indicated that the system was not customized and data validation process was not robust enough to arrest the recording of such small value items into the asset database. The Management replied that some of the items were created mistakenly and in other cases the original purchase requisition/purchase order cost was more than the threshold limit of USD 5,000 per unit, but subsequently reduced on account of exchange fluctuations or discount or credit memo etc. The argument, and the accounting practice thus implied, does not appear to be correct as the threshold limit should be mapped with respect to the actual acquisition cost.

63. The Management further stated that in respect of these items, the actual difference from capitalization threshold was only USD 347 per item (USD 4,653 instead of USD 5,000) and hence it did not materially affect the WFP capitalization policy. In respect of the one remaining item, Management agreed to effect the necessary corrections. We however noted that as per the accounting policy of WFP (Para 10.2.3 and 10.2.6 of the Policy Guidance Manual of IPSAS), the cost threshold should take into account all such fluctuations or discount etc. and only the final price paid needs to be reckoned.

Incorrect Accounting for Depreciation

64. We noticed that in respect of five Asset Master Records having depreciation expense of USD 277,954 in 2013, depreciation start date was wrongly set, resulting in incorrect calculation of depreciation and error of USD 15,603 in depreciation expenses. While admitting the over-depreciation, the Management stated that these errors happened prior to 2011 with insignificant material impact on financial statements and hence did not constitute a control weakness.

65. We agree that the impact was not material on the financial statements, but feel the Depreciation Start Date being a key field, appropriate control mechanisms should be inbuilt into the process over data entry in this field.

Recommendation 4

We recommend that in respect of asset management, controls surrounding the a) asset class determination, b) adherence to the fixed asset capitalization threshold and c) accuracy of data entered in the depreciation date field should be strengthened.

5. Trust Funds

66. Extra budgetary resources of WFP include corporate trust funds, country specific trust funds and special accounts. Trust Funds constitute important components of WFP's total activities and operations. These are sub-divisions of the WFP Fund established for special contributions, whose purpose, scope and reporting requirements, though outside WFP's regular programmes, are consistent with WFP's objectives. Corporate trust funds enable WFP to invest in research, new initiatives and enhancement of institutional capacity, funded through directed donor contributions and multilateral allocations. As of December 2013, 180 trust funds worth USD 986 million were being operated. In 2013, 42 trust funds were created.

Project Closure

67. RB Panama had taken the initiative to prepare a 'Trust Funds Guide' in co-ordination with HQ for trust fund management across the COs in the region. We found that the guidelines did not contain instructions on closure of trust funds and preparation of final report.

68. In CO Mali, the Trust Fund for the management of Joint Programme on "Improvement of nutrition and food safety of children in the most vulnerable municipalities of Mali" was established for the period from December 2009 to 30 June 2013. Final evaluation of the programme had been carried out and the Trust Fund was closed in June 2013. Though as per the conditions of the Trust Fund, any unspent balance had to be returned to the donors, it was observed that the unspent balance of USD 147,903 was lying with the CO as of February 2014. In reply, the CO stated that all efforts were made for extension of date to consume the balance but the same did not succeed and that the delay in returning the balance was due to short resource staff. It however, assured that necessary steps would be initiated to return the funds to the donor, as the project had already been closed.

69. The Management also stated (March 2014) that the need to standardize country specific trust fund procedures had been incorporated as one of the key projects of the Business Process Review process. As such, technical trust fund structures in WINGS II would be adjusted to allow for the technical closure of trust funds together with the respective RB oversight guidelines.

Utilisation of funds from another grant without donor approval

70. In RB Dakar, we examined the Trust Fund, "Strengthening of the nutrition unit of the RB to support Sahel emergency nutrition response" being implemented by RB Dakar (January 2012-June 2013) to respond to food security and nutrition crisis in Sahel region in 2011. We noted that the Trust Fund grant was approved in January 2012. As the funds from the donor were received around April, the RB approved utilization of funds from another Trust Fund grant in the beginning of the year without HQ /Donor clearance. Though the amount was reattributed from the Trust Fund grant later in the grant process, we feel that HQ/ Donor clearance needs to be obtained before utilizing funds from other grants. The RB stated that in view of the urgency of the situation, there was need for immediate capacity support within the Bureau and for the COs to ensure a timely and effective response. Hence, the RB management approved the utilisation. It agreed that donor approval would be sought for this kind of borrowing in future.

MOU before Decision Memo

71. As per the existing guidance, for opening of each Trust Fund, Decision Memo of the Executive Director/Regional Director has to precede signing of Memorandum of Understanding (MOU). The Decision Memo is an internal proposal which must be drafted and approved according to the processes established in ED2006/007 by the Management of Extra-Budgetary Resources at WFP. The Memorandum of Understanding is an external document and it represents the agreement signed with the donor. In CO Honduras, in the largest trust fund aimed to expand National school feeding programme, WFP had entered into agreements with the Government of Honduras. We noted that in this case, MOU was signed prior to Decision Memo, as per details below-

Sl No.	Date of approval of Decision Memo	Date of signing MOU
1	11 June 2012	30 April 2012
2	16 May 2010	31 March 2010

72. The CO intimated that the agreement was seen as a continuation of previous one but agreed (March 2014) to adhere to the guidelines in new upcoming Trust Funds.

Recommendation 5

We recommend that the management of Trust Funds in the RBs and COs needs to be streamlined and standardised under corporate guidance.

VII. Fraud and Presumptive Fraud

73. We noted that Fraud reported in 2013 to the Office of Inspections and Investigations (OIGI) comprised of vendor fraud, theft and misappropriation of food commodities, non-food items, and cash involving WFP staff and third parties valued at USD 444,349, of which USD 4,382 had been recovered (USD 99,533 in 2012).

VIII. Losses, Ex-Gratia Payments and Write –offs

74. We noted total losses written off amounting to USD 19.3 million in 2013. These included ex-gratia payments of USD 122,605.98 to staff, as field emergency claims; contribution receivable of USD 467,289.72 related to write-off of receivable from donors; food commodity losses of USD 18,664,819.53 involving 25,054.46 MT occurring after the related food arrived in the recipient country.

IX. Internal Controls

75. We draw satisfaction from the process of preparation of Statement on Internal Control initiated in WFP since 2011, whereby assurances from the senior management (140 senior managers in 2013) and Inspector General (based on results of internal audit and inspections and investigations) have been collated to confirm that internal controls were operating effectively in WFP during the year.

X. Progress on Implementation of Recommendations of the External Auditor

76. We reviewed the overall progress made by the Secretariat in responding to audit recommendations presented to the Executive Board on our reports on Financial Statements of 2010, 2011 and 2012.

77. We are happy to note that, as recommended, the Management has drawn an implementation plan of LESS (Annual Accounts 2010); has brought on one platform all the recommendations flowing from different streams-internal audit, external audit and evaluation reports and; and has taken the initiative to integrate resource plan into planning processes, including Management Plan and potentially project planning (Annual Accounts 2011).

XI. Acknowledgement

78. We wish to place on record the cooperation received from the Management and staff of WFP in carrying out this audit.

Shashi Kant Sharma
Comptroller and Auditor General of India
External Auditor
4 April, 2014

ACRONYMS USED IN THE DOCUMENT

AMR	Asset Master Record
ASM	After-Service Medical Coverage Plan
BMIP	Basic Medical Insurance Plan
CAG	Comptroller and Auditor General of India
CERF	Central Emergency Response Fund
CO	country office
COMET	WFP’s country office monitoring and evaluation tool
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPRF	Compensation Plan Reserve Fund
DBO	defined benefit obligation
DOC	direct operational costs
DSC	direct support costs
EMG	Executive Management Group
EPRP	Emergency Preparedness and Response Package
ERM	enterprise risk management
FAO	Food and Agriculture Organization of the United Nations
IATI	International Aid Transparency Initiative
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
IRA	Immediate Response Account
ISC	indirect support costs
JV	Journal Voucher
M&E	monitoring and evaluation
MOU	Memorandum of Understanding
MSCI	Morgan Stanley Capital International
OSRB	other separation-related benefits
PACE	Performance and Competency Enhancement Programme
PP&E	property, plant and equipment
PSA	Programme Support and Administrative (budget)
PSAEA	PSA Equalization Account
RB	Regional Bureau
STRIPS	separate trading of registered interest and principal of securities
TPA	third-party agreement
UNJSPF	United Nations Joint Staff Pension Fund
UNORE	United Nations Operational Rates of Exchange
VAT	value-added tax
WINGS	WFP Information Network and Global System