



# IPSAS and WFP Financial Statements 2008



*EXECUTIVE BOARD FINANCE SEMINAR – May 25 2009*

# OBJECTIVES

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- I. Present an overview of WFP's IPSAS adoption and implementation process
- II. Explore the 2008 Financial Statements
- III. Share lessons learned and critical success factors

# AGENDA

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**1 Introduction of IPSAS in WFP**

← - - - - - Q & A

**2 Financial Statements 2008**

← - - - - - Q & A

**3 Notes to the Financial Statements**

← - - - - - Q & A

**4 Lessons Learned and Way Fwd**

← - - - - - Q & A

# IPSAS and Financial Statements 2008



**1** Introduction of IPSAS to WFP

# OBJECTIVES

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## **1 Introduction of IPSAS in WFP**

- Provide background to 2008 WFP Financial Statements
- Describe key features of IPSAS
- Describe the IPSAS adoption process in WFP and United nations

# International Public Sector Accounting Standards

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- 26 financial reporting and accounting standards
- Developed for the public sector by independent experts, called IPSAS Board, of the International Federation of Accountants (IFAC)

# Advantages of IPSAS

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- Comparability with other international organizations and national governments
- Enhanced governance and internal financial management
- Enhanced accountability, transparency and harmonization
- Improved consistency, quality and credibility of UN System financial reports

# IPSAS Adoption in the UN

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- UN administrative reform to bring financial accounting and reporting standards to an international level similar to advanced industry and public sector benchmarks
- Improve comparability, harmonization, transparency and accountability of UN system organizations financial reporting



# UN Action

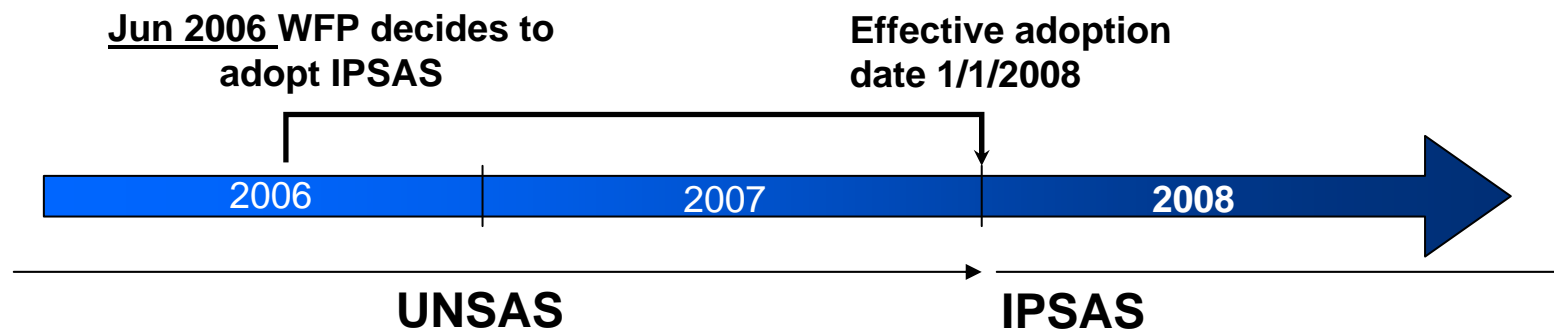
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- UN General Assembly's approval of IPSAS implementation by January 2010 subject to ERP upgrade
- IPSAS Steering Committee (SC) and Focus Groups (FG) established by the UN Task Force (TF)
- UN TF Accounting Standards working to facilitate IPSAS adoption
- Establishment of a jointly funded Accounting Standard Project overseen by CEB / TF

# WFP Action

- WFP's Executive Board approved IPSAS early adoption at WFP effective 01/01/2008
- June 2006 establishment of dedicated team to assess and develop IPSAS policy requirements, accounting requirements input into WINGS II and overall coordination of IPSAS adoption activities

## Timeline



AUDITED ANNUAL ACCOUNTS 2008

# WFP Action (cont.)

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- Participation in UN Working Group & development of accounting implementation manual
- Establishment of IPSAS compliant opening balances as of 01/01/2008, in coordination with relevant Business Users
- Change Management Coordination program for organization-wide communications and training strategy for IPSAS implementation
- Regular Executive Board updates

# Cash Basis (in the past)

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- Recognition of transactions and other events only when cash is received / paid
- Revenue is recognised when cash related to contributions is received, not when contributions are confirmed
- Expenses are recognised when the disbursement is made to the supplier/vendor not when goods/services are received

# Accrual Basis (present & future)

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- Transactions are recognized when they occur and are recorded in the period to which they relate e.g.
  - Contributions: recorded when value is transferred – for WFP on confirmation of contribution
  - Expense: recorded on delivery principle – when goods or services are received

## Advantages of Accrual Accounting:

- Comprehensive reporting of assets and liabilities
- Snapshot comparison among financial periods
- Representation of entity's overall financial position
- Aids performance measurement

# IPSAS and Financial Statements 2008

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## 1 Introduction of IPSAS in WFP

**Questions?**

# IPSAS and Financial Statements 2008



**2** Financial Statements 2008 – Main  
Schedules

# OBJECTIVES

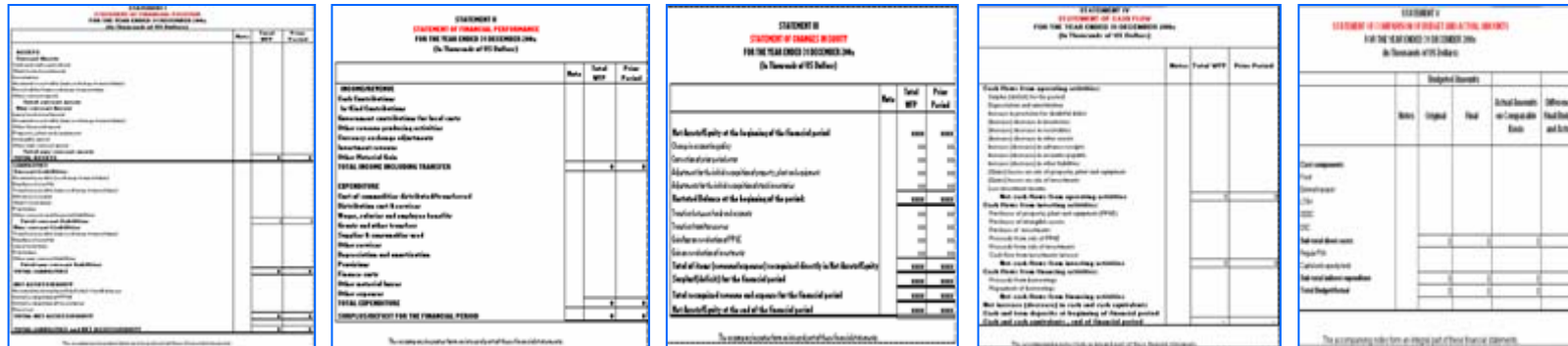
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## **2** Financial Statements 2008

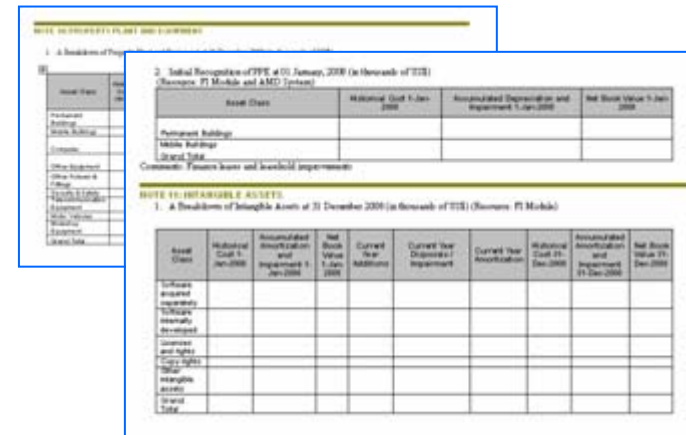
- Present WFP's 2008 Financial Statements
- Highlight IPSAS related changes to the presentation
- Discuss WFP's Financial Performance in 2008



# Financial Statements



- I. **ED Statement (Foreword)**
- II. **Financial Position**
- III. **Financial Performance**
- IV. **Changes in Net Assets**
- V. **Cash Flow Statement**
- VI. **Comparison of Budget and Actual Amounts**
- VI. **Notes, comprising **accounting policies** and other explanatory disclosures**



# Project Cycle and the Recognition of Income and Expenditure in the Financial Statements

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

Source: NAO Report by the External Auditor: Audit of the 2008 Financial Statements

# Statement II - Statement of Financial Performance

	US\$ million	<u>2008</u>
<b>REVENUE</b>		
Monetary Contributions		4150.9
In-Kind Contributions		887.1
Other revenue		76.7
<b>TOTAL REVENUE</b>		<u><b>5114.7</b></u>
<b>EXPENSES</b>		
Commodities distributed		2198.1
Distribution and related services		551.1
Wages, salaries and employee benefits		555.1
Supplies, consumables and other running costs		114.6
Contracted services		237.4
Currency exchange differences		21.9
Negative return on investments		9.6
Finance Costs		2.7
Depreciation		2.4
Other expenses		32.1
<b>TOTAL EXPENSES</b>		<u><b>3725.0</b></u>
<b>SURPLUS FOR THE YEAR</b>		<u><b>1389.7</b></u> <b>+ 1.4 b</b>

# STATEMENT I - Statement of Financial Position

<b>NET ASSETS</b>	US\$ million	<b>2008</b>	01.01.2008	
Cash and cash equivalents		972.3	548.7	+210 m
Short-term investments		460.1	673.1	
Contribution receivable		1,991.2	1,185.5	+806 m
Inventories		1,021.8	515.9	+506 m
Other receivables		127.9	162.5	
<b>TOTAL Current Assets</b>		<b>4,573.3</b>	<b>3,085.7</b>	
<b>TOTAL Non-current Assets</b>		<b>275.3</b>	<b>251.0</b>	
<b>TOTAL Current Liabilities</b>		<b>613.0</b>	<b>502.8</b>	
<b>TOTAL Non-current Liabilities</b>		<b>335.5</b>	<b>317.9</b>	
<b>TOTAL NET ASSETS</b>		<b>3,900.1</b>	<b>2,516.0</b>	
Fund balances		3,621.6	2,375.9	+ 1.4 b
Reserves		278.5	140.1	
<b>TOTAL FUND BALANCES AND RESERVES</b>		<b>3,900.1</b>	<b>2,516.0</b>	

# Statement III - Statement of Changes in Net Assets

	US\$ million	<b>TOTAL NET ASSETS</b>
<b>31 December 2007</b>		<b>2,021.3</b>
Allocation of surplus for 2007		-
<b>Change in accounting policy</b>		494.7
<b>Adjusted opening balance 1 Jan 2008</b>		<b>2,516.0</b>
Transfer from/to reserves		-
Unrealized losses		(5.6)
Surplus for the period		1,389.7
<b>Total movement during the year</b>		<b>1,384.1</b>
<b>TOTAL NET ASSETS</b>		<b>3,900.1</b>

# Statement IV - Statement of Cash Flow

US\$ million	2008
<b>Cash flows from operating activities:</b>	
Surplus for the period	1,389.7
Non-cash movements	<u>(1,075.5)</u>
<b>Net cash flows from operating activities</b>	<b>314.2</b>
Net cash flows from investing & financing activities	109.4
<b>Net increase in cash and cash equivalents</b>	<b>423.6</b>
Cash and cash equivalents at beginning of the year	548.7
Cash and cash equivalents at end of the year	972.3

# Statement V - Comparison of Budget and Actual Amounts

US\$ million	Budget Amount		Actual amounts on comparable basis	Difference: final budget and actual
	Original	Final		
Food	1 284.7	2 815.2	2 332.6	482.6
Other Direct Costs	1 618.2	2 609.8	1 864.2	745.6
<b>Subtotal direct costs</b>	<b>2 902.9</b>	<b>5 425.0</b>	<b>4 196.8</b>	<b>1 228.2</b>
<b>Indirect costs</b>	<b>199.3</b>	<b>217.6</b>	<b>189.9</b>	<b>27.7</b>
<b>TOTAL</b>	<b>3 102.2</b>	<b>5 642.6</b>	<b>4 386.7</b>	<b>1 255.9</b>

# IPSAS and Financial Statements 2008

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## 2 Financial Statements 2008

**Questions?**



# IPSAS and Financial Statements 2008



**3** Notes to Financial Statements  
2008

# OBJECTIVES

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**3**

## **Notes to the Financial Statements**

- Overview of cash and investments and related performance
- Highlight other important notes to the Financial Statements 2008

# Notes 2.1 & 2.2:

## Cash & Short Term Investments

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

<b>Short-term Investments (US\$ million)</b>	<b>2008</b>	<b>Opening Balance 01.01.2008</b>
Short-term investments	458.0	671.0
Current portion of long-term investments (Note 2.6)	2.1	2.1
<b>Total Short-term Investments</b>	<b>460.1</b>	<b>673.1</b>

- **Cash balances increased by 17% compared with an increase in operational budget of 87%**
- **Higher proportion of cash available at very short notice in conservative money market accounts in order to support operations at all times in the uncertain and volatile market environment**

# Notes 2.6: Long Term Investments

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

**US Treasury STRIPS investments:** made in 2001 to fund payments of a long-term donor commodity loan. (Note 2.12)

**Bonds and equities:** fund the employee benefit schemes (Note 2.11). US\$ 96 million invested since 2003, market value has risen to US\$ 107.7 million.

# Note 4.7: Return on investment

<b>RETURN ON INVESTMENT</b>	(US\$ million)
Net Realized Loss on Investment	6.3
Net Unrealized Loss on Investment	51.4
Return on investments	(48.1)
<b>Total negative return on investments</b>	<b>9.6</b>

- Investments stated at fair value according to IPSAS 'mark-to-market' principle
- Unrealised losses on investments recognised as of 31 December 2008
- Total investment losses exceeded interest income by US\$ 9.6 million
- Unrealised losses primarily in the short term investment portfolios - mainly caused by losses in housing related securities rated AAA at time of purchase
- Medium term return on investment positive generating income of US\$ 300 million for the General Fund in the period 2000-2007

# Reduced risk profile investments

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- Measures implemented to reduce unacceptable volatility of investment returns faced in 2008:
  - Termination of investment manager responsible for largest proportion of under-performing securities
  - Reduction in size of short-term investment portfolio and increase in money market holdings
  - Implementation of new, more conservative investment guidelines
  - Investment risk profile reduced significantly
- Legacy securities gradually divested - reduced from 11% to 7% of total cash & short term investments since the end of 2008
- Overall investment return year-to-date 30 April 2009 is slightly positive
- Economic and financial market outlook remains uncertain and interest rates near zero

# Note 2.4: Inventories

	2008	Opening Balance 01.01. 2008
	US\$ millions	
Food commodities on hand	929.3	473.0
Food commodities in transit	75.1	30.7
<b>Sub-total Food commodities</b>	<b>1 004.4</b>	<b>503.7</b>
Less allowance for impairment - Food	(4.0)	(2.0)
<b>Total Food Commodities</b>	<b>1 000.4</b>	<b>501.7</b>
Non-food items	21.6	14.3
Less allowance for impairment – Non-food	(0.2)	(0.1)
<b>Total Non-Food Items</b>	<b>21.4</b>	<b>14.2</b>
<b>Total Inventories</b>	<b>1 021.8</b>	<b>515.9</b>

# Note 2.11: Employee Benefits

	2008			Opening Balance 01.01. 2008
	Actuarial Valuation	WFP Valuation	Total	
	US\$ millions			
<b>Short-term employee benefits</b>	-	16.2	16.2	20.8
<b>Post-employment benefits</b>	190.1	0.7	190.8	174.6
<b>Other long-term employee benefits</b>	28.7	4.8	33.5	32.7
<b>Total Employee Benefits Liabilities</b>	218.8	21.7	240.5	228.1



# Note 7.2: Segment Reporting

US\$ millions

## REVENUE

	Programme Category Funds	General Fund and Special Accounts	Bilateral Operations and Trust Funds	Inter-Segments Transactions	Total WFP
Monetary contributions	2 953.0	887.5	310.4	-	4 150.9
In-kind contributions	886.4	0.7	-	-	887.1
Other revenue	55.8	76.9	0.1	(56 .1)	76.7

## TOTAL REVENUE

<b>3 895.2</b>	<b>965.1</b>	<b>310.5</b>	<b>(56.1)</b>	<b>5 114.7</b>
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## EXPENSES

Commodities distributed	2 046.3	(0.3)	157.0	(4.9)	2 198.1
Distribution and related services	547.1	-	7.6	(3.6)	551.1
Wages, salaries and employee benefits	299.6	221.9	42.3	(8.7)	555.1
Other expenses	333.1	105.6	20.9	(38.9)	420.7

## TOTAL EXPENSES

<b>3 226.1</b>	<b>327.2</b>	<b>227.8</b>	<b>(56.1)</b>	<b>3 725.0</b>
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## SURPLUS FOR THE YEAR

<b>669.1</b>	<b>637.9</b>	<b>82.7</b>	<b>-</b>	<b>1 389.7</b>
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# Note 2.13: Fund Balances and Reserves

	Programme Category Funds	Bilateral Operations and Trust Funds	General Fund and Special Accounts		Total
			(Fund Balance)	Reserves	
<b>Opening balance at 01 Jan 2008</b>	<b>1 953.1</b>	<b>239.9</b>	<b>182.9</b>	<b>140.1</b>	<b>2 516.0</b>
<b>Surplus for the year</b>	<b>669.1</b>	<b>82.7</b>	<b>637.9</b>	<b>-</b>	<b>1 389.7</b>
<b>Sub-total</b>	<b>2 622.2</b>	<b>322.6</b>	<b>820.8</b>	<b>140.1</b>	<b>3 905.7</b>
<b>Movements during the year:</b>					
Advances to projects	175.6	-	8.1	(183.7)	-
Repayments by projects	(119.6)	-	-	119.6	-
Replenishments	-	-	(65.9)	65.9	-
Surplus of ISC revenue over PSA expenses	-	-	(136.6)	136.6	-
Transfers between funds	377.2	(1.6)	(375.6)	-	-
Unrealized losses on long-term investment	-	-	(5.6)	-	(5.6)
<b>Total movements during the year</b>	<b>433.2</b>	<b>(1.6)</b>	<b>(575.6)</b>	<b>138.4</b>	<b>(5.6)</b>
<b>Closing balance at 31 Dec 2008</b>	<b>3 055.4</b>	<b>321.0</b>	<b>245.2</b>	<b>278.5</b>	<b>3 900.1</b>

# IPSAS and Financial Statements 2008

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**3**

## Notes to the Financial Statements

**Questions?**

# IPSAS and Financial Statements 2008



**4** Lessons Learned and Way  
Forward

# OBJECTIVES

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**4**

## **Lessons Learned and Way Fwd**

- Review lessons learned from IPSAS implementation
- Summarize future efforts required for continued success

# Lessons Learned

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- Necessary to have strong support of:
  - Executive Board
  - Senior Management
  - External Audit
  - Business & Operations Departments
- Continuous training and education process in regions and HQ needed
- Communication with internal and external audit essential
- Develop Guidance – make IPSAS standards more understandable



# Lessons Learned (cont.)

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- Special focus given to field offices and operations – close cooperation in policy writing
- Development of ERP system - WINGS II
- Coordination with UN
- Change Management / Communications / Training
- Team work essential

# Lessons Learned (cont.)

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- Advance introduction of key improvements:
  - Expenditure recognition 2006
  - Annual accounts 2006
  - Employee benefits recognised 2006-07
- June 2008 'Dry Run' Accounts
  - Reviewed by internal and external audit
- September 'Dry Run' Accounts:
  - Formal review by External Auditors
  - Lessons embedded for final closure



# Way Forward

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- Increased focus on performance
- For continued success in implementing IPSAS:
  - Continued commitment and support by senior management
  - Sustained knowledge of accrual accounting concepts among finance staff
  - A robust ERP system – WINGS II – that provides system support and compliance with all IPSAS reporting requirements.
- In addition, continued Board support for accountability and transparency
- Advice from the External Auditor and engagement with United Nations processes to position WFP in the forefront of financial reporting enhancements

# IPSAS and Financial Statements 2008

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## Lessons Learned

**Questions?**