برنامج الأغذية العالمي

Programme Alimentaire Mondial

World Food Programme

Programa Mundial de Alimentos

Executive Board
Annual Session

Rome, 3–6 June 2013

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For approval

AUDITED ANNUAL ACCOUNTS, 2012

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NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for approval.

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

Assistant Executive Director and Chief Financial Officer, RM*:	Mr M. Juneja	tel.: 066513-2885
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Should you have any questions regarding availability of documentation for the Executive Board, please contact the Conference Servicing Unit (tel.: 066513 2645/2558).

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

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The Secretariat is pleased to submit the Audited 2012 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/2013/6-H/1).

DRAFT DECISION*

The Board:

i) approves the 2012 Annual Financial Statements of WFP, together with the Report of the External Auditor, pursuant to General Regulation XIV.6 (b);

ii) notes the funding from the General Fund of US$632,889 during 2012 for the write-off of cash losses and receivables; and

iii) notes post-delivery losses of commodities during 2012 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 2012. The External Auditor has given his opinion and report on the 2012 financial statements, both of which are also submitted to the Board as required by Financial Regulation 14.8 and the Annex to the Financial Regulations.

FINANCIAL AND BUDGET ANALYSIS

Summary

2. 2012 has been another challenging year for WFP, its donors and its beneficiaries. With nearly 870 million people continuing to be affected by hunger, volatile food and fuel prices, increasing social and political unrest, WFP is more needed and relevant today than ever before.

3. Throughout 2012, WFP continued its efforts to meet changing needs by providing the right tools and the right food in the right place at the right time. Despite the extremely difficult financial climate, donors continued to provide strong support with US$4,044.3 million in contributions allowing WFP to continue to provide assistance to beneficiaries and to address emergencies in the Sahel, the Horn of Africa as well as to respond to needs of those affected by the continuing turmoil in the Syrian Arab Republic.

4. WFP continued to operate within the International Public Sector Accounting Standards (IPSAS) environment, under which it recognizes its contributions revenue when confirmed in writing and expenses when goods and services are received or when food commodities are delivered. There is an inherent time-lag between the recognition of revenue and the recognition of expense. Resources available for use in 2012 therefore consisted of the fund balances at the end of 2011 and new contributions confirmed by donors during 2012. 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.

2012 Financial Performance

5. Total revenue was US$4,211.4 million, an increase of US$475.3 million or 13 percent from the revenue of US$3,736.1 million in 2011. Total revenue in 2012 comprised of:

   - monetary and in-kind contributions – US$ 4,044.3 million;
   - currency exchange differences – US$42.6 million;

- return on investments – US$24.0 million; and
- other revenue – US$100.5 million.

6. WFP expenses amounted to a total of US$4,395.7 million, an increase of US$378.9 million or 9 percent from 2011. Food commodities distributed in 2012 decreased by 0.2 million mt from 3.8 million in 2011 to 3.6 million in 2012, a 5 percent decrease. Despite the decrease in commodities distributed, the "value of commodities distributed" expense increased by 10 percent due to increases in the average price of commodities distributed.

7. In 2012, there was a deficit of revenue over expenses of US$184.3 million, compared to a deficit of US$280.7 million in 2011. This change was the net result of:

   - an increase in contribution revenue of US$447.8 from US$3,596.5 million in 2011 to US$4,044.3 million in 2012.
   - an increase in overall spending of US$378.9 million from US$4,016.8 million in 2011 to US$4,395.7 million in 2012. This increase is mainly from increases in the cost of food and distribution and increased activity in the distribution of cash and vouchers (from US$120.7 million in 2011 to US$191.8 million in 2012).
   - a net increase in other revenue items of US$27.5 million – the result of an increase in currency exchange differences of US$43.1 million, a decrease in return on investments of US$3.5 million and a decrease in other revenue of US$12.1 million.

Financial Position at the End of 2012

8. At 31 December 2012, WFP had US$3,624.3 million in total Fund Balances and Reserves, of which US$2,635.8 million relate to the Programme's projects, representing approximately six months of operational activity (seven months in 2011). The balance relates to the General Fund, Special Accounts, Reserves, Bilateral Operations and Trust Funds.

9. Total cash and short-term investments decreased by US$381.9 million or 23 percent from US$1,655.9 million in 2011 to US$1,274.0 million in 2012. The decrease is mainly due to the use of cash in operations due to the increase in operational activities, the transfer of cash into long-term investments and the purchase of capital assets.

10. WFP's cash and short-term investments included in the Programme Category Funds segment of US$847.1 million cover two to three months of operational activity, compared with three to four months in 2011.

11. The value of WFP's food commodity inventory at the end of 2012 decreased by US$64.2 million or 9 percent from the 2011 value mainly as a result of a reduction in the tonnage held – 1.1 million mt at the end of 2012, an 8 percent decrease from that at the end of 2011 of 1.2 million mt.

12. Using the projected operational requirements in the Management Plan (2013–2015), the 1.1 million mt of food commodity in inventory represents three 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 (2012–2014). 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 (2012–2014), presented to the Board in November 2011, the total 2012 Programme of Work was US$5,096.0 million. This is disclosed in *Financial Statement V* as 'Original Budget'. By the end of 2012, the Programme of Work had expanded to reflect changes in WFP's project needs due mainly to the emergency operations in the Sahel, the Horn of Africa, South Sudan, Pakistan and countries affected by the Arab Spring events. The final 2012 Programme of Work was US$6,622.5 million, an increase of US$1,526.5 million or 30 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, from funds given through advance financing facilities or through strategic purchases from the Forward Purchase Facility. Therefore, budgetary utilization within the year is constrained by the amount, timing and predictability of contributions, as well as, inherent operational constraints. In 2012, WFP's final direct cost budget was US$6,351.1 million. Utilization of the final direct project cost budget in 2012 was 60 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 55 percent
- capacity augmentation at 62 percent
- direct support costs (DSC) at 68 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 5.0 percent of the original budget, 6.1 percent of the final budget, and achieved 5.5 percent of the actual amounts, demonstrating that the investments to date are bringing cash and vouchers to scale. Cash and vouchers and related DOC at 55 percent has the lowest budget utilization of the cost components, although it is not significantly lower than overall budgetary utilization of direct project costs at 60 percent. In addition to resource constraints, the low utilization is largely attributed to the nature of start-up activities where processes, systems, and partnerships take time to

develop. Furthermore, cash-and-voucher programmes require a more secure environment and stable markets than food distribution programmes; predictions for operating environments suitable to cash and vouchers did not materialize in some countries, making food distributions the more appropriate tool for addressing food needs.

18. The budget utilization of direct support costs at 68 percent was the highest of the cost components. The high utilization is reflective of the lag time between decreasing resources and the right-sizing of the country office support structure in several large operations. Though the level of contributions has been fairly even over the past four years, there were some notable decreases in certain large country offices in 2012 which have sizable fixed and minimum costs related to staffing, facilities and security that require a structured cost-cutting plan. It is worthwhile to note that the actual direct support costs were 13.6 percent of the actual direct project costs, which is a decrease from 14.6 percent and 14.4 percent in 2011 and 2010, respectively.

19. The original 2012 PSA indirect cost budget was decreased from US$272.2 million to US$271.4 million. The final PSA budget consisted of US$249.1 million for regular PSA and US$22.3 million for the capital and capacity funds.

20. Of the final approved regular PSA budget for 2012, 99 percent was utilized by 31 December 2012.

21. Of the final approved capital and capacity budget, 96 percent had been utilized at 31 December 2012.

ENHANCING TRANSPARENCY AND ACCOUNTABILITY

22. Financial Regulation 12.1 requires WFP to ensure that its internal controls take into account prevailing best practices. In June 2009, WFP committed to review the scope for both adopting and then implementing best practice in internal control in line with guidance issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). [1]

23. This work was taken forward under the Strengthening Managerial Control and Accountability (SMCA) initiative, funding for which ended in December 2012. From the start it was clear that:

    i) WFP already had in place all the key elements of an effective system of internal control, but that they could be improved; and

    ii) Successful implementation of initiatives to improve performance and risk management was a prerequisite for better internal control.

[1] The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of five private sector accounting/audit organizations and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

24. The SMCA initiative has led to significant improvements in internal control in WFP.

- A new Internal Control Framework was issued in 2011, taking into account the views of the External and Internal Auditors and the Audit Committee. The framework consists of the five main COSO components – internal environment; risk management; control activities; information and communication; and monitoring – and contains 22 best practice principles.
- A range of guidance material was developed to help managers implement the new internal control framework. This included a completely new guide for managers on internal control; a survival guide for managers in smaller offices; a range of internal control self-assessment tools; and further guidance on the implementation of risk and performance management.
- The Resource Management and Accountability Department has provided both training and direct support on reviews of internal control and risk management for a number of country offices (focusing in particular on larger offices), regional bureaux and Headquarter divisions.
- The Secretariat continues to focus management attention on the effective follow-up of the recommendations of internal and external oversight bodies, reporting regularly to the WFP Audit Committee on the volume and nature of recommendations outstanding and the actions in train to address high risks.
- A new Financial Resource Management Manual was issued during 2012 and a WFP-specific Human Resources Manual has been drafted and will be finalized and made available to all WFP staff in 2013.
- Each and every senior manager now provides 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.
- A Statement on Internal Control (SIC) issued with the annual financial statements is now a regular feature of WFP reporting. The SIC 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 additional level of assurance to its governing body.
- The SIC is based on a thorough and organization-wide review of internal controls by managers, and an analysis and validation of the results of that review against the work and recommendations of WFP's internal and external auditors and evaluation services.

25. As the SIC makes clear, best practice on internal control continues to evolve, while the risks the organization faces also change over time. There will always be areas where there is scope for further improvements, and the SIC will make specific reference to the most significant of these areas.

26. While the SMCA initiative has ended following the successful implementation of the new SIC process, the Assistant Executive Director (AED) and Chief Financial Officer (CFO) will continue 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.

27. WFP has prepared IPSAS-based Financial Statements since 2008. By adopting and implementing IPSAS in 2008, and consolidating this implementation since then, WFP enhanced its ability to produce more relevant and useful financial information, improving the transparency and accountability with which it manages its resources. During 2012, two other United Nations agencies successfully adopted IPSAS for the 2011 financial year, which will assist in the future comparability in financial performance and financial position between IPSAS-compliant agencies.

28. WFP continues to actively support other United Nations agencies in their efforts to implement IPSAS for a first time, through involvement on the High Level Committee on Management (HLCM) Task Force on IPSAS. This support was welcomed greatly both by United Nations agencies that successfully implemented IPSAS and other agencies still in the implementation process. WFP remains committed to fully supporting other United Nations agencies in this regard during 2013 and beyond.

29. International Public Sector Accounting Standards are constantly being 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. In 2012, no new IPSAS standards were issued. In 2013, WFP will be applying the three IPSAS standards relating to financial instruments issued in 2010 but applicable from 1 January 2013 (IPSAS 28: Financial Instruments: Presentation; IPSAS 29: Financial Instruments: Recognition and Measurement; IPSAS 30: Financial Instruments: Disclosures).

30. WFP is continuing to move further to gain the maximum benefit from IPSAS on the level of transparency and accountability in all aspects of its operations. In this regard, the Executive Management Group (EMG) met regularly to discuss issues and strategies of common concern, including the 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 identified financial risks.

ENTERPRISE RISK MANAGEMENT AND FINANCIAL RISK MANAGEMENT

Enterprise Risk Management

31. WFP's enterprise risk management framework defines risks as contextual, programmatic or institutional and includes mechanisms for identifying appropriate risk responses under each category. Enterprise risk management in WFP is linked to the organization's Strategic Objectives, and is an integral principle of WFP's Internal Control Framework.

32. WFP's enterprise risk management policy was approved in 2005. It emphasizes that enterprise risk management is an essential element of effective corporate governance and an integral part of good management practice.

33. Every office is required to maintain an updated risk register. Risks identified as impacting and adversely affecting the achievement of corporate objectives are included in the Corporate Risk Register. The Corporate Risk Register functions as the global repository of main risks within the organization.

34. The EMG, which supports the Executive Director's managerial functions, is mandated with oversight of corporate risks. A dedicated unit within WFP Headquarters acts as the custodian of enterprise risk management within the organization, tasked with supporting the role of the EMG and coordinating with other offices and departments.

35. 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 for their respective offices. At the regional bureau level, responsibility is designated to appropriate focal points by the Regional Director. The country offices and regional bureaux manage their respective risk registers, escalating risks as required in line with existing managerial structures.

36. WFP's risk appetite statement was approved in 2012. WFP's risk appetite provides the basis for setting acceptable levels of risk tolerance and thresholds for our operations and business. The risk appetite statement allows WFP throughout the organization to communicate with our partners and stakeholders on the level of acceptable risk.

37. In 2012, enterprise risk management integrated mission support has been provided to complex operations (including Chad, Côte d'Ivoire Niger and South Sudan). The enterprise risk management framework has been used in the planning and development of high-profile operations, most recently in the Sahel, the Syrian Arab Republic and Yemen and has been integrated into WFP project formats.

Financial Risk Management

38. 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.

39. 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.

40. During 2012, significant cost saving resulting from the implementation of the treasury and risk management module in the WFP Information Network and Global System (WINGS) for foreign exchange transactions, deposits and money market investments were achieved. In particular, foreign exchange conversions of donor funds into local currencies to support project implementation delivered an incremental cost saving using United Nations Operational Rates of Exchange (UNORE) rates of US$2.2 million versus 2011.

41. WFP's employee benefit liabilities totalled US$384.6 million at 31 December 2012. WFP sought advice from independent actuaries in establishing the value of these liabilities. Of this amount, US$258.1 million has been funded to date through the charging of relevant funds and projects. The balance of US$126.5 million has not yet been charged to individual funds and projects. These liabilities are accounted for as liabilities of the General Fund. During the 2010 Executive Board 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 US$7.5 million in the standard staff cost over a 15-year period starting in 2011, with a view to achieving fully funded status at the end of the 15-year period.

SUSTAINABILITY

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

43. My above assertion is supported by: i) the requirements I put forward in the WFP Management Plan (2013–2015); ii) the Strategic Plan (2008–2013); iii) the net assets held at the end of the period and contributions received in 2012; iv) the projected contributions levels for the year 2013; and v) the trend in donor support that has been sustaining WFP's mandate since its inception in 1963.

ADMINISTRATIVE MATTERS

44. WFP's principal place of business 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

45. As required under Financial Regulation 13.1, I am pleased to submit the following financial statements which have been prepared under IPSAS. I certify that to the best of my knowledge and information, all transactions during the period have been properly entered in the accounting records and that these transactions together with the following financial statements and notes, details of which form part of this document, fairly present the financial position of WFP at 31 December 2012.

Statement I	-	Statement of Financial Position at 31 December 2012
Statement II	-	Statement of Financial Performance for the Year Ended 31 December 2012
Statement III	-	Statement of Changes in Net Assets for the Year Ended 31 December 2012
Statement IV	-	Statement of Cash Flow for the Year Ended 31 December 2012
Statement V	-	Statement of Comparison of Budget and Actual Amounts for the Year Ended 31 December 2012

Notes to the Financial Statements

Signed on original
Ertharin Cousin
Executive Director

Rome, 28 March 2013

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 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. During 2011 WFP adopted a new internal control framework based on the COSO 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.

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 twice-yearly 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.

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 twice-yearly 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 2012.

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 134 senior WFP managers including Deputy Executive Directors; Assistant Executive Directors; Regional Directors; and Country, Liaison Office and Rome Headquarters Division Directors. This represents 100 percent compliance with the process. Submissions were subject to at least one higher level of review. In 2012, the statements were improved to reflect specifically risk and control matters highlighted in 2011 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) **A letter of assurance 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

a) Issues raised in the 2011 statement on internal control

12. The 2011 statement on internal control drew attention to five areas where there was need for improvement. Significant progress has been made in all five areas but further work is needed in some.

i) **Full implementation of the enterprise risk management strategy.** WFP made good progress with the implementation of formal risk registers, which now exist in 88 percent of WFP country offices (65 percent in 2011), covering 97 percent of operational expenditure (89 percent in 2011). Moreover many offices without formal risk registers had plans to put this in place in the first few months of 2013. WFP targeted its support activities in 2012 to ensure that risk registers were in place and up to date for each of the 25 countries identified as having the highest risk. This objective was achieved. The Secretariat will continue to provide training and guidance to staff to promote effective risk management in WFP and expects further improvements in compliance of offices with formal risk registers by the middle of 2013.

ii) **Further implementation of emergency preparedness strengthening.** The 2011 statement reported on the progress of emergency preparedness strengthening activities – including the three-year Preparedness and Response Enhancement Programme (PREP). This included an Emergency Preparedness and Response Package (EPRP) aimed at country offices. WFP has made progress in the roll-out of the EPRP – at 31 December 2012 three quarters of country offices had implemented the EPRP (20 percent in 2011). WFP aims for all country offices, with sufficient support, to have fully implemented the EPRP by the end of 2013. Further improvements in 2012 were implemented for the corporate emergency activation protocol and Human Resources (HR) systems to enable an emergency deployment roster. With adequate resources, WFP expects its emergency preparedness strengthening activities to be fully implemented by mid-2014.

iii) **Improving operational monitoring and evaluation systems.** The 2011 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. Improvements to address this in 2012 include the combination of Performance Management and Monitoring in one division; the placement of M&E officers in each regional bureau; and the development of a corporate monitoring and self-evaluation strategy. The M&E strategy has four elements: capacity building; systems development; strengthening outcome measurement; and decentralized evaluations. WFP will, by the end of 2013, update its corporate outcome and output indicators as part of the wider review of the Strategic Results Framework. Other key deliverables include the design and implementation of a targeted outcome measurement strategy; partial roll-out of WFP's corporate monitoring and evaluation tool (COMET); initiation of capacity-building activities; and updating of M&E guidance materials. All these activities should result in higher quality corporate reporting and establish robust M&E foundations for implementing WFP's Strategic Objectives.

iv) **Ensuring staff performance is appraised in a timely manner**. The 2011 statement reported that there were significant delays in the full completion of all three stages of WFP's Performance and Competency Enhancement (PACE) process by the target dates set. There has been a significant improvement in PACE completion rates during 2012. By the stringent target date of 31 January 2013 74 percent of all WFP staff had completed the first phase of the PACE process for 2012. By 28 February 2013, some 83 percent had finalized all three phases – this represents a 33 percentage point improvement over 2011 and the highest level of PACE completion achieved since its introduction. As a best practice employer performance management remains an area of concern and at the December 2012 global management meeting, the Executive Management committed, among other priorities, to clearing up PACE backlogs with the goal of full on-time completion by the end of the 2013 cycle.

v) **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 2012, some 96 percent of directors reported that effective segregation of duties existed in their business units in line with WFP policies. In 2011 the Office of Internal Audit recommended that improvements were needed concerning segregation of duties for the management of key roles within WFP's corporate IT system (WINGS). WFP has now segregated responsibility in WINGS and has also taken action to ensure that there are no major segregation-of-duty conflicts from roles already assigned to staff in WINGS. WFP has developed an action plan for 2013 to explore further IT based tools and business processes to ensure the effective segregation of roles in WINGS.

b) Issues arising during 2012

13. Assurance statements received from WFP directors provided significant assurance on the effectiveness and strength of WFP's internal controls during 2012. No additional areas were identified where significant improvement is needed, beyond the five areas noted in the 2011 statement.

STATEMENT

14. 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.

15. 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 2012 and up to the date of approval of the financial statements.

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

Signed on original
Ertharin Cousin
Executive Director

Rome, 28 March 2013

WORLD FOOD PROGRAMME
STATEMENT I
STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2012
(US$ millions)

	Note	2012	2011
ASSETS			
Current assets			
Cash and cash equivalents	2.1	438.5	659.6
Short-term investments	2.2	835.5	996.3
Contributions receivable	2.3	1 723.9	1 625.7
Inventories	2.4	709.9	776.6
Other receivables	2.5	147.9	122.0
		3 855.7	**4 180.2**
Non-current assets			
Contributions receivable	2.3	202.4	199.4
Long-term investments	2.6	352.7	281.1
Property, plant and equipment	2.7	110.5	100.9
Intangible assets	2.8	24.1	30.8
		689.7	**612.2**
TOTAL ASSETS		**4 545.4**	**4 792.4**
LIABILITIES			
Current liabilities			
Payables and accruals	2.9	415.2	535.2
Provisions	2.10	14.3	7.8
Employee benefits	2.11	19.5	19.9
Current portion of long-term loan	2.12	5.8	5.8
		454.8	**568.7**
Non-current liabilities			
Employee benefits	2.11	365.1	329.1
Long-term loan	2.12	101.2	107.1
		466.3	**436.2**
TOTAL LIABILITIES		**921.1**	**1 004.9**
NET ASSETS		**3 624.3**	**3 787.5**
FUND BALANCES AND RESERVES			
Fund balances	7.1	3 351.2	3 550.2
Reserves	2.14	273.1	237.3
TOTAL FUND BALANCES AND RESERVES		**3 624.3**	**3 787.5**

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

Signed on original
Ertharin Cousin
Executive Director

Rome, 28 March 2013

WFP
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WORLD FOOD PROGRAMME

STATEMENT II

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2012

(US$ millions)

		2012	2011
REVENUE			
Monetary contributions	**3.1**	3 338.0	2 979.0
In-kind contributions	**3.2**	706.3	617.5
Currency exchange differences	**3.3**	42.6	(0.5)
Return on investments	**3.4**	24.0	27.5
Other revenue	**3.5**	100.5	112.6
TOTAL REVENUE		**4 211.4**	**3 736.1**
EXPENSES			
Cash and vouchers distributed	**4.1**	191.8	120.7
Food commodities distributed	**4.2**	2 264.6	2 061.2
Distribution and related services	**4.3**	602.5	532.9
Wages, salaries, employee benefits and other staff costs	**4.4**	691.4	680.4
Supplies, consumables and other running costs	**4.5**	156.7	148.1
Contracted and other services	**4.6**	389.7	387.2
Finance costs	**4.7**	2.6	2.7
Depreciation and amortization	**4.8**	43.8	37.1
Other expenses	**4.9**	52.6	46.5
TOTAL EXPENSES		**4 395.7**	**4 016.8**
DEFICIT FOR THE YEAR		**(184.3)**	**(280.7)**

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 2012
(US$ millions)

	Note	Accumulated surpluses/fund balances	Deficit	Reserves	Total net assets
31 December 2011		**3 830.9**	**(280.7)**	**237.3**	**3 787.5**
Allocation of deficit for 2011		(280.7)	280.7	-	-
Movements in fund balances and reserves in 2012					
Transfer from/to reserves	2.14	(35.8)	-	35.8	-
Net unrealized gains on long-term investments recognized directly within fund balance	2.6 / 2.14	21.1	-	-	21.1
Deficit for the year	7.2	-	(184.3)	-	(184.3)
Total movements during the year		**(14.7)**	**(184.3)**	**35.8**	**(163.2)**
TOTAL NET ASSETS at 31 December 2012		**3 535.5**	**(184.3)**	**273.1**	**3 624.3**

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 2012
(US$ millions)

	Note	2012	2011
Cash flows from operating activities:			
Deficit for the year		(184.3)	(280.7)
Adjustments to reconcile deficit to net cash flows from operating activities			
Depreciation and amortization	**2.7/2.8**	43.8	37.1
Unrealized (gain) on short-term investments	**2.2**	(3.5)	(2.4)
Unrealized (gain) loss on long-term investments	**2.6**	(2.0)	1.5
(Increase) in amortized value of long-term investments	**2.2/2.6**	(4.7)	(4.7)
Increase (decrease) in amortized value of long-term loan	**2.12**	(0.6)	0.6
Interest expense on long-term loan	**2.12**	3.2	2.1
(Increase) decrease in inventories	**2.4**	66.7	(76.4)
(Increase) decrease in contributions receivable	**2.3**	(101.2)	645.4
(Increase) decrease in other receivables	**2.5**	(26.4)	65.3
(Increase) in property, plant and equipment (donated in kind)	**2.7**	(3.8)	(0.6)
Increase (decrease) in payables and accruals	**2.9**	(120.0)	13.2
Increase (decrease) in provisions	**2.10**	6.5	(11.2)
Increase in employee benefits	**2.11**	35.6	40.4
Net cash flows from operating activities		**(290.7)**	**429.6**
Cash flows from investing activities:			
(Increase) decrease in short-term investments	**2.2**	172.6	(207.0)
(Increase) decrease in accrued interest receivable	**2.5**	0.5	(0.9)
(Increase) in long-term investments	**2.6**	(52.1)	(63.9)
(Increase) in property, plant and equipment	**2.7**	(40.8)	(44.2)
(Increase) in intangible assets	**2.8**	(2.1)	(2.4)
Net cash flows from investing activities		**78.1**	**(318.4)**
Cash flows from financing activities:			
Interest paid on long-term loan	**2.12**	(3.2)	(2.1)
Repayment of annual principal on long-term loan	**2.12**	(5.3)	-
Net cash flows from financing activities		**(8.5)**	**(2.1)**
Net increase (decrease) in cash and cash equivalents		**(221.1)**	**109.1**
Cash and cash equivalents at beginning of the year	**2.1**	**659.6**	**550.5**
Cash and cash equivalents at end of the year	**2.1**	**438.5**	**659.6**

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 2012

(US$ millions)

	Notes	Budget Amount		Actual on comparable basis	Difference: final budget and actual
		Original Budget	Final Budget		
	6				
Food and related direct operational costs (DOC)		3 624.0	4 802.2	2 819.9	1 982.3
Cash and vouchers and related DOC		254.8	405.3	222.6	182.7
Capacity augmentation		308.3	383.7	236.2	147.5
Direct support costs		636.7	759.9	514.2	245.7
Subtotal direct project costs		**4 823.8**	**6 351.1**	**3 792.9**	**2 558.2**
Regular programme support and administrative costs		249.1	249.1	246.9	2.2
Capital and capacity funds		23.1	22.3	21.3	1.0
Subtotal indirect costs		**272.2**	**271.4**	**268.2**	**3.2**
TOTAL		**5 096.0**	**6 622.5**	**4 061.1**	**2 561.4**

The accompanying notes form an integral part of these financial statements

* Prepared on a commitment basis

Notes to the Financial Statements at 31 December 2012

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 (IFRS) has been applied.

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

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

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

Cash and Cash Equivalents

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

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

Financial Instruments

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

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

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

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

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

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

Inventories

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

14. The cost of food commodities includes purchase cost or fair value[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.

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

Contributions and Contributions Receivable

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

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

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

[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.

19. 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

20. 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&Es over their estimated useful life using the straight line method, except for land which is not subject to depreciation. The estimated useful life for PP&E classes are as follows:

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

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

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

Intangible Assets

23. Intangible assets are 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.

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

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

Employee Benefits

25. 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.

26. 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.

27. 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 each participating organizations' 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

28. 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.

29. 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

30. 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.

31. 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.

32. 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.

33. 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.

34. 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.

35. 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.

36. 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

37. 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 (WFP Management Plan (2012–2014): WFP/EB.2/2011/5-A/1). The separation of commodity and non-commodity activities has resulted in a new cost categorization for operational costs. Accordingly, in 2012, the Statement of Comparison of Budget and Actual Amounts has been modified to present the new cost categories (Food, cash and vouchers, Capacity Augmentation).

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

39. 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.

40. 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.

Accounting Policy Developments

41. The following standards have been issued and will be applied in the financial statements of WFP for the year beginning 1 January 2013.

42. IPSAS 28, Financial Instruments: Presentation. This standard replaces those sections of IPSAS 15 that deal with presentation. Whilst there have been a number of changes made from the previous standard, these are not expected to have a significant impact on the presentation of the financial statements of WFP.

43. IPSAS 29, Financial Instruments: Recognition and Measurement. This standard is largely derived from International Accounting Standard (IAS) 39. In the absence of a specific IPSAS dealing with the recognition and measurement of financial instruments, and in accordance with the guidance on the development of accounting policies in such situations as dealt with in IPSAS 3, WFP has been applying the requirements of IAS 39. As a result, the introduction of IPSAS 29 is not expected to have a significant impact on the financial statements of WFP.

44. IPSAS 30, Financial Instruments: Disclosures. This standard replaces those sections of IPSAS 15 that deal with disclosure. IPSAS 30 increases both the qualitative and quantitative information that needs to be provided in relation to the use of financial instruments and the risks that are associated with those instruments. The introduction of IPSAS 30 will increase the level of disclosure that WFP is required to provide in relation to the financial instruments that it holds and its exposure to financial risks arising from the holding of such instruments. The primary impact of the new standard is increased disclosure in the level of quantitative data about financial risks.

Note 2.1: Cash and Cash Equivalents

	2012	2011
	US$ millions	
Cash and cash equivalents		
Bank and cash at Headquarters	71.2	84.0
Bank and cash at regional bureaux and country offices	35.8	32.6
Money market and deposit accounts at Headquarters	268.4	251.9
Cash and cash equivalents held by investment managers	63.1	291.1
Total cash and cash equivalents	**438.5**	**659.6**

45. 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

	2012	2011
	US$ millions	
Short-term investments		
Short-term investments	827.3	988.0
Current portion of long-term investments (Note 2.6)	8.2	8.3
Total short-term investments	**835.5**	**996.3**

46. 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 2012 and remained at very low levels in the context of a market environment of low absolute yields and continued uncertainties in financial markets.

47. Short-term investments were valued at US$827.3 million at 31 December 2012 (US$988.0 million at 31 December 2011). Of this amount, US$572.4 million pertains to bonds issued or guaranteed by governments or government agencies (US$673.5 million at 31 December 2011); US$169.7 million pertains to corporate bonds (US$205.1 million at 31 December 2011) and US$85.2 million pertains to asset-backed securities (US$109.4 million at 31 December 2011). 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.

48. At 31 December 2012, 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 US$60.5 million (US$91.9 million at 31 December 2011) with a corresponding derivative offset which gets liquidated at the same time. This brings the book value of these derivatives to zero.

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

	2011	Net additions/ (deductions)	Interest received/ amortized	Net realized gains/ (losses)	Net unrealized gains/ (losses)	2012
	US$ millions					
Short-term investments	988.0	(172.9)	15.4	(6.7)	3.5	827.3
Current portion of long-term investments	**8.3**	(0.5)	0.4	-	-	**8.2**
Total short-term Investments	**996.3**	**(173.4)**	**15.8**	**(6.7)**	**3.5**	**835.5**

50. During 2012, short-term investments decreased by US$160.8 million. This decrease consists in part of net unrealized gains of US$3.5 million presented in the reconciliation of deficit to operating cash flows in the Statement of Cash Flow and amortized interest on the current portion of the long-term investment of US$0.4 million, also presented in the reconciliation as part of the increase in amortized value of the long-term investment of US$4.7 million. The remaining balance, net of reclassification from long-term to short-term of US$7.9 million, amounting to US$172.6 million is presented in the Statement of Cash Flow under investing activities.

Note 2.3: Contributions Receivable

	2012	2011
	US$ millions	
Composition:		
Current	1 723.9	1 625.7
Non-current	202.4	199.4
Total net contributions receivable	**1 926.3**	**1 825.1**

	2012	2011
	US$ millions	
Monetary contributions receivable	1 857.0	1 721.4
In-kind contributions receivable	159.4	181.5
Total contributions receivable before allowance	**2 016.4**	**1 902.9**
Allowance for reductions in contribution revenue	(76.0)	(68.6)
Allowance for doubtful accounts	(14.1)	(9.2)
Total net contributions receivable	**1 926.3**	**1 825.1**

51. 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 2012.

52. 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.

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

	2012		2011	
	US$ millions	*%*	*US$ millions*	*%*
Year of confirmation				
2012	1 585.5	78	-	-
2011	261.5	13	1 338.9	70
2010 and earlier	178.0	9	580.3	30
Subtotal	**2 025.0**	**100**	**1 919.2**	**100**
Revaluation adjustments (non-US$ contributions receivable)	(8.6)	-	(16.3)	-
Total contributions receivable before allowance	**2 016.4**	**100**	**1 902.9**	**100**

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

55. 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.

56. The change in the allowance for reductions in contribution revenue during 2012 is as follows:

	2011	Utilization	Increase/ (Decrease)	2012
	US$ millions			
Total allowance for reductions in contribution revenue	**68.6**	**(95.1)**	**102.5**	**76.0**

57. During 2012, the reductions in contributions receivable amounted to US$95.1 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 2012, the estimated final allowance required is US$76.0 million. Accordingly, an increase of US$102.5 million was recorded as an adjustment to monetary contribution revenue for the period and is reported in the Statement of Financial Performance.

58. 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 US$5,000.

59. 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

60. The change in the allowance for doubtful accounts during 2012 is as follows:

	2011	Utilization	Increase/ (Decrease)	2012
	US$ millions			
Total allowance for doubtful accounts	**9.2**	**(0.4)**	**5.3**	**14.1**

61. During 2012, write-offs of contributions receivable amounted to US$0.4 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 2012, the estimated final allowance for doubtful accounts required is US$14.1 million. Accordingly, an increase of US$5.3 million was recorded as an expense for the period and is reported in the Statement of Financial Performance.

Note 2.4: Inventories

62. 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.

	2012	2011
	US$ millions	
Food on hand	594.0	596.3
Food in transit	103.3	165.8
Subtotal food	**697.3**	**762.1**
Less allowance for impairment - food	(2.9)	(3.5)
Total food	**694.4**	**758.6**
Non-food items	15.7	18.2
Less allowance for impairment - non-food	(0.2)	(0.2)
Total non-food items	**15.5**	**18.0**
Total inventories	**709.9**	**776.6**

Food reconciliation	**2012**	**2011**
	US$ millions	
Opening inventory	758.6	680.1
Add back: impairment allowance	3.5	3.0
Food purchased	1 148.4	1 228.8
In-kind commodities received	644.4	600.8
Transport and related costs	399.3	306.1
Total inventory available for distribution	**2 954.2**	**2 818.8**
Less: Food distributed	(2 256.9)	(2 056.7)
Allowance for impairment - food	(2.9)	(3.5)
Total food	**694.4**	**758.6**

63. For 2012, food and non-food items distributed totalled US$2,264.6 million (US$2,061.2 million in 2011), as reported in the Statement of Financial Performance. Of this amount, US$2,256.9 million relates to food commodities and US$7.7 million relates to non-food items (US$2,056.7 million and US$4.5 million, respectively, in 2011)

64. 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.

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

66. 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.

67. 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.

68. Food commodity stocks at 31 December 2012 were 1.1 million mt, valued at US$697.3 million. At 31 December 2011, stocks were 1.2 million mt valued at US$762.1 million.

69. An allowance for impairment has been made for possible loss or damage to inventories. The allowance is based on past experience and has been set at 0.4 percent of total food and 1.5 percent for non-food items. In 2011, the allowance for food was 0.4 percent and 0.9 percent for non-food items. Inventories are valued net of any impairments or obsolescence. During 2012, US$4.8 million represents the total value of food impaired and US$0.2 million represents the total value of non-food items impaired, and is reported in the Statement of Financial Position. The increase in the allowance for impairment represents an expense for the year and is reported in the Statement of Financial Performance.

70. The change in the allowances for impairment during 2012 is as follows:

	2011	Utilization	Increase/(Decrease)	2012
	US$ millions			
Allowance for impairment – food	3.5	(4.8)	4.2	2.9
Allowance for impairment – non-food	0.2	(0.2)	0.2	0.2
Total allowance	**3.7**	**(5.0)**	**4.4**	**3.1**

Note 2.5: Other Receivables

	2012	2011
	US$ millions	
Advances to vendors	55.1	51.1
Advances to staff	26.0	25.5
TPA receivables (Note 11)	27.5	16.6
Miscellaneous receivables	61.4	78.6
Total other receivables before allowance	**170.0**	**171.8**
Allowance for doubtful accounts	**(22.1)**	**(49.8)**
Total net other receivables	**147.9**	**122.0**

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

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

73. 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.

74. Other receivables are reviewed to determine whether any allowance for doubtful accounts is required. As at 31 December 2012, the estimated final allowance required is US$22.1 million, of which US$21.7 million is for VAT receivable and US$0.4 million is for other receivables (US$48.9 million for VAT receivable and US$0.9 million for other receivables in 2011).

75. The change in the allowance for doubtful accounts during 2012 is as follows:

	2011	Utilization	Increase/ (Decrease)	Revaluation Adjustment	2012
	US$ millions				
Total allowance for doubtful accounts	**49.8**	**(0.2)**	**3.2**	**(30.7)**	**22.1**

76. During 2012, a write-off of other receivables (VAT receivable) amounted to US$0.2 million. This write-off is recorded as a utilization of the allowance for other receivables and reported in the Statement of Financial Position.

77. The revaluation adjustment reflects the revaluation of the allowance for doubtful accounts denominated in non-US currency. In 2012, there was a significant devaluation of one non-US currency in particular.

78. As at 31 December 2012, the estimated final allowance required is US$22.1 million. Accordingly, an increase of US$3.2 million was recorded as an expense for the period and is reported in the Statement of Financial Performance.

Note 2.6: Long-Term Investments

	2012	2011
	US$ millions	
US Treasury STRIPS	84.6	88.3
Current portion (Note 2.2)	(8.2)	(8.3)
Long-term portion, US Treasury STRIPS	**76.4**	**80.0**
Bonds	139.0	96.5
Equities	137.3	104.6
Total bonds and equities	**276.3**	**201.1**
Total long-term investments	**352.7**	**281.1**

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

80. Changes in market value of the investment in STRIPS are not recognized. At 31 December 2012, the market value of this investment was US$111.1 million (US$115.5 million at 31 December 2011).

81. The increase in the value of the long-term bond and equity investments of US$75.2 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 US$46.3 million is invested in line with the WFP asset allocation policy of investing 50 percent in global bonds and 50 percent in global equities of funds set aside to meet employee benefit liabilities.

82. Investments in equities are made through five 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.

83. The movement of long-term investments accounts during 2012 is as follows:

	2011	**Additions/ (deductions)**	**Interest received/ amortized**	**Net realized gains/ (losses)**	**Net unrealized gains/ (losses)**	**2012**
			US$ millions			
Bonds and equities	**201.1**	46.3	4.0	1.8	23.1	**276.3**
Investment in STRIPS	**80.0**	(7.9)	4.3	-	-	**76.4**
Total long-term investment	**281.1**	**38.4**	**8.3**	**1.8**	**23.1**	**352.7**

84. During 2012, long-term investments increased by US$71.6 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 US$25.3 million) which are treated as held for trading financial assets. Accordingly, under IFRS, the net unrealized gains of US$21.1 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 gains of US$2.0 million related to foreign exchange forward derivatives are presented in the Statement of Financial Performance. The amortized interest on the investment in STRIPS of US$4.3 million is presented in the reconciliation of deficit to operating cash flows in the Statement of Cash Flow as part of the increase in amortized value of the long-term investment of US$4.7 million. The remaining balance, net of a reclassification from long-term to short-term of US$7.9 million, amounting to US$52.1 million is presented in the Statement of Cash Flow under investing activities.

Note 2.7: Property, Plant and Equipment

	2011	Additions	Disposals/ Transfers	Accumulated depreciation	2012
			US$ millions		
Property, plant and equipment					
Buildings					
Permanent	11.2	0.7	-	(1.3)	10.6
Temporary	31.8	15.8	(1.0)	(17.0)	29.6
Computer equipment	6.9	1.1	(0.2)	(5.3)	2.5
Office equipment	14.5	2.6	(0.3)	(12.3)	4.5
Office fixtures and fittings	0.2	0.1	-	(0.2)	0.1
Security and safety equipment	2.4	0.6	(0.1)	(2.0)	0.9
Telecommunication equipment	5.3	1.0	(1.8)	(3.0)	1.5
Motor vehicles	70.9	20.9	(1.4)	(40.7)	49.7
Workshop equipment	1.9	1.4	-	(1.4)	1.9
Leasehold improvements	12.1	3.1	(0.1)	(7.1)	8.0
Fixed assets under construction	0.6	0.6	-	-	1.2
Total property, plant and equipment	**157.8**	**47.9**	**(4.9)**	**(90.3)**	**110.5**

85. During 2012, major additions to PP&E were for temporary buildings as well as motor vehicles (in 2011, major additions to PP&E were for permanent buildings, temporary buildings, as well as motor vehicles). Net acquisitions (after disposals) for the period ended 31 December 2012 totalled US$43.0 million (US$44.2 million at 31 December 2011) of which US$3.8 million relate to donated in-kind property, plant and equipment. Additions or disposals in PP&E are reported in the Statement of Financial Position and the depreciation expense for the year of US$34.8 million is reported in the Statement of Financial Performance.

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

87. Assets are reviewed annually to determine if there is any impairment in their value. The review that was undertaken in 2012 did not result in any of the PP&E being impaired in value nor has the review of asset disposals indicated that PP&E were disposed due to these assets being unusable or unserviceable.

Note 2.8: Intangible Assets

	2011	Additions	Disposals/ Transfers	Accumulated Amortization	2012
			US$ millions		
Internally generated software	**48.0**	**0.2**	**-**	**(27.8)**	**20.4**
Externally acquired software	**0.5**	**2.0**	**-**	**(0.9)**	**1.6**
Licenses and rights	**0.4**	**0.1**	**-**	**(0.3)**	**0.2**
Intangible assets under construction	**1.9**	**0.7**	**(0.7)**	**-**	**1.9**
Total intangible assets	**50.8**	**3.0**	**(0.7)**	**(29.0)**	**24.1**

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

89. The internally generated software mainly relates to the WINGS project – the customization and implementation of an integrated enterprise resource planning application. At 31 December 2012, total capitalized costs of the WINGS project amounted to US$19.8 million (US$27.7 million in 2011), net of accumulated amortization of US$27.7 million (US$19.8 million in 2011). 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 US$9.0 million is reported in the Statement of Financial Performance.

Note 2.9: Payables and Accruals

	2012	2011
	US$ millions	
Vendor payables	112.0	89.5
Donor payables	43.6	61.0
Miscellaneous	7.7	26.7
Subtotal payables	**163.3**	**177.2**
Accruals	251.9	358.0
Total payables and accruals	**415.2**	**535.2**

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

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

92. 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.

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

Note 2.10: Provisions

	2012	2011
	US$ millions	
Provision for refunds to donors	13.7	7.2
Miscellaneous provisions	0.6	0.6
Total provisions	**14.3**	**7.8**

94. 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.

95. The change in the provision for refunds to donors during 2012 is as follows:

	2011	Utilization	Increase/ (Decrease)	2012
	US$ millions			
Provision for refunds to donors	**7.2**	**(3.6)**	**10.1**	**13.7**

96. During 2012, refunds made to donors totalled US$3.6 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 2012, the estimated final provision required is US$13.7 million. Accordingly, an increase of US$10.1 million was recorded as an adjustment to monetary contribution revenue for the period and is reported in the Statement of Financial Performance.

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

Note 2.11: Employee Benefits

	2012	2011
	US$ millions	
Composition:		
Current	19.5	19.9
Non-current	365.1	329.1
Total employee benefits liabilities	**384.6**	**349.0**

	2012			2011
	Actuarial valuation	WFP valuation	Total	
	US$ millions			
Short-term employee benefits	-	19.5	19.5	19.9
Post-employment benefits	286.4	2.1	288.5	262.9
Other long-term employee benefits	69.5	7.1	76.6	66.2
Total employee benefit liabilities	**355.9**	**28.7**	**384.6**	**349.0**

2.11.1 Valuation of Employee Benefit Liabilities

98. Employee benefit liabilities are determined by professional actuaries or calculated by WFP based on personnel data and past payment experience. At 31 December 2012, total employee benefits liabilities amounted to US$384.6 million, of which US$355.9 million were calculated by the actuaries and US$28.7 million were calculated by WFP (US$320.4 million and US$28.6 million, respectively, at 31 December 2011).

99. Of the total employee benefits liabilities of US$384.6 million, the amount of US$258.1 million has been charged against relevant funds and projects (US$217.7 million at 31 December 2011). The balance of liabilities in the amount of US$126.5 million has been allocated against the General Fund. 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 US$7.5 million in the standard staff cost over a 15-year period starting in 2011 with a view to achieving fully funded status at the end of the 15-year period.

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

100. 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.

101. Post-employment benefits and other separation-related benefits liabilities which are calculated by actuaries totalled US$355.9 million at 31 December 2012 net of actuarial gains and losses (US$320.4 million in 2011). In the 2012 valuation, WFP's gross defined benefit obligations totalled US$471.6 million (US$353.9 million in 2011), of which US$402.1 million (US$294.3 million in 2011) represents post-employment benefits and US$69.5 million (US$59.6 million in 2011) represents other separation-related benefits.

102. 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.

103. In the 2012 valuation of employee benefits liabilities, the actuaries have determined actuarial losses under post-employment benefits and other separation-related benefits in the amounts of US$115.7 million and US$9.1 million, respectively, (US$33.5 million for post-employment benefits and US$10.1 million for other separation-related benefits in 2011).

104. Of the total actuarial losses of US$115.7 million, US$107.5 million relates to the After-Service Medical Plan (ASM), US$4.9 million relates to the Separation Payments Scheme and US$3.3 million pertains to the Compensation Plan Reserve Fund (Note 2.11.5.4). Actuarial losses for the After-Service Medical Plan 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. For the After-Service Medical Plan, the average remaining service of active staff is 13.59 years.

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

106. The movements of employee benefits liabilities as determined by the actuaries during 2012 are as follows:

	2011	**Utilization**	**Increase/ (Decrease)**	**2012**
		US$ millions		
After-Service Medical Plan	230.5	(2.8)	29.7	257.4
Separation Payments Scheme	24.3	(4.3)	3.1	23.1
Compensation Plan Reserve Fund	6.0	(0.7)	0.6	5.9
Other separation-related benefits	59.6	(5.0)	14.9	69.5
Total employee benefits liabilities	**320.4**	**(12.8)**	**48.3**	**355.9**

2.11.3 Short-Term Employee Benefits

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

2.11.4 Post-Employment Benefits

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

109. 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).

110. 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.

111. 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.

112. The liabilities include the service costs for 2012 less benefit payments made.

2.11.5 Other Long-Term Employee Benefits

113. 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

114. 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 2012 valuation, the assumptions and methods used are described in the following table which also indicates the assumptions and methods used for the 2011 valuation.

115. The assumptions and methods adopted for the 2012 actuarial valuation resulted in an increase in the post-employment and other separation-related benefits net liabilities in the total amount of US$35.5 million (US$40.7 million in 2011).

116. 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.

117. 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 2012. Assumptions relating only to certain employee benefits are specifically identified:

Discount rate	3.10 percent for accounting and funding (4.30 percent in 2011 valuation)
Medical cost increases (ASM* only)	5.0 percent per year during 2013 through 2024, 4.5 percent per year during 2025 through 2044, and 4 percent per year in 2045 and beyond (4.00 percent for 2012 to 2014 and 5.00 percent in each year thereafter in 2011 valuation)
Expected return on assets	Funding – 6.60 percent; Accounting – Not applicable as plans are treated as unfunded
Annual salary scale	3.00 percent plus Merit Component
Annual cost of living increases	2.50 percent (minimum death grant benefit for the Staff Compensation Plan remains unchanged)
Future exchange rates	United Nations rates at 31 December 2012
Medical claims cost (ASM only)	Average claims in 2013 are US$5,509 for each adult participant (US$5,243 in 2012 in 2011 valuation).
Annual administrative costs (ASM only)	$138.36 for the dollar plan and euro 131.28 for the euro plan
Insurer's retention (ASM only)	2.30 percent of the claims in 2012 (same as in 2011 valuation)
Future participant contributions (ASM only)	Accounting and Funding – 29.00 percent (same as in 2011 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 2004 to 2008
Retirement rates	Based on a study of WFP's withdrawal rates from 2004 to 2008
Participation (ASM only)	95 percent of future retirees will elect coverage in the BMIP (same as in 2011 valuation). Based on a study of recent 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 (0.2 percent in 2011 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 2011 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 2011 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)	80 percent of those who retire or withdraw from service (same as in 2011 valuation)
Repatriation grant (OSRB only)	Repatriation benefits were assumed to be payable to 80.00 percent of those staff members who retire or withdraw from service (same in 2011 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 2011 valuation)
Repatriation travel and removal costs (OSRB only)	US$11,523 for unmarried staff and US$16,369 for married staff in 2013, growing with inflation thereafter. (In 2011 valuation was US$11,242 for unmarried staff and US$15,970 for married staff).
Accrued leave payable at separation (OSRB only)	Average accrued leave benefit was assumed to be 26 days' pay (same as in 2011 valuation)
Actuarial method	After-Service Medical Plan, Separation Payments Scheme, and Staff Compensation Plan: Projected unit credit with an attribution period from the entry on duty date to the date of full eligibility for benefits (one-year term cost for Staff Compensation Plan). Other Separation-Related Payments Schemes: For accrued leave, projected unit credit with all liability attributed to past service. For other benefits, included in the valuation, projected unit credit with an attribution period from the entry on duty date to separation.
Value of assets	Funding - Market value Accounting - Plans treated as unfunded

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

118. 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 schemes	Separation payments scheme	Staff compensation plan	Total
			US$ millions		
Net defined benefit obligation at 31 December 2011	**263.8**	**59.6**	**24.7**	**5.8**	**353.9**
Service cost for 2012	18.0	3.3	2.0	0.3	23.6
Interest cost for 2012	11.3	2.5	1.0	0.2	15.0
Actual gross benefit payments for 2012	(3.9)	(5.0)	(4.3)	(0.7)	(13.9)
Participant contributions	1.1	-	-	-	1.1
Exchange rate movements	4.9	0.1	0.6	-	5.6
Other actuarial loss	69.7	9.0	4.0	3.6	86.3
Defined benefit obligation at 31 December 2012	**364.9**	**69.5**	**28.0**	**9.2**	**471.6**

2.11.5.3 Annual Expense for Calendar Year 2012

	After-Service Medical Plan	Other separation-related payment schemes	Separation payments scheme	Staff compensation plan	Total
			US$ millions		
Service cost	18.0	3.3	2.0	0.2	23.6
Interest cost	11.3	2.5	1.0	0.3	15.0
Loss amortization	0.5	9.1	-	-	9.6
Total expense recognized in 2012	**29.8**	**14.8**	**3.0**	**0.5**	**48.2**

2.11.5.4 Reconciliation of Present Value of Defined Benefit Obligation

	After-Service Medical Plan	Other separation-related payments schemes	Separation payments scheme	Staff compensation plan	Total
			US$ millions		
Defined benefit obligation					
Inactive	105.6	-	-	7.2	112.8
Active	259.3	69.5	28.0	2.0	358.8
Total	**364.9**	**69.5**	**28.0**	**9.2**	**471.6**
(Surplus)/deficit	364.9	69.5	28.0	9.2	471.6
Unrecognized loss	(107.5)	-	(4.9)	(3.3)	(115.7)
Net balance sheet liability	**257.4**	**69.5**	**23.1**	**5.9**	**355.9**

2.11.5.5 After-Service Medical Plan – Sensitivity Analysis

119. 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.

120. In the 2012 valuation, it was assumed that medical costs will increase at 5 percent from 2013 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 US$1.326 per euro, which was the United Nations operational rate of exchange at 31 December 2012. Further assumed was a discount rate of 3.1 percent, the spot discount rate at 31 December 2012.

121. 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.

122. Using the current assumptions, the defined benefit obligation is US$364.9 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 US$469.4 million. An exchange rate of US$1.426 per euro would, other assumptions being equal, result in a defined benefit obligation of US$383.2 million. A discount rate of 2.1 percent would, other assumptions being equal, result in a defined benefit obligation of US$474.6 million.

123. Using the current assumptions, the 2013 service cost is US$24.7 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 US$34.4 million. An exchange rate of US$1.426 per euro would, other assumptions being equal, result in a service cost equal to US$26.0 million. A discount rate of 2.1 percent would, other assumptions being equal, result in a service cost of US$34.5 million.

2.11.5.6 Expected Costs during 2013

124. The expected contribution of WFP in 2013 to the defined benefits plans is US$10.7 million which is determined based on expected benefit payments for that year.

2.11.6 United Nations Joint Staff Pension Fund

125. 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.

126. 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.

127. The latest actuarial valuation was performed as of 31 December 2011. The valuation 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.

128. 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.

129. 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. The pensionable remuneration will be reviewed at the time of the next actuarial valuation as of 31 December 2013.

130. In July 2012, the Pension Board noted in its report of the fifty-ninth session of the Board 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, the General Assembly authorized the United Nations Joint Staff Pension Fund Board to increase the normal retirement age to 65 for new participants of the Fund, with effect not later than from 1 January 2014, unless the General Assembly has not decided on a corresponding increase in the mandatory age of separation.

131. During 2012, contributions paid to the UNJSPF amounted to US$61.9 million (US$60.4 million in 2011). Expected contributions due in 2013 are US$63.3 million.

132. 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

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

Note 2.12: Long-Term Loan

	2012	2011
	US$ millions	
Current portion of long-term loan	5.8	5.8
Long-term loan	101.2	107.1
Long-term loan	**107.0**	**112.9**

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

135. 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. The current portion of the long-term loan includes an annual principal amount of US$5.3 million and an amortization cost of US$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 US$106.0 million.

136. The loan is reflected at amortized cost using the effective interest rate of 2.44 percent. At 31 December 2012, total amortized cost was US$107.0 million (US$112.9 million at 31 December 2011). Interest paid for the year is US$3.2 million.

137. Interest expense during 2012 totalled US$2.6 million (US$2.7 million at 31 December 2011) as reflected in the Statement of Financial Performance, of which US$3.2 million represents the annual interest paid in May 2012 and US$(0.6) million represents the amortized cost resulting from the recognition of the long-term loan to its net present value.

138. In the Statement of Cash Flow, interest expense paid during the year in the amount of US$3.2 million is presented under financing activities while amortized interest of US$(0.6) million is presented under operating activities.

Note 2.13: Financial Instruments

2.13.1 Nature of Financial Instruments

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

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

	2012	2011
	US$ millions	
Financial assets at fair value through surplus or deficit	829.3	986.5
Held-to-maturity investments	84.6	88.3
Loans and receivables	2 360.2	2 433.5
Available-for-sale financial assets	274.3	202.6
Subtotal	**3 548.4**	**3 710.9**
Non-financial assets	997.0	1 081.5
Total	**4 545.4**	**4 792.4**

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

2.13.2 Credit Risk

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

143. 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.

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

2.13.3 Interest Rate Risk

145. WFP is exposed to interest rate risk through short-term investments and long-term bonds. At 31 December 2012, the effective interest rates of these two investment portfolios were 0.57 percent and 1.83 percent, respectively, (0.76 percent and 3.23 percent, respectively, in 2011). A measurement of interest rate sensitivity indicates that the effective duration is 0.97 years for the short-term investments and 5.49 years for

the long-term bonds (0.54 years and 5.30 years, respectively, in December 2011). Fixed income derivatives are used by external investment managers to manage interest rate risk under strict investment guidelines.

2.13.4 Foreign Currency Risk

146. At 31 December 2012, 84 percent of cash, cash equivalent and investments are denominated in the US dollar base currency, 11 percent were denominated in euros and the remaining 5 percent in other currencies. At 31 December 2011, 88 percent were in the US dollar base currency, 10 percent in euros and the remaining 2 percent in other currencies. 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, 14 percent is denominated in euros, 7 percent in pounds sterling and 20 percent is denominated in other currencies. At December 2011, 69 percent were in the US dollar base currency, 11 percent in euros, 8 percent in pounds sterling and 12 percent in other currencies.

147. 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 2012, 12 contracts were settled at a realized loss of US$9.1 million (12 contracts were settled during the year ended 31 December 2011 at a realized loss of US$1.9 million). In addition, a new hedging strategy was implemented for 2013, 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 2012, the 12 contracts had a notional value of US$92.4 million and an unrealized gain of US$2.8 million using the forward rate at 31 December 2012. Both the realized and unrealized losses are included in currency exchange differences presented in the Statement of Financial Performance.

2.13.5 Price Risk

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

Note 2.14: Fund Balances and Reserves

	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	2011
	US$ millions					
Opening balance at 01 January, 2012	**2 836.0**	**324.9**	**389.3**	**237.3**	**3 787.5**	**4 094.1**
Surplus (deficit) for the year	**(617.1)**	**44.8**	**388.0**	**-**	**(184.3)**	**(280.7)**
Subtotal	**2 218.9**	**369.7**	**777.3**	**237.3**	**3 603.2**	**3 813.4**
Movements during the year:						
Advances to projects	125.2	-	-	(125.2)	-	-
Repayments by projects	(81.6)	-	-	81.6	-	-
Approved Board allocations	-	-	21.6	(21.6)	-	-
Repayments of unspent Board allocations	-	-	(3.5)	3.5	-	-
Replenishments	-	-	(91.0)	91.0	-	-
Surplus of ISC revenue over PSA expenses	-	-	(6.5)	6.5	-	-
Transfers between funds	373.3	-	(373.3)	-	-	-
Net unrealized gains (losses) on long-term investments	-	-	21.1	-	21.1	(25.9)
Total movements during the year	**416.9**	**-**	**(431.6)**	**35.8**	**21.1**	**(25.9)**
Closing balance at 31 December 2012	**2 635.8**	**369.7**	**345.7**	**273.1**	**3 624.3**	**3 787.5**

149. 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.

150. 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.

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

	2012				
	2.14.1 Operational Reserve (OR)	**2.14.2 Immediate Response Account (IRA)**	**2.14.3 PSA Equalization Account (PSAEA)**	**Total**	**2011**
	US$ millions				
Opening balance at 01 January, 2012	**92.9**	**30.0**	**114.4**	**237.3**	**259.4**
Advances to projects	-	(125.2)	-	(125.2)	(166.3)
Repayments by projects	-	81.6	-	81.6	135.1
Approved Board allocations	-	-	(21.6)	(21.6)	(28.8)
Repayments of unspent Board allocations	-	-	3.5	3.5	13.7
Replenishments	-	91.0	-	91.0	40.1
Surplus of ISC revenue over PSA expenses	-	-	6.5	6.5	(15.9)
Closing balance at 31 December 2012	**92.9**	**77.4**	**102.8**	**273.1**	**237.3**

152. Reserves are established by the Board as facilities for funding and/or financing specific activities under specific circumstances. During 2012, WFP had 3 active reserves: i) Operational Reserve; ii) Immediate Response Account; and the iii) PSA Equalization Account.

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

2.14.1 Operational Reserve

154. 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. The Operational Reserve was initially established at a level of US$57.0 million. In November 2010, the level was increased to US$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. The Operational Reserve is used to manage the risk associated with the Working Capital Financing Facility, which was increased from US$180.0 million to US$557.0 million at the 2010 Second Regular Session of the Board.

155. In 2012, there was no movement in the Operational Reserve and the balance at 31 December 2012 remained at US$92.9 million.

2.14.2 Immediate Response Account

156. 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.

157. In 2012, the IRA received US$91.0 million in replenishments. Advances made to projects totalled US$125.2 million and repayments by projects amounted to US$81.6 million. The IRA balance at 31 December 2012 is US$77.4 million which is slightly above the target level of US$70.0 million. Outstanding advances to projects made by the IRA at 31 December 2012 totalled US$309.5 million (US$265.9 million in 2011).

2.14.3 Programme Support and Administrative Budget Equalization Account

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

159. During the Second Regular Session of the Board in November 2011, the Board approved one-time investments in the WFP Management Plan 2012–2014 for IT, accountability, financial risk management and training from PSAEA (Decision 2011/EB.2/4) totalling US$22.2 million of which US$0.6 million was allocated in 2011 and US$21.6 million was allocated in 2012.

160. US$3.5 million unspent balances pertaining to allocations approved by the Board from PSAEA in the previous periods were returned back to PSAEA in 2012 pursuant to Financial Regulation 9.9.

161. The excess of ISC revenue over PSA expenses totalling US$6.5 million was transferred to PSAEA in 2012 (US$15.9 million deficit in 2011). The PSAEA balance at 31 December 2012 is US$102.8 million. As approved in the WFP Management Plan (2013–2015) (Decision 2012/EB.2/3), this balance is reduced in early 2013 by US$20.0 million supplementary PSA investments to be used for organizational changes and a transition fund to provide flexibility in managing staff changes.

NOTE 3: REVENUE

		2012	2011
		US$ (millions)	
3.1	**Monetary contributions**		
	Contributions for direct costs	3 194.0	2 804.5
	ISC contributions	255.0	235.8
	Subtotal	**3 449.0**	**3 040.3**
	Less:		
	Refunds, reprogrammes and reductions in contribution revenue	(111.0)	(61.3)
	Total monetary contributions	**3 338.0**	**2 979.0**
3.2	**In-kind contributions**		
	Commodities in-kind contributions	681.1	587.8
	Service in-kind contributions	29.1	34.6
	Subtotal	**710.2**	**622.4**
	Add (deduct):		
	Increase (decrease) in contribution revenue	(3.9)	(4.9)
	Total in-kind contributions	**706.3**	**617.5**
3.3	**Currency exchange differences**	**42.6**	**(0.5)**
3.4	**Return on investments**		
	Net realized gains (losses) on investments	(5.3)	0.9
	Net unrealized gains on investments	4.7	1.4
	Interest earned	24.6	25.2
	Total return on investments	**24.0**	**27.5**
3.5	**Other revenue**		
	Revenue generated from provision of goods and services	78.6	89.3
	Miscellaneous revenue	21.9	23.3
	Total other revenue	**100.5**	112.6
	Total revenue	**4 211.4**	**3 736.1**

162. 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.

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

164. Contribution revenues recognized in 2012 representing resources which are to be used in future years (with comparative figures for 2011) are as follows:

	Applicable to Years					
	2012	**2013**	**2014**	**2015**	**2016**	**Total**
	US$ millions					
Future year contribution revenue recognized in 2012	**-**	**178.6**	**74.7**	**51.2**	**2.1**	**306.6**
Future year contribution revenue recognized in 2011	**92.2**	**85.3**	**72.5**	**2.0**	**-**	**252.0**

165. During 2012, other revenue amounted to US$100.5 million, of which US$78.6 million was generated from the provision of goods and services (US$89.3 million at 31 December 2011) and US$21.9 million from miscellaneous revenue (US$23.3 million at 31 December 2011). 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 Field Emergency Support office. Miscellaneous revenue included proceeds from sale of damaged commodities and other unserviceable properties.

166. NOTE 4: EXPENSES

		2012	2011
		US$ (millions)	
4.1	**Cash and vouchers distributed**	**191.8**	**120.7**
4.2	**Food commodities distributed**	**2 264.6**	**2 061.2**
4.3	**Distribution and related services**	**602.5**	**532.9**
4.4	**Wages, salaries, employee benefits and other staff costs**		
	International and national staff	574.6	571.0
	Consultants	43.1	39.3
	United Nations volunteers	4.3	5.2
	Temporary staff	52.2	46.0
	Other personnel costs	17.2	18.9
	Total wages, salaries, employee benefits and other staff costs	**691.4**	**680.4**
4.5	**Supplies, consumables and other running costs**		
	Telecommunications and Information Technology	8.8	8.9
	Equipment	87.2	77.6
	Office supplies and consumables	30.5	35.8
	Utilities	10.3	6.3
	Vehicle maintenance and running costs	19.9	19.5
	Total supplies, consumables and other running costs	**156.7**	**148.1**
4.6	**Contracted and other services**		
	Air operations	154.9	148.4
	Other direct operational costs (ODOC) contracted services	12.5	14.5
	Other contracted services	135.6	140.4
	Telecommunications/IT related services	30.8	26.5
	Security and other services	34.7	31.0
	Leases	21.2	26.4
	Total contracted and other services	**389.7**	**387.2**
4.7	**Finance Costs**	**2.6**	**2.7**
4.8	**Depreciation and amortization**	**43.8**	**37.1**
4.9	**Other expenses**		
	Maintenance services	4.7	3.8
	Insurance	11.7	12.4
	Bank charges/investment manager and custodian fees	2.9	3.3
	Doubtful accounts and impairment	13.4	6.2
	Trainings and meetings	17.7	19.0
	Other	2.2	1.8
	Total other expenses	**52.6**	**46.5**
	Total expenses	**4 395.7**	**4 016.8**

167. During 2012, cash and vouchers distributed totalled US$191.8 million (US$120.7 million at 31 December 2011).

168. During 2012, food commodities and non-food items distributed totalled US$2,264.6 million, as reported in the Statement of Financial Performance (US$2,061.2 million at 31 December 2011).

169. Food commodities distributed include cost of commodities as well as transport and related costs between the country in which WFP takes possession and the recipient country. Included in the cost of commodities distributed are post-delivery losses of US$12.3 million (US$9.0[3] million at 31 December 2011) (Note 9).

170. Given WFP's accounting policy to expense when food is handed over to the cooperating partners (CPs), at 31 December 2012, there remains food commodities of US$116.9 million (174,836 mt) that have yet to be distributed to beneficiaries (US$92.8 million (150,471 mt) at 31 December 2011).

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

172. 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.

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

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

NOTE 5: STATEMENT OF CASH FLOW

175. 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

176. 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.

[3] Due to a typographical error in the 2011 Financial Statements, the post-delivery losses were disclosed as US$5.6 million. The correct amount is US$9.0 million.

177. 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.

178. 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.

179. 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.

180. 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.

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

182. 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.

183. 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 2012 is presented below:

	2012			
	Operating	**Investing**	**Financing**	**Total**
	US$ millions			
Actual amount on comparable basis (Statement V)	**(4 061.1)**	**-**	**-**	**(4 061.1)**
Basis differences	(64.2)	78.1	(8.5)	5.4
Presentation differences	3 977.8	-	-	3 977.8
Entity differences	(143.2)	-	-	(143.2)
Actual amount in the Statement of Cash Flow (Statement IV)	**(290.7)**	**78.1**	**(8.5)**	**(221.1)**

184. 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.

185. Budget amounts have been presented on a functional classification basis in accordance with the Management Plan (2012–2014) 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

	2012					2011
	Programme Category Funds	General Fund and Special Accounts	Bilateral Operations and Trust Funds	Inter-Segment Transac-tions	Total	
	(US$ millions)					
ASSETS						
Current Assets						
Cash and short-term investments	847.1	215.1	211.8	-	1 274.0	1 655.9
Contributions receivable	1 343.1	241.4	139.4	-	1 723.9	1 625.7
Inventories	595.4	97.6	16.9	-	709.9	776.6
Other receivables	70.6	445.4	7.5	(375.6)	147.9	122.0
	2 856.2	**999.5**	**375.6**	**(375.6)**	**3 855.7**	**4 180.2**
Non-current Assets						
Contributions receivable	40.6	153.5	8.3	-	202.4	199.4
Long-term investments	-	352.7	-	-	352.7	281.1
Property, plant and equipment	80.0	28.1	2.4	-	110.5	100.9
Intangible assets	1.2	22.8	0.1	-	24.1	30.8
	121.8	**557.1**	**10.8**	**-**	**689.7**	**612.2**
TOTAL ASSETS	**2 978.0**	**1 556.6**	**386.4**	**(375.6)**	**4 545.4**	**4 792.4**
LIABILITIES						
Current Liabilities						
Payable and accruals	338.9	445.6	6.3	(375.6)	415.2	535.2
Provisions	3.3	0.6	10.4	-	14.3	7.8
Employee benefits	-	19.5	-	-	19.5	19.9
Current portion of long-term loan	-	5.8	-	-	5.8	5.8
	342.2	**471.5**	**16.7**	**(375.6)**	**454.8**	**568.7**
Non-current Liabilities						
Employee benefits	-	365.1	-	-	365.1	329.1
Long-term loan	-	101.2	-	-	101.2	107.1
	-	**466.3**	**-**	**-**	**466.3**	**436.2**
TOTAL LIABILITIES	**342.2**	**937.8**	**16.7**	**(375.6)**	**921.1**	**1 004.9**
NET ASSETS	**2 635.8**	**618.8**	**369.7**	**-**	**3 624.3**	**3 787.5**
FUND BALANCES AND RESERVES						
Fund balances	2 635.8	345.7	369.7	-	3 351.2	3 550.2
Reserves	-	273.1	-	-	273.1	237.3
TOTAL FUND BALANCES AND RESERVES, 31 December 2012	**2 635.8**	**618.8**	**369.7**	**-**	**3 624.3**	**3 787.5**
TOTAL FUND BALANCES AND RESERVES, 31 December 2011	**2 836.0**	**626.6**	**324.9**	**-**	**3 787.5**	

Note 7.2: Statement of Financial Performance by Segment

	2012					2011
	Programme Category Funds	General Fund and Special Accounts	Bilateral Operations and Trust Funds	Inter-Segment Transactions	Total	
	(US$ millions)					
REVENUE						
Monetary contributions	2 512.5	648.1	177.4	-	3 338.0	2 979.0
In-kind contributions	652.2	42.8	11.3	-	706.3	617.5
Currency exchange differences	(3.2)	47.0	(1.2)	-	42.6	(0.5)
Return on investments	-	23.5	0.5	-	24.0	27.5
Other revenue	74.6	105.6	-	(79.7)	100.5	112.6
TOTAL REVENUE	**3 236.1**	**867.0**	**188.0**	**(79.7)**	**4 211.4**	**3 736.1**
EXPENSES						
Cash and vouchers distributed	190.3	-	1.5	-	191.8	120.7
Food commodities distributed	2 218.0	22.2	38.4	(14.0)	2 264.6	2 061.2
Distribution and related services	597.9	1.4	3.4	(0.2)	602.5	532.9
Wages, salaries, employee benefits and other staff costs	370.5	270.7	59.2	(9.0)	691.4	680.4
Supplies, consumables and other running costs	123.2	31.9	11.1	(9.5)	156.7	148.1
Contracted and other services	280.2	113.1	22.7	(26.3)	389.7	387.2
Finance costs	-	2.6	-	-	2.6	2.7
Depreciation and amortization	24.8	18.1	0.9	-	43.8	37.1
Other expenses	48.3	19.0	6.0	(20.7)	52.6	46.5
TOTAL EXPENSES	**3 853.2**	**479.0**	**143.2**	**(79.7)**	**4 395.7**	**4 016.8**
DEFICIT FOR THE YEAR, 2012	**(617.1)**	**388.0**	**44.8**	**-**	**(184.3)**	**(280.7)**
DEFICIT FOR THE YEAR, 2011	**(564.7)**	**361.9**	**(77.9)**	**-**	**(280.7)**	

186. 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.

	2012	2011
	US$ millions	
Cash and cash equivalents	438.5	659.6
Short-term investments	835.5	996.3
Total cash and cash equivalents and short-term investments	**1 274.0**	**1 655.9**

187. 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.

188. During the year ended 31 December 2012, activities have created inter-segment balances in the amount of US$375.6 million in the Statement of Financial Position and US$79.7 million in the Statement of Financial Performance.

189. Of the total PP&E of US$110.5 million at 31 December 2011 (US$100.9 million at 31 December 2011), US$43.0 million relates to acquisitions, net of disposals in 2012 (US$44.2 million at 31 December 2011).

190. 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.

191. 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

	2012	2011
	US$ millions	
Obligations for property leases:		
Under 1 year	29.2	25.2
1 – 5 years	58.8	28.0
Beyond 5 years	11.1	11.6
Total property leases obligations	**99.1**	**64.8**

192. At 31 December 2012, property lease obligations for the WFP Headquarters building in Rome represent 25 percent of the total obligations under the 1 year category and 54 percent under the 1 to 5 years category (26 percent and 2 percent, respectively, at 31 December 2011). 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

193. At 31 December 2012, WFP had commitments for the acquisition of food commodities, transportation, services, non-food items, and capital commitments contracted but not delivered as follows:

	2012	2011
	US$ millions	
Food commodities	185.5	330.4
Transportation – Food commodities	161.4	149.9
Services	64.6	58.0
Non-food items	46.3	43.0
Capital commitments	16.0	10.4
Total open commitments	**473.8**	**591.7**

194. 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

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

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

197. In 2005, cases of fraud by two WFP employees were discovered in the WFP regional bureau in South Africa. The loss was estimated at US$6.0 million. A criminal trial began in 2008. As part of the criminal proceedings, the employees' known assets, reportedly valued at approximately US$5.0 million at 31 December 2011, were placed under restraint order at the request of the Prosecuting Authority.

198. 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 US$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.

199. 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.

200. In December 2012, a judgement in the criminal proceedings was rendered which found the defendants guilty on all accounts of fraud, which they are expected to appeal. The appeals process is expected to conclude 12 to 18 months after sentencing. Enforcement of the arbitral award can only occur following the conclusion of criminal proceedings. 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

201. 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."

202. The following table details the *ex-gratia* payments and losses of cash, food commodities and other assets for 2012.

	2012	**2011**
	US$ millions	
Ex-gratia payments	0.1	-
Contributions receivable	0.4	-
Food commodity losses	12.3	9.0
Non-food item losses	0.4	-
Other assets and cash losses	0.6	1.0
	In Mt	
Commodity losses (quantity)	16 407	12 677

203. The *ex-gratia* payments mainly pertain to Medical Field Settlement and Field Emergency Claims. Contributions receivable relates to the write-off of a receivable from a donor. 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.

204. Fraud in 2012 comprised of theft and misappropriation of food commodities, non-food items, and cash involving WFP staff and third parties valued at US$99,533 of which nil has been recovered (US$38,951 in 2011).

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
			US$ millions					
Key management personnel, 2012	7	6	1.1	0.6	0.2	1.9	0.2	-
Key management personnel, 2011	6	5	1.1	0.5	0.2	1.8	0.2	-

205. 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.

206. 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.

207. 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.

208. 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
			US$ millions					
Other senior management, 2012	**31**	**27**	**4.4**	**2.0**	**1.0**	**7.4**	**0.7**	**-**
Other senior management, 2011	**29**	**25**	**4.6**	**1.9**	**1.1**	**7.6**	**0.9**	**0.1**

209. 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.

210. 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.

211. During 2012, compensation provided to close members of the family of other senior management amounted to US$0.3 million (US$0.2 million in 2011).

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

213. 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.

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

NOTE 11: THIRD-PARTY AGREEMENTS

Third-party agreements reconciliation	**2012**		**2011**	
	US$ millions			
Opening balance at 01 January		**16.3**		**10.4**
Add-back: allowance for doubtful account		0.3		-
New third-party agreements set up in the year	67.4		62.4	
Less: receipts/additions during the year	(57.6)	9.8	(45.8)	16.6
Third-party agreements payables during the year	(82.2)		(86.8)	
Less: disbursements/deductions during the year	83.3	1.1	76.4	(10.4)
Total TPA receivables (Note 2.5)		27.5		16.6
Allowance for doubtful account		(0.3)		(0.3)
Closing balance at 31 December		**27.2**		**16.3**

215. 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.

216. The above table shows the movement of TPA transactions during 2012 showing a net receivable from third parties of US$27.2 million (US$16.3 million at 31 December 2011).

NOTE 12: EVENTS AFTER REPORTING DATE

217. WFP's reporting date is 31 December 2012. 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

wfp.org

SECTION II

भारत के नियंत्रक - महालेखापरीक्षक
COMPTROLLER & AUDITOR GENERAL OF INDIA

VINOD RAI

No. 2747 - IR/16-2013
5 April 2013

Dear Executive Director,

Audit Report of the External Auditor on the Financial Statements of the World Food Programme for the year ended 31 December 2012

Please find enclosed the above report which may kindly be transmitted to the Executive Board. All the findings contained in the report have been communicated to the appropriate staff and management of the Organization.

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

Best regards

Yours sincerely,

V Rai

Vinod Rai
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 2012, 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 2012 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 2012, and its financial performance and of its cash flows for the year ended 31 December 2012 in accordance with IPSAS.

Report on Other Legal and Regulatory Requirements.

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

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

Vinod Rai
Comptroller and Auditor General of India
External Auditor

New Delhi, India
5 April 2013

Report of the
External Auditor on the
Financial Statements

World Food Programme
For the year ended 31 December 2012

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

I. We have audited the Financial Statements of the World Food Programme (WFP) for the year ended 31 December 2012 in accordance with the Financial Regulations and in conformity with International Standards on Auditing.

II. We observed that the Financial Statements present fairly in all material respects the financial position of the WFP as on 31 December 2012 and of its financial performance during the period 1 January 2012 to 31 December 2012. WFP has followed the provisions of International Public Sector Accounting Standards (IPSAS) in preparation and presentation of the Financial Statements.

OUR PROGRAMME OF WORK

III. Our programme of work 2012–13 was presented to the November 2012 session of the Executive Board. The reports summarising our performance audit work are:

- Report on Working with Cooperating Partners in WFP
- Report on Use of Cash and Vouchers in WFP

IV. The above Reports have been prepared for the June 2013 session of the Executive Board, as scheduled in the Work Plan.

V. In addition to these Performance Audit Reports, our work programme included field visits to eight country offices (COs) of WFP and three regional bureaux (RBs). 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 audit, we issued Management Letters to the Secretariat with our findings and recommendations.

CURRENT REPORT

VI. The current report is on the results of the financial audit at WFP Headquarters (HQ) and field visits to RBs and COs. It contains an assessment of i) performance of WFP on key operational and financial parameters, and ii) comments on the Financial Statements. We have made five recommendations in our current year report. We also reviewed the progress made in implementation of our outstanding recommendations on financial audit of the previous two years.

Summary of Recommendations

Inventory Management

Recommendation 1*: As differences in inventory between WINGS and the Commodity Movement Processing and Analysis System (COMPAS) continue and the Logistics Execution Support System* (*LESS) is currently under review for full roll-out, it is essential that reasons for 'posting error logs', in particular, are examined critically and specific rectificatory steps (backed by training and close monitoring) at the CO/HQ level are taken. This would improve the quality of inventory reporting in Financial Statements.*

Recommendation 2: *We recommend that a system be put in place to ensure that post-delivery losses are recorded in the year to which they pertain.*

Recommendation 3: *Efforts may be made to strengthen the existing system of recording receipt of food commodities on time by monitoring the timelines at appropriate levels, both in COs/RBs and WFP HQ.*

Recommendation 4: *External audit had made a recommendation during the financial audit 2011 for enhancing the quality of reconciliation of data on undistributed food lying with the partners. We would again recommend that there is need for further improvement in reconciliation of food stock lying with the cooperating partners (CPs) for the purpose of disclosure. The matter may be reviewed by WFP HQ and responsibility centres identified for ensuring stricter monitoring of quality of reconciliation.*

Asset Management Database

Recommendation 5: *We recommend that WFP review the status of all discrepancies/omissions between Asset Management Database and WINGS-Asset Master Record (AMR) through a 'time-bound action plan', and starts with a 'clean' database in the Global Equipment Management System (GEMS) project, eliminating avoidable data migration issues.*

I. INTRODUCTION

1. The audit of World Food Programme (WFP) was assigned to the Comptroller and Auditor-General of India (CAG) for the period 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 system, the internal financial controls and, in general, the administration and management of WFP in accordance with Financial Regulation 14.4.

2. 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 2012 and of the financial performance of WFP during the year 2012;
   - are prepared in accordance with the Financial Regulations of WFP and the Accounting policies of WFP; and
   - are in conformity with International Public Sector Accounting Standards (IPSAS).

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

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

4. Our audit involved Entry and Exit meetings with the senior management besides discussions and review meetings with officials of the Resource Management and Accountability Department (RM) of WFP. A test check of selected accounting and operating transactions was carried out both by drilling down from the balances indicated in the Financial Statements and by checking the aggregation of figures from basic records.

5. Important findings impacting the integrity of financial transactions observed during the field audits of eight COs of WFP and three RBs[1] were also considered during this audit. Views of the management received at various stages of audit were considered while finalizing this report.

[1] *The COs audited were Bangladesh, Kenya, Pakistan, Philippines, Somalia, Sri Lanka, Zambia and Zimbabwe. The three RBs at Bangkok, Johannesburg and Nairobi were also covered in our field audit.*

II. RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

6. WFP is responsible for the preparation and fair presentation of Financial Statements 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

7. 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.

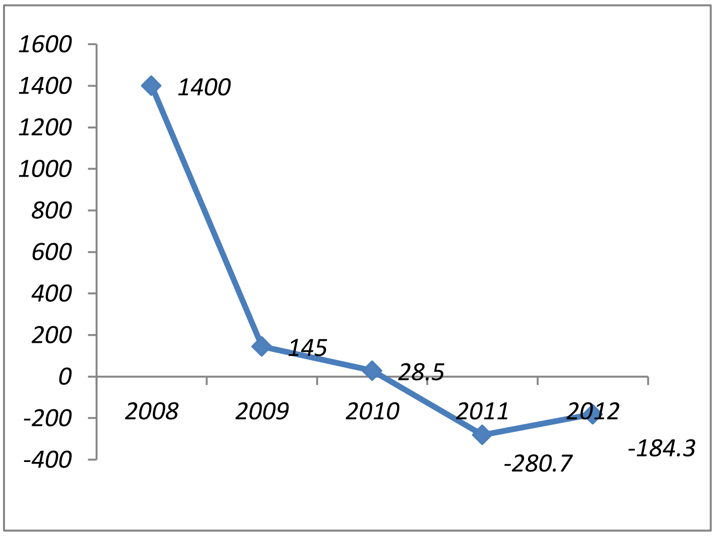
IV. AUDIT OPINION ON THE 2012 FINANCIAL STATEMENTS

8. Audit of the Financial Statements for the financial period 2012 revealed no weaknesses 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 agency's Financial Statements for the financial period ended 31 December 2012.

V. PERFORMANCE AGAINST KEY INDICATORS

Operating surplus/deficit

9. The surplus/deficit is the difference between the revenue and expenses of WFP during the year. There was an improvement in 2012 from the downward trend in operating deficit that was noticed in 2011. The operating deficit for 2012 was US$184.3 million against a deficit of US$280.7 million in 2011. This change was mainly the net result of i) increase in contribution revenue of US$447.8 million (from US$3,596.5 million in 2011 to US$4,044.3 million in 2012) and ii) an increase of US$ 378.9 in spending (from US$4,016.8 million in 2011 to US$4,395.7 million in 2012).



10. Under IPSAS, WFP recognizes contribution revenue when confirmed in writing. Expenses are recognized when goods and services are received or when food commodities are delivered. There is an inherent time-lag between the recognition of revenue and the recognition of expense. Thus, the operating deficit could arise from many factors: the timing of revenue and expense; bunching of multi-year contributions in the previous years; fall in revenue or a surge in expenses.

11. We found that the improvement in the position of deficit was mainly a consequence of an over 12.72 per cent increase in revenue in 2012 as compared to 2011.

12. Analysis of the deficit across different segments is shown in Table 1. There is an increasing trend in the deficit in programme category funds over the years.

TABLE 1
(Figures in US$ millions)

Segments	**2009**	**2010**	**2011**	**2012**
Programme Category Funds				
Revenue	3 556	3 577	2 894	3 236
Expenses	3 692	3 729	3 459	3 853
Deficit	(-)136	(-)152	(-)565	(-)617
Surplus/Deficit in other segments				
General Fund and Special Accounts	315	65	362	388
Bilateral Operations and Trust Funds	(-)34	116	(-)78	45
Total surplus/deficit	**145**	**29**	**(-)281**	**(-)184**

13. The deficit in Programme Category Funds increased to (-)US$617 million. The total revenue increased to US$3,236 million this year, both in monetary and in-kind contributions and the expenses also increased significantly to US$3,853 million. The latter included a general increase under all items of expense like value of cash and vouchers distributed, distribution cost, salaries, supplies and consumables and so on.

14. The General Fund and Special Accounts as well as Bilateral Operations and Trust Funds showed an increase in the surplus over the last year.

15. There was a slight increase in revenue in the General Fund and Special Accounts segment from US$856.3 million in 2011 to US$867 million in 2012 and a reduction in contracted and other services as well as wages. These two factors increased the surplus in the General Fund and Special Accounts from US$362 million to US$388 million.

16. Monetary contributions to Bilateral Operations and Trust Funds more than doubled from US$ 80 million in 2011 to US$177.4 million. Expenses decreased from US$165.8 million to US$143.2 million. This resulted in the improvement of balances from US$(-)78 million in 2011 to US$45 million.

17. The deficit in Programme Category Funds was partially offset by the surplus in the General Fund and Special Accounts and Bilateral Operations and Trust Funds. This reduced the overall deficit from US$(-)281 million in 2011 to US$(-)184 million in 2012.

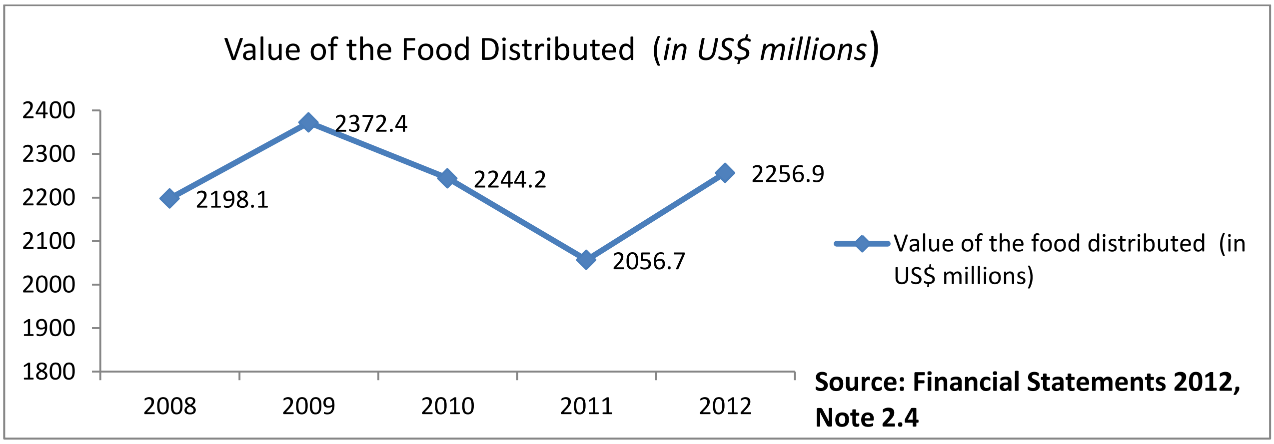
Revenue

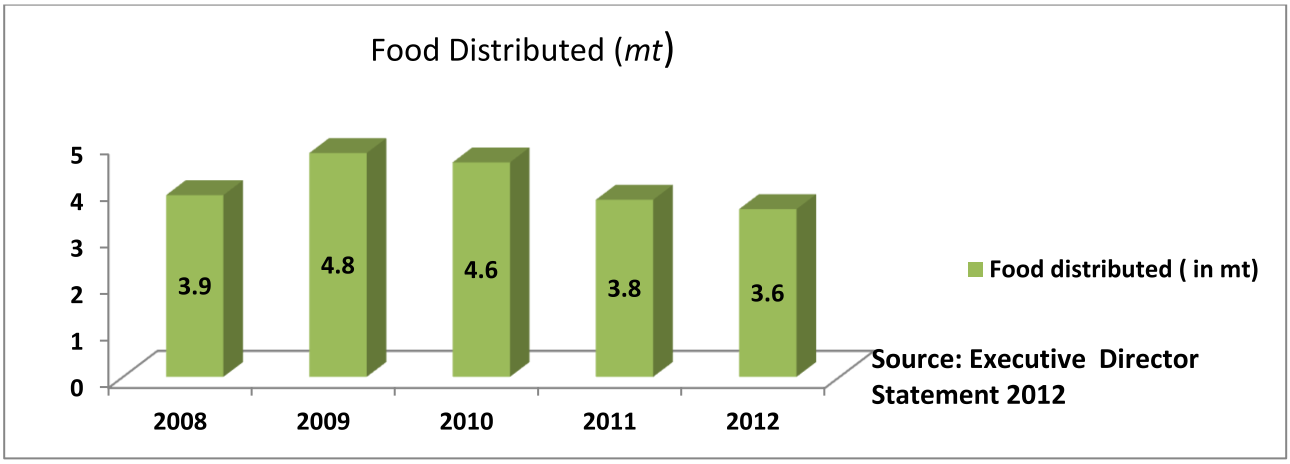
18. Total revenue in 2012 was US$ 4,211.4 million, which represented a 12.72 per cent increase compared to 2011 (US$3,736.1 million). In-kind contributions too showed a 14 per cent improvement. The increase was due to major donors contributing more in 2012 compared to 2011 in response to the deteriorating situation in the Horn of Africa, Sahel, South Sudan and the Syrian Arab Republic. The United States of America alone increased its contribution by US$ 200 million. Exchange rate difference gain was considerable in the current year (US$42.6 million compared to US$-0.5 million in 2011). This increase, in part, was due to the weakened US dollar against four major currencies (the euro, the pound sterling, the Australian dollar and the Norwegian Krone) as compared to 2011.

Expenses

19. There was a 9 per cent increase in expenses in 2012 as compared to 2011. The assistance component - food commodities as well as cash and vouchers (US$2,456.4 million) accounted for 56 per cent of WFP’s expenses. The second largest component is the staff costs, which represented 15.72 per cent of the expenses in 2012. Value of commodities distributed in 2012 increased by US$203.4 million due to a combination of the increase in commodity value and the increased distribution of high value commodities, compared to 2011. During 2012, cash and vouchers distributed totalled US$191.8 million (US$120.7 million at 31 December 2011). Food commodities and non-food items distributed totalled US$2,264.6 million, as reported in the Statement of Financial Performance (US$2,061.2 million at 31 December 2011). Wages, salaries, employee benefits and other staff costs totalled US$691.4 million. Expenses on supplies, consumables and other running costs for both direct project implementation and administration and support marginally increased from US$148.1 million in 2011 to US$156.7 million in 2012. Other expenses increased from US$46.5 million in 2011 to US$ 52.6 million in 2012. This expense included maintenance of facilities, insurance, meetings-related costs, allowances for doubtful accounts and inventory impairment.

20. Regarding food distributed, the reach of WFP as measured by the number of beneficiaries and the tonnage of food distributed reduced over the recent years, as shown below. However, there was an increase in the value of cash and vouchers distributed from US$120.7 million in 2011 to US$191.8 million this year. The value of food distributed in 2012 also increased to US$2,256.9 million from US$2,056.7 million in 2011.





Fund Balances and Reserves

21. The Reserves of WFP stood at US$273.1 million on 31 December 2012, registering a 15 per cent increase compared to last year (US$237.3 million). Fund balances represent the unexpended portion of contributions that are intended to be utilised in future operational requirements of WFP. These are WFP's residual interest in WFP's assets after deducting all liabilities. Fund Balances and Reserves, as on 31 December 2012, were US$3,624.3 million.

Audit Findings

1. Inventory Management

1.1 Inventory Reconciliation

22. For the food commodity stocks, WINGS records transactions until the stage of expensing of inventory. COMPAS captures information on the movement of stocks. The data alignment between the two systems is facilitated by a SAP-COMPAS Interface.

23. The Logistics Division at WFP HQ carries out reconciliation on a quarterly basis between COMPAS physical count and WINGS. The inventory reconciliation schedule is only in metric tons and the value is assigned by RMFFG (General Accounts Branch) at HQ based on the Moving Average Price (MAP) to the resulting difference. RMFFG manually processes a journal voucher (JV) adjustment to align WINGS system stock and the COMPAS physical count on the basis of the report generated by the Logistics Division.

24. There was a difference of 8,436 mt of inventory/stock between the WINGS and COMPAS figures in 2012 (4,898 mt in 2011). The difference was reconciled by WFP. Analysis of reasons revealed that a significant part of the difference (36 per cent of the total difference) between WINGS and COMPAS was due to a 'posting error log' and 'WINGS-COMPAS interface alignments'. Reconciliation between the two IT systems is done manually and corrections are made in the form of JVs for Financial Statements purposes.

25. WFP had earlier informed that roll-out of LESS would provide a permanent fix to the problem. It was also stated that with continued monitoring efforts, the difference between the two systems would reduce. It was however, noticed that the problem still persists. We also understand that LESS has been implemented on a pilot basis only in two COs and is under review for full roll-out over a three-year period (2013–2015).

Recommendation 1

As differences in inventory between WINGS and COMPAS continue and LESS is currently under review for full roll-out, it is essential that reasons for 'posting error logs', in particular, are examined critically and specific rectificatory steps (backed by training and close monitoring) at the CO/HQ level are taken. This would improve the quality of inventory reporting in Financial Statements.

1.2 Post-Delivery Losses

26. Post-delivery losses (PDLs) in food commodities are recognised after the food commodity arrives at the first delivery point in the recipient country. These losses included losses incurred during handling, storage and internal transport. WFP disclosed PDL of US$12.3 million (US$ 9.0 million at 31 December 2011) vide Note 4, Para 169 of the Financial Statements 2012.

27. We observed that the disclosed figure of US$12.3 million included losses valuing US$ 1.3 million, which pertained to years prior to 2012. WFP had included these figures in PDL 2012 on the ground that these were posted in 2012. In our opinion, PDL should be recorded in their respective financial years.

Recommendation 2

We recommend that a system be put in place to ensure that Post-Delivery Losses are recorded in the year to which they pertain.

1.3 Receipt of food commodities

28. As per Accounting Policy of WFP for the year 2012 (vide Note 1, paragraph 1: Accounting Policies: Basis of Preparation), Financial Statements have been prepared on the accrual basis of accounting in accordance with IPSAS.

29. Further, in IPSAS 1, Presentation of Financial Statements, paragraph 7, accrual basis of accounting is defined as a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, in accrual basis of accounting, transactions and events are recorded in accounting records and recognized in the Financial Statements of the period to which they relate. Elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

30. We scrutinised the statement showing details of food commodities received during 2012 and observed delays ranging from 1 to 34 months in recording the receipt of food commodities in WINGS. This resulted in inclusion of food commodities received during 2011 (amounting to US$5,149,588.90) in the database of food commodities received during 2012.

31. WFP agreed to look at the instances of delayed recording and investigate further the actions needed to reduce them.

Recommendation 3

Efforts may be made to strengthen the existing system of recording receipt of food commodities on time by monitoring the timelines at appropriate levels, both in COs/RBs and WFP HQ.

1.4 Food Inventory: CP Held Stock

32. In most countries, WFP works in close collaboration with CPs, who assist in identification of beneficiaries and distribute food commodities and cash and vouchers to the beneficiaries. As per the agreements, the CPs report to WFP on the actual aid distribution through the Monthly Distribution Reports (MDRs) and Quarterly Distribution Reports. In accordance with WFP’s stated accounting policy, food commodities are expensed when distributed directly by WFP or once they are handed over to CPs for distribution. Undistributed commodities held by CPs have been disclosed in the Financial Statements since 2011, both in terms of value and volume of food inventories lying undistributed.

33. As stipulated in the 2012 Annual Financial Closure guidelines, the COs submit details of the CP-held stock to the RBs, who compile that data and submit the same to RMFFG (General Accounts Branch) at WFP HQ. Upon receipt, RMFFG checks the details of data submitted by RBs with reference to the list of CP-held stock in COMPAS, as received from the Logistics Division (OSL) and follows up with the COs in order to sort out the discrepancies. Information in the Letters of Representations (LORs) is also factored in.

34. We had made a recommendation during financial audit 2011 for streamlining the procedure for collection of timely distribution reports from the CPs and enhancing the quality of reconciliation of data on undistributed food lying with the partners. We re-examined the issue in detail during the current year and observed as under:

35. WFP made a disclosure of US$116.9 million (174,836 mt) towards food pending distribution to beneficiaries by CPs as on 31 December 2012 in Note 4, paragraph 170 of the Financial Statements. We sampled 61 CPs across 13 COs for a test check in this regard and examined the information made available to us by WFP in respect of 50 CPs in 12 COs. We noticed discrepancies between the quantity of stocks reported by CPs and those accounted for by WFP, for the purpose of disclosure. The discrepancy remained to the extent of 13,438.96 mt, in respect of nine COs for which details were made available in time. We also noticed that some CPs of Somalia and Ethiopia were using the MDRs in a format that was different from the one prescribed and with many crucial details missing. In our Performance Audit on Working with Cooperative Partners, we have noticed delays in receipt of MDRs in WFP. These delays had an impact on reconciliation as in many cases, MDRs were wanting and estimation of food grain lying with CPs was done without MDRs.

36. WFP management, in an initial response, accepted that some MDRs were yet to be collected and COs were being requested to clarify discrepancies. It further highlighted the steps taken during the year like communications sent by the Deputy Executive Director and Chief Operating Officer to all RBs and COs, increased oversight through monthly minimum closure reviews and annual closure guidelines to streamline processes and procedures in this direction.

37. We recognise the steps taken by the management in pursuance of our 2011 recommendation. However, in view of the above discrepancies, we observe that there is scope for further improvement in reconciliation of food stock lying with the CPs.

Recommendation 4

External Audit had made a recommendation during the financial audit 2011 for enhancing the quality of reconciliation of data on undistributed food lying with the partners. We would again recommend that there is need for further improvement in reconciliation of food stock lying with the CPs for the purpose of disclosure. The matter may be reviewed by WFP HQ and responsibility centres identified for ensuring stricter monitoring of quality of reconciliation.

1.5 Internal Loans and Borrowings: Food Commodities

38. Internal Loans and Borrowings refer to borrowing of food commodities between different projects of WFP during the year. Thus, there should not be any difference between the year-end balances of internal loans and internal borrowings. The differences, if any, should be reconciled before the end of the year.

39. We however, noticed an unreconciled difference of US$281,937.38 (pertaining to 114.73 mt) between Internal Loans and Internal Borrowings (food commodities), as per the details below:

Internal loans:	US$22,148,507.02
Internal borrowings:	US$22,430,444.40

40. WFP agreed that given the nature of the accounts, they should balance and that they were working to resolve the reconciliation differences. It was also stated that in 2012, extra effort was put into this reconciliation exercise and that there has been a steady improvement in the difference between the loans and borrowings over the past three years. WFP management proposed investigation of the actual cause of the 114.7 mt difference and clearing of loan balances after consultation with OSL and the concerned COs.

2. Asset Management Database

41. Fixed Assets of WFP are recorded in the Asset Master Record (AMR) with purchase details including funding source as part of WINGS. The Asset Management Database (AMD) is an ‘Oracle’ database that is used for tracking the assets and expendables that belong to WFP. There is a system in place to carry out reconciliations between the two systems in WFP.

42. We examined the AMR maintained in WINGS and AMD. A comparative analysis of asset class in AMD and AMR through data analysis tools revealed items of discrepancies like:
    - Assets in AMR but not in AMD
    - Assets in AMD but not in AMR
    - Classification errors – ‘Licences and Rights’ included in ‘Other Intangible Assets’

43. In response, WFP clarified the following.
    - At times, there was a time lag between purchase through WINGS, which appeared in AMR and physical identification/recording in AMD.
    - Assets in AMD at field level but not in AMR were a result of identification of assets in later years. These assets were not recorded in AMR as the books were closed and these were considered not material.
    - Misclassifications were, however, agreed to be corrected by moving the items to the right asset class.

44. It was stated that as a further improvement to and refinement of the existing system of reconciliation, the Global Equipment Management System (GEMS) project, currently underway on a pilot basis in Pakistan, was expected to help migrate all data from AMD to the new equipment module in WINGS. All future items (fixed assets and other items) were thus expected to be tracked and managed directly in WINGS.

45. We note that the items identified now and not included in AMR on grounds such as ‘not material’ may not individually lead, at present, to any adverse material impact on the Financial Statements. However, these need to be reviewed. WFP also needs to start with a ‘sterilised’ database in the GEMS project, when all data from AMD would migrate to the equipment module in WINGS.

Recommendation 5
We recommend that WFP review the status of all discrepancies/omissions between the Asset Management Database and WINGS-AMR through a ‘time-bound action plan’, and start with a ‘clean’ database in the GEMS project, eliminating avoidable data migration issues.

3. Income recognition

46. Transfer Authorisation (TA**)** is agreed by a donor for making a contribution to WFP. When a TA is agreed and communicated to WFP, a unique Reference Number is allotted to the TA for recording the same in the system. Under a single TA, the donor may transfer a contribution to one or more than one grant throughout the year(s). Each such grant under a TA is again identified by a unique grant number.

47. We test checked the accounting of grants with respect to TA and observed that a major donor provided WFP with a TA valued at US$102,947,000 with regard to the emergency operation (EMOP) 200457. However, the total revenue from the aforementioned grant during 2012 was US$104,898,913, as per the details of revenue recorded in the grant during 2012.

48. There, thus, a control deficiency during accounting for revenue with respect to the grant, which allowed booking of revenue more than actually pledged by the donor. The position was corrected by making the required changes in the Financial Statements.

4. Special Accounts

49. As per Financial Regulation 1.1 of WFP, Special Account means an account established by the Executive Director for a special contribution or for monies earmarked for specific activities, the balance of which may be brought forward to the succeeding financial period. Special Accounts are set up for recording of transactions that cannot be categorised directly under one of WFP's programme categories.

50. WFP had 28 Special Accounts as on 31 December 2012 of which one, namely, Security Special Account (SSEC) was opened in 2012. Table 2 captures the position of Special Accounts as on 31 December 2012.

TABLE 2

Particulars	**2012** (*US$ million*)	**2011** (*US$ million*)	**Total revenue reported in Financial Statements for 2012** (*US$ million*)	**2012 Special Account revenue over total revenue** (*%*)
Revenue during the year	139.79	176.77	4 211.4	3.3
Expenditure during the year	160.27	174.95	4 395.7	3.6
Fund movements during the year	9.07	16.99	-	-

4.1 Management of Special Account on Operation Lifeline Sudan

51. We observed that in spite of discontinuing the above Special Account in 2006, further expenditure to the extent of US$1,999,449.52 was recorded under the discontinued fund of the Special Account on Operation Lifeline Sudan (TOLS), which should have been correctly recorded against the Aviation Special Account. This resulted in incorrect accounting of transactions with regard to TOLS as well as the Aviation Special Account. Management stated that it was aware of the fact and relevant accounting adjustment would be done in 2013 to transfer the residual debit fund balance from the discontinued TOLS fund. Management also assured that the adjustment would be supported by detailed analysis, the results of which would be documented.

4.2 Accounting of interest in the Special Account on the Long-Term Loan

52. We observed that interest on investment of funds, set aside to repay the long-term loan from a donor government agency, of US$5,127,715.79 (including US$410,828.84 for 2011 and US$4,716,886.95 for 2012) was booked against the General Fund (GGEN) instead of the Special Account on the Long-Term Loan (SJLO). This resulted in non-accounting of transactions against the dedicated Special Account. We noted that the transfer of interest income from GGEN to SJLO may not affect the financials, but the practice violated standard accounting procedure with regard to the General Fund as well as the Special Account.

53. We were informed that the error had occurred because of problems in using the correct code, which needed to be fixed ‘on priority’ for ensuring correct accounting of interest income from the respective functional area.

54. WFP Management accordingly made the necessary accounting adjustment.

4.3 Management of allocations from the Emerging Donor Matching Fund Special Account

55. The Emerging Donor Matching Fund Special Account (SEDM) is to be used as a funding source of last recourse and allocations therefrom are to be utilised solely for programme activities and specifically to meet associated costs related to commodity contributions made by emerging donors. Emerging donor contributions of commodities to projects within their own country are generally not to qualify for funding from the Special Account, unless otherwise exempted by the Executive Director.

56. We noted that out of total fund allocation of US$8,714,049.50, an amount of US$7,248,595.56 (i.e. 83 per cent of the total allocations) was allocated to meet the associated costs of emerging donor contributions of commodities to projects within their own country, with the Executive Director’s exemption. Major allocation of funds from SEDM during 2012 to projects only within the donors’ own country would imply that the Special Account was operated mostly on exceptions to the ‘criteria for allocations from the Special Account’.

57. WFP Management stated that review of criteria for usage of SEDM funds is currently underway as part of corporate review of twinning arrangements.

58. WFP Management also assured that a review process will be established for all Special Accounts to enhance internal controls.

5. Other Issues

5.1 Cash Management

59. In our audit of last year financials, we had made the following recommendation based on the monthly average cash position of cash maintained at HQ.

60. *"A framework for cash forecasting, leveraging on the functionalities in WINGS II should be developed to enhance the quality of decisions on cash management in WFP".* We noted that during the year end of 2012, RMFTT (Treasury Operations) had designed and implemented a 'Cash flow forecasting framework' based on SAP cash management and forecast capabilities. RMFTT stated that using this framework, the cash flow forecast for January to December of 2013 was done for the entire year. This report would help in making decisions for cash management and the utility of this would be assessable from 2014.

61. During the year 2012, we also test checked the months of November and December and found that the daily bank balance showed an improvement as it ranged between US$42 million and US$139 million, compared to US$49 million to US$181 million in 2011. The average monthly balance of cash for four months (February, June, November and December) ranged from US$ 55 million to US$84 million.

62. Since WFP management has started new measures from 2013 onwards, we will further examine the impact of these initiatives on the cash and investment management decisions in the next year.

5.2 Employee benefit liabilities: Post-employment benefits for Key Management personnel

63. Note 10.1, Para 208, of the Financial Statements disclosed that the post-employment-benefits of the key management personnel could not be reliably quantified.

64. On our inquiry as to the reasons for WFP's inability to quantify these benefits, WFP appropriately disclosed the same in Note 10, based on actuarial valuation.

6. Corrections made at the instance of Audit

65. During the course of audit, we pointed out and WFP carried out certain modifications to improve the quality of financial reporting. These are listed in the Annexure. On those issues that merited action over a long term, we were assured of due consideration.

VI. PROGRESS ON IMPLEMENTATION OF THE RECOMMENDATIONS OF THE EXTERNAL AUDITOR

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

- We are happy to note that the six-monthly review system of the action taken to implement the recommendations and consultations with the External Auditor has been institutionalised.

- We await further action on pending recommendations related to implementation of the Information Security Management System and LESS (Annual Accounts 2010); integration of the resource plan into the planning process, reviewing the expense policy for cash and vouchers, capturing on one platform all recommendations flowing from different streams – internal audit, external audit and evaluation reports (Annual Accounts 2011).

- We had in our Report on WFP Operations in Somalia in 2011 emphasised the need to have quantification of risk appetite separately for high risk and normal operations. We welcome the framing of the risk appetite statement by WFP in November 2012 as a positive step towards determining the tolerance level of risk in each operation in future.

67. We draw satisfaction from the process of preparation of the Statement of Internal Control, whereby assurances from the senior management and internal audit have been collated to confirm that internal controls were operating effectively in WFP during the year.

Acknowledgement

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

Vinod Rai
Comptroller and Auditor General of India
External Auditor

New Delhi, India
5 April 2013

Annexure

Modifications made in the Financial Statements by WFP at the instance of External Audit

1. Adjustment to revenue figure (reduction of US$1.95 million) – Statement I and Statement II:

	ORIGINAL *(US$ millions)*	**MODIFIED** *(US$ millions)*
Statement I – Contributions Receivable	1,725.9	1,723.9
Statement II – Total Revenue	4,213.4	4,211.4

The above adjustment also had an impact on the following notes:

Note 2.3 – Contributions Receivable

Note 2.13 – Financial Instruments

Note 2.14 – Fund Balances and Reserves

Note 3 – Revenue

Note 7 – Segment Reporting

2. Adjustment to description of Other revenue – Note 3.5 and paragraph 165:

ORIGINAL

Note 3.5 – Other revenue	**2012**	**2011**
Revenue generated from special accounts activities	78.6	89.3
Miscellaneous revenue	21.9	23.3
Total other revenue	100.5	112.6

Para 165 – During 2012, revenue generated from special accounts activities totalled US$78.6 million (US$89.3 million at 31 December 2011) and included mainly air operations, provisions of goods and services by United Nations Humanitarian Response Depot and Field Emergency Support office. Miscellaneous revenue of US$21.9 million (US$23.3 million at 31 December 2011) included proceeds from sale of damaged commodities and other unserviceable properties.

MODIFIED

Note 3.5 – Other revenue

Revenue generated from provision of goods and services	78.6	89.3
Miscellaneous revenue	21.9	23.3
Total other revenue	100.5	112.6

Para 165 – During 2012, other revenue amounted to US$100.5 million, of which US$78.6 million was generated from the provision of goods and services (US$89.3 million at 31 December 2011) and US$21.9 million from miscellaneous revenue (US$23.3 million at 31 December 2011). Revenue generated from the provision of goods and services included mainly air operations, provisions of goods and services by United Nations Humanitarian Response Depot and Field Emergency Support Office. Miscellaneous revenue included proceeds from sale of damaged commodities and other unserviceable properties.

3. Adjustment to reflect interest income (US$5.1 million) in the correct Special Account:

This adjustment had no impact on the 2012 Financial Statements as the impact is within the General Fund and Special Accounts Segment.

4. Quantification of Post-employment Benefits to Key Management Personnel:

ORIGINAL

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

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

3. Key management personnel are ordinary members of the UNJSPF.

MODIFIED

1. 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.

2. 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.

3. Additionally, tables in Notes 10.1 and 10.2 were modified to include the value of the post-employment benefits in the Entitlement and Benefits column for:

- Key Management (added US$0.1 million for 2012 and US$0.1 million for 2011)
- Other Senior Management (added US$0.4 million for 2012 and US$0.4 million for 2011)

ACRONYMS USED IN THE DOCUMENT

AMD	Asset Management Database
AMR	Asset Master Record
ASM	After-Service Medical Plan
BMIP	Basic Medical Insurance Plan
CAG	Comptroller and Auditor-General of India
CO	country office
COMPAS	Commodity Movement Processing and Analysis System
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CP	cooperating partner
CPRF	Compensation Plan Reserve Fund
DBO	defined benefit obligation
DOC	direct operational costs
EMG	Executive Management Group
EPRP	Emergency Preparedness and Response Package
FAO	Food and Agriculture Organization of the United Nations
GEMS	Global Equipment Management System
GGEN	General Fund
HQ	WFP Headquarters
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
IPSAS	International Public Sector Accounting Standards
IRA	Immediate Response Account
ISC	indirect support costs
JV	journal voucher
LESS	Logistics Execution Support System
M&E	monitoring and evaluation
MDR	Monthly Distribution Report
MSCI	Morgan Stanley Capital International
OSL	Logistics Division
OSRB	other separation-related benefits
PACE	Performance and Competency Enhancement Programme
PDL	post-delivery losses
PP&E	property, plant and equipment
PSA	Programme Support and Administrative (budget)
PSAEA	PSA Equalization Account
RB	regional bureau
RMFFG	General Accounts Branch

RMFTT	Treasury Operations
SEDM	Emerging Donor Matching Fund Special Account
SIC	Statement on Internal Control
SJLO	Special Account on the Long-Term Loan
SMCA	Strengthening Managerial Control and Accountability
STRIPS	Separate Trading of Registered Interest and Principal of Securities
TA	Transfer Authorization
TOLS	Special Account on Operation Lifeline Sudan
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