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

Executive Board
Annual session
Rome, 10–14 June 2019

Distribution: General
Date: 7 May 2019
Original: English

Agenda item 6
WFP/EB.A/2019/6-A/1
Resource, financial and budgetary matters
For approval

Executive Board documents are available on WFP's website (http://executiveboard.wfp.org).

Audited annual accounts, 2018

The Secretariat is pleased to submit the Audited 2018 Financial Statements together with the Audit Opinion and the Report of 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's recommendations" (WFP/EB.A/2019/6-G/1).

Focal points:

Mr M. Juneja
Assistant Executive Director
Resource Management Department
and Chief Financial Officer
tel.: 066513-2885

Ms M. Mananikova
Chief
General Accounts Branch
tel.: 066513-2868

Mr R. Van der Zee
Director
Finance and Treasury Division
tel.: 066513-2544

Draft decision*

The Board:

i) approves the 2018 Annual Financial Statements of WFP, together with the Report of the External Auditor, pursuant to General Regulations XIV.6 (b);

ii) notes the funding from the General Fund of USD 705,262 during 2018 for the write off of receivables;

iii) notes losses of commodities during 2018 forming part of 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), prepared in accordance with the International Public Sector Accounting Standards (IPSAS), for the year ended 31 December 2018. The External Auditor has given his opinion and report on the 2018 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.

Operational context

2. The World Food Programme was established in 1961 by the United Nations General Assembly and Food and Agriculture Organization of the United Nations (FAO) Conference as the United Nations system's food aid organization. WFP is governed by a 36-member Executive Board which provides intergovernmental support, direction and supervision of WFP's activities. WFP provides assistance in 83 countries where its work is overseen through the six regional bureaux. WFP has more than 17,000 employees worldwide of whom over 88 percent are based in the countries where the agency provides assistance.

3. The organization's corporate strategy is mapped out in its Strategic Plan which is renewed every four years. The Strategic Plan is guided by the Sustainable Development Goals (SDGs) set forth in the 2030 Agenda for Sustainable Development, in particular SDG 2 on ending hunger and SDG 17 on revitalizing global partnerships for implementation of the SDGs. WFP's Strategic Plan for 2017–2021 therefore aligns the organization's work to the 2030 Agenda's global call to action, which prioritizes efforts to end poverty, hunger and inequality, encompassing humanitarian as well as development efforts.

4. Responding to emergencies and saving lives and livelihoods – either through direct assistance, or by strengthening country capacities – remains at the heart of WFP's operations, especially as humanitarian needs become increasingly complex and protracted. At the same time, WFP continues to support countries by building resilience for food security and nutrition, and to change the lives of individuals and communities across the world by improving agricultural techniques, strengthening local livelihoods, promoting adaptation to climate change, ensuring children have the nutrients they need and managing school feeding programmes that help girls and boys stay at school and build bright futures.

5. The year 2018 was characterized by a continuation of the record number of emergencies witnessed the previous year, with seven Level 3 and nine Level 2 emergencies active during the year, primarily stemming from conflict. In 2018, WFP responded to food security and nutrition needs in the context of conflict, climate change, corruption and poor governance, along with the breakdown of food systems.

6. In 2018, WFP's net contribution revenue was at a record level of USD 7.2 billion versus requirements, that were also higher than ever, standing at USD 10.0 billion. As a result of this USD 2.8 billion funding gap, WFP has had to prioritize geographically, between

households, and across activities. Supported by growing donor funding levels, and in partnership with national governments, United Nations agencies, and over 1,000 non-governmental organization (NGO) partners, WFP was able to achieve significant results directly reaching 87 million people in 83 countries. While emergency response remained a focus in 2018 – with the Level 3 and Level 2 emergencies accounting for 57 percent of the total final programme of work – WFP's response in nutrition, work with smallholders, collaboration with national governments, and role in providing common services, among others were significant. WFP continues to be the largest distributor of cash and commodity vouchers in the humanitarian system, disbursing USD 1.8 billion in 2018, an increase from USD 1.4 billion in 2017.

Integrated Road Map

7. The four components of the Integrated Road Map (IRM) – the Strategic Plan (2017–2021), the policy on country strategic plans (CSPs), the Financial Framework Review, and the Corporate Results Framework – were approved by the Executive Board at the 2016 Second Regular Session. The holistic framework is designed to support governments and other partners in achieving the goals of the 2030 Agenda for Sustainable Development. It supports appropriate and sustainable responses and enhances the efficiency and effectiveness of WFP's operations.

8. In 2018, 59 country offices transitioned to the IRM framework, joining the 12 pilot country offices that pioneered the approach in 2017. Of the 71 country offices implementing the IRM framework in 2018, 29 are operating with full CSPs, 6 with interim CSPs (ICSPs) and 36 with transitional interim CSPs (T-ICSPs) representing 64 percent of WFP's 2018 programme of work of USD 10.0 billion. As at 31 December 2018, 11 countries continued to use the project system on an exceptional basis. The WFP Information Network and Global System (WINGS) accommodated and managed both the current project system and the new IRM framework in 2018. The Financial Statement V clearly indicates the original and final programme of work information and the framework that it applies to.

9. The experience of using the CSP framework and accompanying pilot country portfolio budgets in 2018 continued to inform refinements to the programme, financial and performance management framework, helping to ensure that WFP supports countries' work to end hunger among the poorest and most food-insecure people and to achieve the SDGs. Additionally, in mid-2018, WFP launched the beta version of the CSP data portal for Member States and donor partners. The portal will provide greater transparency on WFP's planning and results, strengthen governance and oversight requirements and will facilitate funding decisions.

10. A critical milestone in 2018 was the Executive Board's approval of amendments to WFP General Rules and Financial Regulations to ensure coherence with the Integrated Road Map framework at the second regular session. Changes to full cost recovery policies were also approved. Recognizing the importance of the full cost recovery principle, a simplified and more transparent full cost recovery model was introduced.

Financial analysis

Summary

11. WFP's primary source of revenue is voluntary contributions from donors. WFP recognizes contribution revenue when confirmed in writing and where the contributions are not stipulated for a future financial year. Contributions stipulated by donors for use in future periods are recorded as deferred revenue.

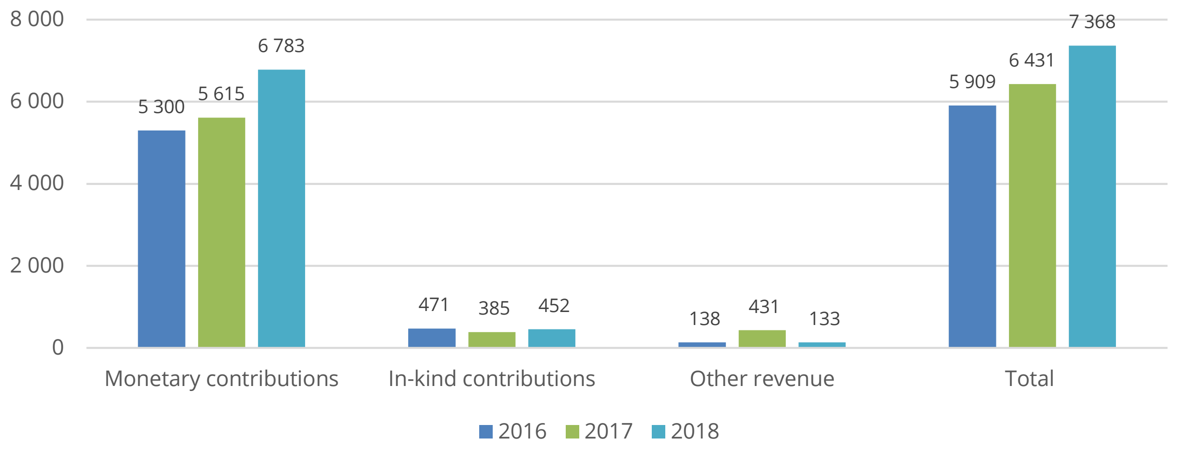
12. WFP's primary expenses are for food commodities distributed and cash-based transfers. Expenses are recognized when food commodities are delivered or cash-based transfers are distributed. There is an inherent time lag between the recognition of revenue and the recognition of expenses. Expenses in any one year may be higher or lower than the revenue in that year as WFP utilizes or replenishes its fund balances.

13. Based on the nature of WFP's operations the majority of its assets are current assets expected to be realized within twelve months after the reporting date. Current assets are expected to be significantly higher than current liabilities due to time lag between revenue and expenses recognition as discussed above.

14. Total fund balances and reserves comprise fund balances accumulated due to excess of revenue over expenses (including gains and losses recognized directly in net assets) in prior financial periods, and reserves established by the Board for funding specific activities under specific circumstances.

Financial performance

Figure 1. Revenue
(in USD million)



Revenue

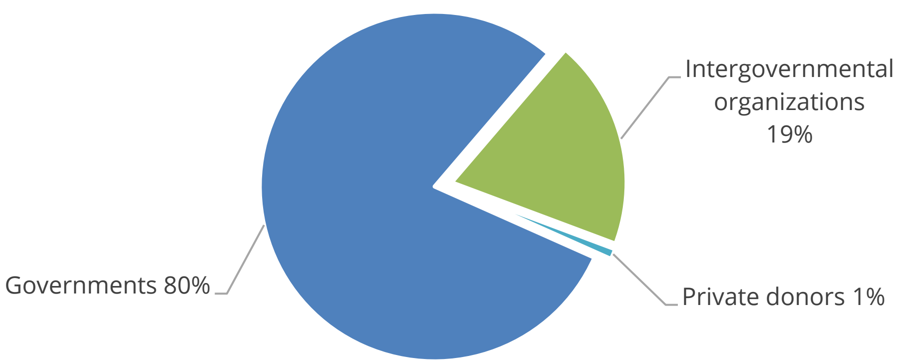
15. 2018 was a record year with total revenue recognized of USD 7,368.3 million, an increase of USD 937.4 million or 14 percent from the revenue of USD 6,430.9 million in 2017.

16. USD 7,234.9 million or 98 percent of total revenue was from donor monetary and in-kind contributions, an increase of USD 1,235 million or 20 percent compared to USD 5,999.9 million in 2017.

17. This increase in contribution revenue in 2018 stems primarily from increased monetary contributions received from the top donors, governments and intergovernmental organizations, including, the United States of America, European Commission, Germany, United Kingdom, Saudi Arabia, United Arab Emirates, Canada, Sweden, United Nations CERF and other United Nations funds.

Figure 2. Contributions revenue by donors

(in percentages)



18. USD 6,283.6 million or 87 percent of 2018 contributions revenue of USD 7,234.9 million was for WFP's programme category funds. Nearly 49 percent of contribution revenue under the programme category funds was in the Cairo Regional Bureau due to the extensive needs of major emergency operations in Yemen and the Syrian Regional Refugee Response. The remaining balance of contribution revenue under the programme category funds was distributed across six regional bureaux as follows:

Figure 3. Contribution revenue distribution by regional bureau

(in percentages)

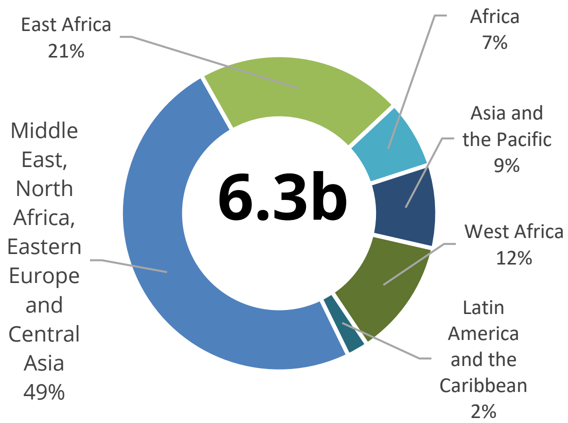
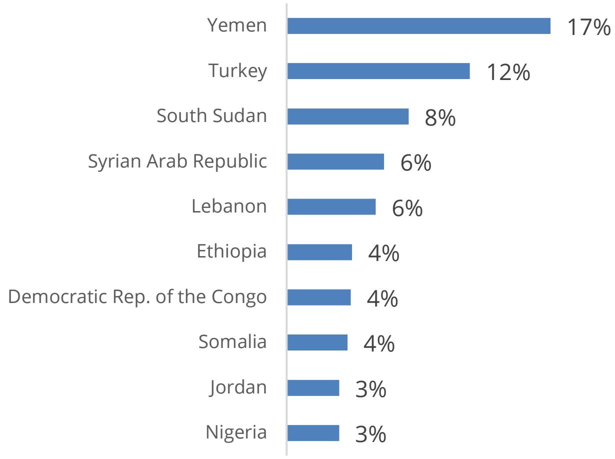


Figure 4. Top 10 countries by revenue distribution



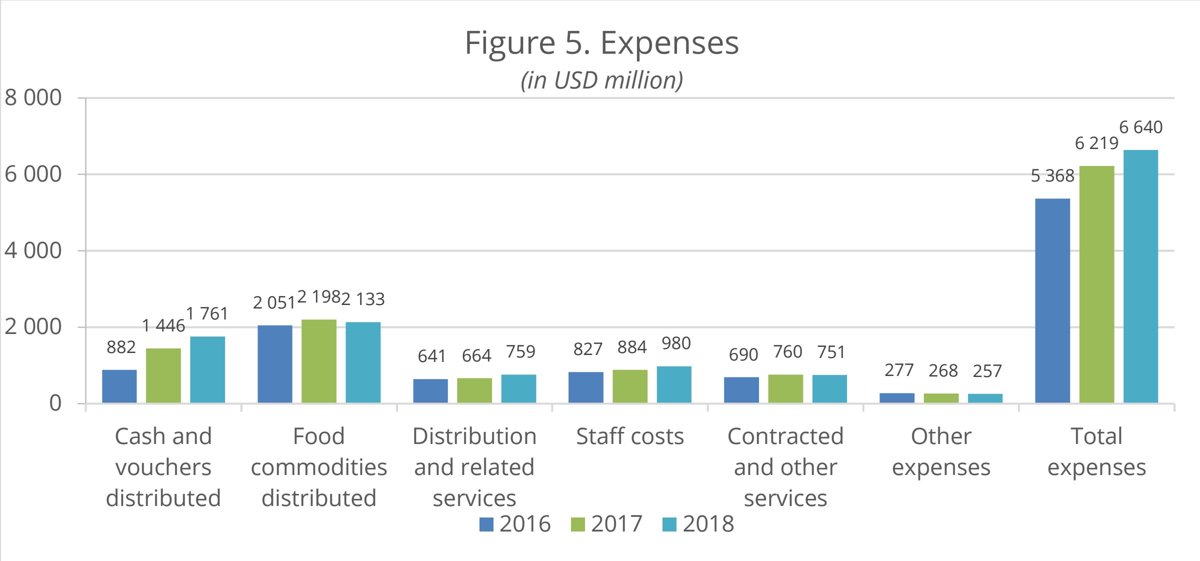
19. Other revenue was USD 133.4 million in 2018, a decrease of USD 297.6 million compared to USD 431.0 million in 2017. The elements of other revenue amounting to USD 133.4 million in 2018 comprised:

a) currency exchange differences – USD 84.4 million loss;

b) return on investments – USD 44.0 million gain; and

c) other revenue generated from provision of goods and services – USD 173.4 million.

Expenses



20. In 2018, WFP expenses were USD 6,639.7 million, an increase of USD 420.5 million or 7 percent from USD 6,219.2 million in 2017.

21. 75 percent of the increase in total expenses in 2018 is due to cash-based transfers distributed of USD 1,760.5 million (including USD 91.0 million of commodity voucher transfers), an increase of USD 314.4 million or 22 percent compared to USD 1,446.1 million (including 77.4 million of commodity voucher transfers) in 2017. The Syrian Regional Refugee Response emergency (namely, in Turkey, Lebanon and Jordan) and Somalia were the largest operations deploying the cash-based transfer modalities, amounting to USD 1,017.3 million or 58 percent of total cash-based transfers distributed in 2018. Cash-based transfers increased in Yemen (mainly deploying commodity voucher transfers), Iraq, Nigeria and Democratic Republic of the Congo and accounted for 13 percent of total cash-based transfers distributed in 2018.

22. Food commodities distributed in 2018 were 3.9 million mt, and at the same level as in 2017, with the corresponding value of USD 2,132.6 million. 67 percent of the food commodities distributed in tonnage and 61 percent in value are attributable to WFP's emergency and other large operations in Yemen, Ethiopia, the Syrian Arab Republic, South Sudan, Uganda, Nigeria and the Sudan.

23. Distribution and related services expense increased in 2018 by USD 94.3 million or 14 percent to USD 758.7 million from USD 664.4 million in 2017.

24. Staff costs increased in 2018 by 11 percent to USD 979.7 million. The increase in staff costs is mainly due to an increase in the number of international professionals, national staff, and consultants.

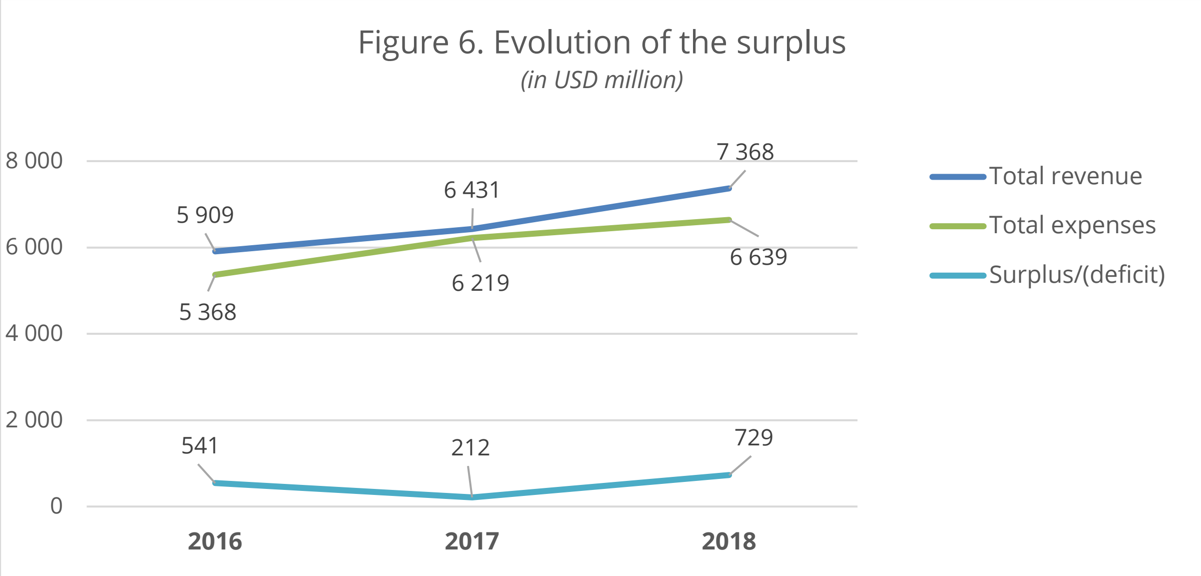
25. The other expenses category of USD 257.3 million decreased by 4 percent from USD 267.7 million in 2017 and is composed of:

a) Supplies, consumables and other running costs – USD 163.3 million;

b) Depreciation and amortization costs – USD 47.4 million;

c) Other expenses – USD 44.8 million; and

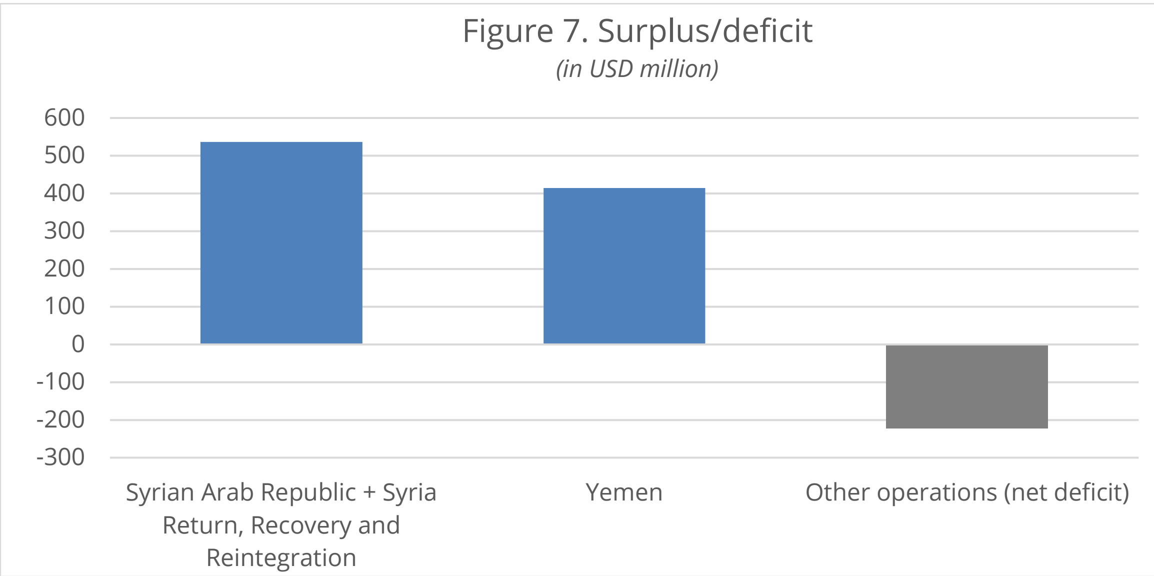
d) Finance costs – USD 1.8 million.



Surplus

26. In 2018, the surplus of revenue over expenses was USD 728.6 million compared to a surplus of USD 211.7 million in 2017. The increase of USD 516.9 million is due to an increase in revenue of 14 percent while expenses increased by 7 percent. The surplus in the period is comprised of surpluses in some operations where revenue recognized exceeded expenses incurred during the same period, reflecting an inherent time-lag between revenue and expenses recognition. The surpluses are partially offset by the deficits in other operations, that continued to utilize fund balances, accumulated due to the excesses of revenue over expenses in previous financial periods.

27. Most of the surplus in 2018 is attributed to the L3 emergency operations in Yemen, the Syrian Arab Republic and the Syrian Regional Refugee Response, as these large operations faced contextual challenges in spending. In Yemen, WFP accumulated inventory balances which remained undistributed as at 31 December 2018 due to the operational challenges of access (food commodities are expensed only upon delivery). In Turkey, the depreciation of the Turkish lira contributed to the surplus as benefits to beneficiaries are set and disbursed in local currency. Hence the implementation timeline of the main contribution for the Emergency Social Safety Net was extended to mid-2019 with the agreement of the donor.



Financial position

TABLE 1. SUMMARY OF FINANCIAL POSITION AT 31 DECEMBER 2018
(USD million)

	2018	**2017**
Cash and short-term investments	2 785.4	2 475.2
Contributions receivable	3 521.8	3 902.0
Inventories	853.8	704.8
Other receivables	218.0	136.6
Long-term investments	629.3	626.9
Property, plant and equipment and intangible assets	166.7	134.0
Total assets	**8 175.0**	**7 979.5**
Deferred revenues	1 279.2	1 928.2
Employee benefits	778.2	878.1
Loan	72.3	78.1
Other liabilities	739.6	661.2
Total liabilities	**2 869.3**	**3 545.6**
Net assets	**5 305.7**	**4 433.9**
Fund balances	4 898.4	4 053.5
Reserves	407.3	380.4
Total fund balances and reserves	**5 305.7**	**4 433.9**

Total assets

28. Total assets increased in 2018 by USD 195.5 million or 2 percent from USD 7,979.5 million at the end of 2017 to USD 8,175.0 million at the end of 2018. The increase in total assets is mainly due to an increase in cash, cash equivalents, short-term investments and inventories, and is partially offset by a decrease in contributions receivables.

29. Total cash, cash equivalents, and short-term investments of USD 2,785.4 million increased by USD 310.2 million or 14 percent from USD 2,475.2 million in 2017. The increase is mainly due to a 38 percent increase in short-term investments. WFP's cash, cash equivalents and short-term investments included in the Programme Category Funds segment of USD 1,866.4 million cover four months of operational activity (three months in 2017).

30. Total contributions receivable of USD 3,521.8 million decreased by USD 380.2 million or 10 percent from USD 3,902.0 million in 2017. The decrease is in the current portion of the contributions receivable and is due to higher collection compared to the previous period.

31. The value of WFP's food commodity inventory at the end of 2018 of USD 838.1 million increased by USD 148.5 million or 21 percent from the 2017 value due to an increase in stocks held of 0.5 million mt or 45 percent from the 2017 stocks (1.1 million mt in 2017 compared to 1.6 million mt in 2018). Nearly 60 percent of inventories held were in six locations: Yemen, the Syrian Arab Republic, Ethiopia, South Sudan, the Sudan and Democratic Republic of the Congo. Using the historical average of commodities distributed, the 1.6 million mt of food commodities in inventory represents five months of operational activity.

Total liabilities

32. Total liabilities decreased by USD 676.3 million or 19 percent from USD 3,545.6 million in 2017 to USD 2,869.3 million in 2018, primarily due to the decrease in deferred revenue of USD 649.0 million and employee benefits liabilities of USD 99.9 million.

33. Deferred revenue reflects contributions revenue stipulated for future years. Deferred revenue in 2018 decreased by USD 649.0 million or 34 percent from USD 1,928.2 million at the end of 2017 to USD 1,279.2 million at the end of 2018. Of the total deferred revenue of USD 1,279.2 million, USD 783.4 million is stipulated for use in 2019, and the remaining balance of USD 495.8 million is stipulated for use from 2020 and beyond.

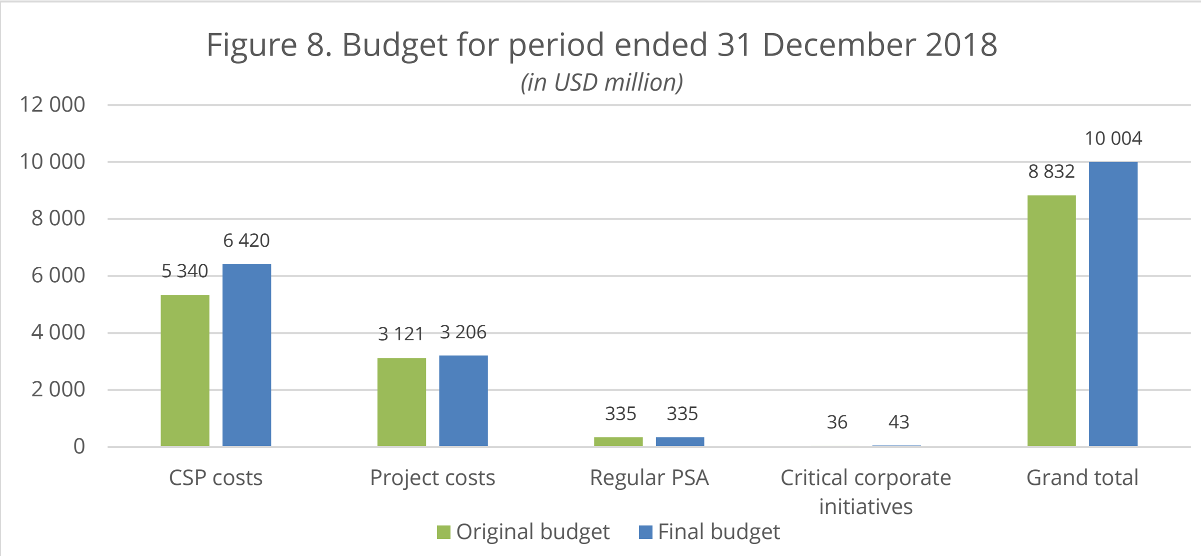
Net assets

34. Net assets represent the difference between WFP's total assets and total liabilities. At 31 December 2018, WFP's net assets totalled USD 5,305.7 million, confirming a healthy overall financial position. Of these net assets (Fund Balances and Reserves), USD 4,369.2 million relate to the Programme's projects, representing approximately six months of operational activity (five months in 2017). The remaining balance of USD 909.5 million pertains to the General Fund, Special Accounts, Reserves, Bilateral Operations and Trust Funds. Operational fund balances relate to donor support primarily directed to specific programmes in different stages of implementation, with expenses and related reduction in fund balance only recognized when food commodities are delivered and cash-based transfers are distributed.

35. At 31 December 2018, reserves balances totalled USD 407.3 million, an increase of USD 26 million or 7 percent compared to the balance held at 31 December 2017. The increase was due to a USD 34.4 million increase in the Immediate Response Account partly offset by a USD 9.7 million decrease in the Programme Support and Administrative Equalization Account.

Budgetary analysis

Basis of the budget



36. The budget figures for CSP costs, projects costs, and indirect costs (PSA budget) disclosed in Financial Statement V – Statement of Comparison of Budget and Actual Amounts are derived from the Programme of Work in the WFP Management Plan (2018–2020) and are broadly needs-based. Resources are made available for the CSP and project costs when contributions are confirmed by donors for approved CSPs and projects and through advance financing activities. Budgetary authority to incur PSA costs is received through the approval of the Management Plan.

37. As at 31 December 2018, 71 country offices transitioned to the IRM framework, operating either through full CSP, ICSP or T-ICSP. 11 country offices continued to use the project system in 2018 on an exceptional basis.

38. The WFP Management Plan (2018–2020), which was approved by the Board in November 2017, presented the 2018 Programme of Work amounting to USD 8,831.7 million as "Original budget".[1] By the end of 2018, the Programme of Work was updated to include the unforeseen needs. The final 2018 Programme of Work was 13 percent higher at USD 10,003.5 million, an increase of USD 1,171.8 million. This is disclosed in the Financial Statement V as "Final budget".

39. Nearly 63 percent or USD 735.0 million of the USD 1,171.8 million increase is attributable to the increase in the operational requirements of the emergency operations in Bangladesh (USD 250 million), Democratic Republic of the Congo (USD 133 million), Yemen (USD 110 million), Syrian Regional Response in Lebanon and Turkey (USD 92 and USD 62 million, respectively), Nigeria (USD 66 million) and South Sudan (USD 22 million).

40. The situation in the Horn of Africa, which affects primarily Ethiopia and Somalia, has deteriorated in 2018, leading to increased operational requirements of USD 95 million and USD 73 million, respectively. A notable increase also took place in West Africa (USD 229 million), mostly because of the Sahel crisis affecting Burkina Faso, Chad, Mali, Mauritania and the Niger.

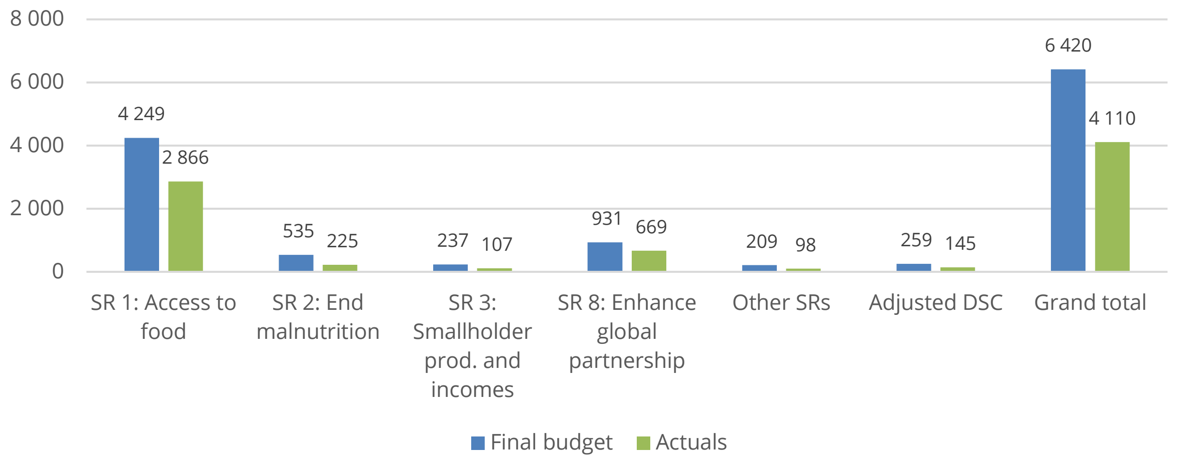
[1] At the time of the 2018–2020 Management Plan approval Original budget amounts covered all countries, including those that transitioned to the IRM framework and those that will transition in 2019. This section presents Original budget separately between CSPs and projects for the purpose of budgetary analysis to Final budget

Utilization of the budget

CSP costs

Figure 9. CSP utilization of final budget for the period ended 31 December 2018

(in USD million)



41. WFP can use resources when contributions are confirmed to approved projects or CSPs, or funds are provided through advance financing activities. Therefore, budgetary utilization within the year is constrained by the amount, timing and predictability of contributions, as well as inherent operational constraints.

42. In 2018, the CSP final budget was USD 6,419.5 million, reflecting broadly the needs-based requirements in the concerned 71 countries. Overall utilization of the CSP final budget was at 64 percent in 2018, reflected across the various strategic results as outlined below:

a) *SR.1 Everyone has access to food (SDG target 2.1)* represented 66 percent of total CSP final budget and had an overall utilization rate of 67 percent. Nearly 98 percent of USD 2,866.4 million actual costs under the SR.1 relate to unconditional/conditional resource transfers, school meals and assets creation and livelihood support activities.

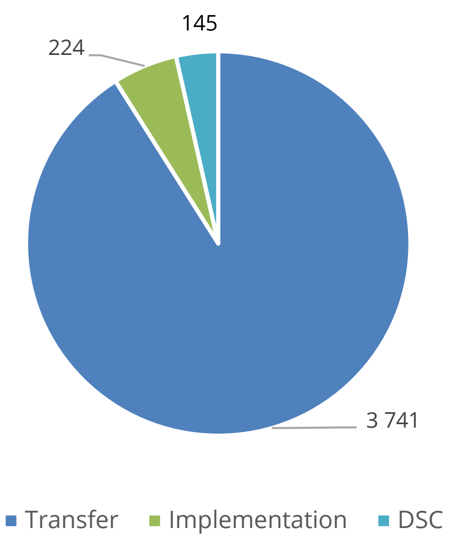
b) *SR.2 No one suffers from malnutrition (SDG target 2.2)* had an overall utilization rate of 42 percent. Malnutrition prevention and nutrition treatment activities represented 87 percent of actual costs of USD 225.4 million under SR.2.

c) *SR.3 Smallholders have improved food security and nutrition through improved productivity and incomes (SDG target 2.3)* overall utilization rate was at 45 percent. About 98 percent of USD 107 million actual costs under SR.3 relate to asset creation and livelihood support and smallholder agricultural market support activities.

d) *SR.8 Sharing of knowledge, expertise and technology, strengthen global partnership support to country efforts to achieve the SDGs (SDG target 17.16)* had an overall utilization rate of 72 percent. Partnership service provision activities to national governments and other partners in Turkey and South Sudan accounted for 83 percent of USD 669.4 million actual costs under SR.8.

e) The remaining four strategic results, contributing to sustainable food systems and to countries' capacities to implement the SDGs, amounted to 3 percent of CSP final budget and had an overall utilization rate of 46 percent.

Figure 10. CSP actual costs by high level cost categories
(in USD million)



43. The country portfolio budget structure that accompanies each CSP, ICSP, T-ICSP introduced four high-level cost categories: transfer costs, implementation costs, direct support and indirect support costs.

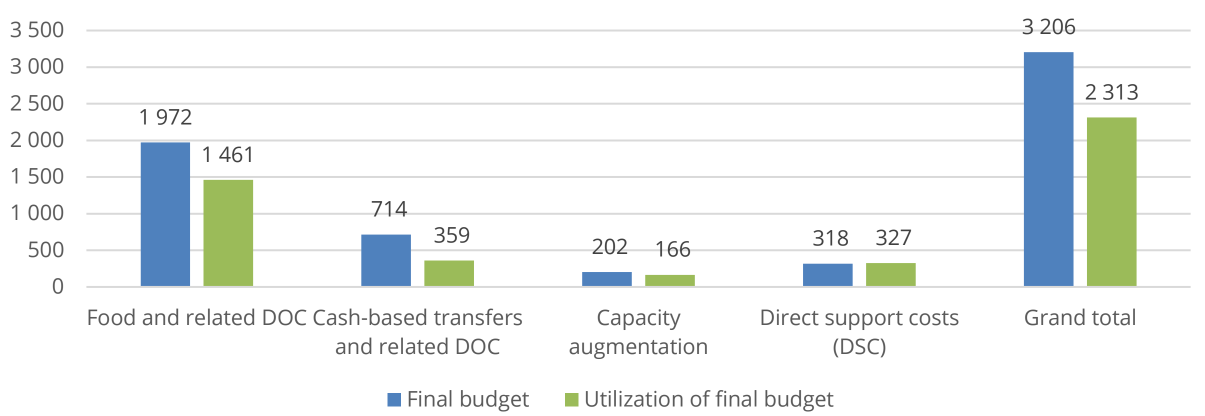
44. The transfer costs correspond to the monetary value of the item, cash, or service provided, as well as the related delivery costs and account for 91 percent of total CSP operational and direct support costs (DSC) in 2018.

45. Out of total transfer costs of USD 3,741 million, USD 1,965 million is for food transfers nearly entirely under the SR.1 and SR.2, and USD 1,442 million is for cash-based transfers under SR.1 and SR.8. The remaining USD 334 million pertained to capacity strengthening and service delivery transfer costs across all planned strategic results.

46. CSP implementation and DSC were USD 369 million in 2018 and 9 percent of the CSP actual costs.

Project costs

Figure 11. Projects utilization of final budget for the period ended 31 December 2018
(in USD million)



47. In 2018, the project costs final budget was USD 3,205.6 million. Utilization of the final budget was 72 percent in 2018.

48. For projects, the utilization rate was reflected across the various cost categories as outlined below:

- food and related direct operational costs (DOC) at 74 percent;
- cash-based transfers and related DOC at 50 percent;
- capacity augmentation at 82 percent;
- DSC utilization exceeded the final budget by 3 percent due to several country offices that continued spending under projects structure in 2018 prior to transitioning to the IRM framework.

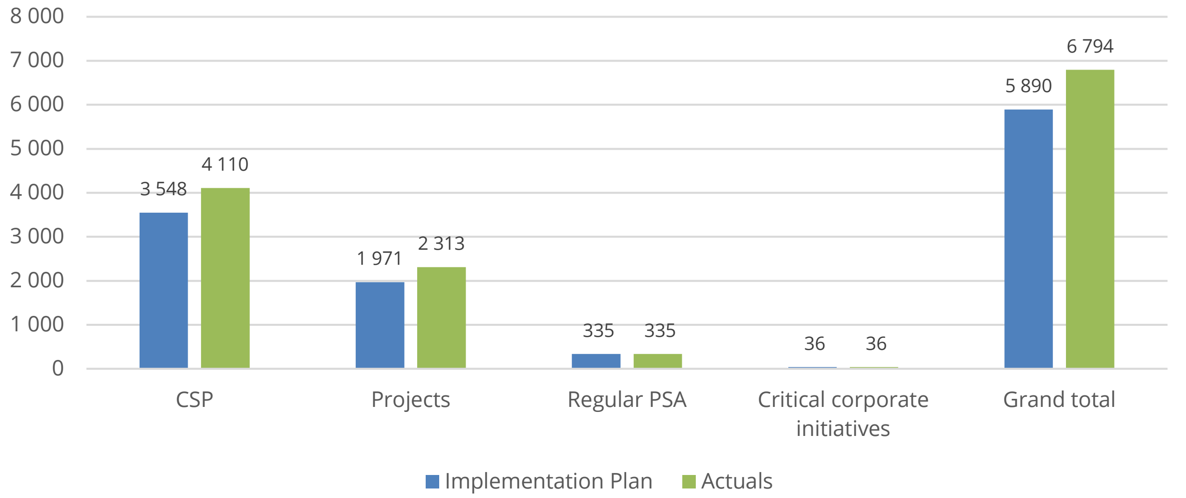
Indirect costs

49. The final PSA budget consisted of USD 335.4 million for regular expenditure and USD 43.0 million for critical corporate initiatives. Of the final approved regular PSA budget, USD 334.9 million (99.8 percent) was utilized by 31 December 2018. Of the final approved critical corporate initiatives, USD 36 million (84 percent) was utilized in 2018.

Implementation plan and actual utilization

Figure 12. Utilization of Implementation Plan for the period ended 31 December 2018

(in USD million)



50. The total actual costs of USD 6,794.4 million are greater than the original Implementation Plan of USD 5,890.0 million put forward in the WFP Management Plan (2018–2020). This is due to higher than expected contributions revenue and delivery in 2018 driven by the increase in operational requirements primarily to support relief operations in Yemen and two new Level 3 emergencies announced in late 2017 in Bangladesh and Democratic Republic of the Congo (DRC).

Enhancing transparency and accountability

51. WFP prepares financial statements in accordance with IPSAS to ensure timely, relevant and useful financial reporting, thereby improving transparency and accountability in the management of resources.

52. To ensure continued compliance with IPSAS, WFP assesses the impact and applies new IPSAS standards and changes accounting policies when changes in IPSAS require. WFP continues to work closely with other United Nations system organizations, through the High-Level Committee on Management task force on IPSAS. This task force provides a platform for discussion of IPSAS issues, with a view to achieving consistency in the application of IPSAS developments and enhancing comparability of financial reporting.

53. The Executive Management Group (EMG) meets regularly to discuss policy and strategic issues, including a review of selected IPSAS-based financial highlights, which cover key areas of WFP's financial performance and financial position.

54. WFP's enterprise risk management framework is aligned with the 2017 Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management Framework, which integrates the relationship among risks, strategy and performance. The updated enterprise risk management policy, approved in November 2018 by the Executive Board, aims to establish a pragmatic, systematic and disciplined approach to identifying and managing risks throughout WFP that is clearly linked to the achievement of its strategic objectives. WFP's enterprise risk management vision is to maintain a consistent risk management framework through which risks can be identified, analysed, addressed, escalated and accountability assigned; achieve a common understanding of WFP's risk exposures in relation to its risk appetite, to be able to articulate the organization's risk profile coherently to stakeholders; and establish a culture where risk management is linked to implementing WFP's Strategic Plan and considered proactively in operational decision making.

55. In 2015, WFP adopted the three lines of defence model, which assigns risk and internal control roles and responsibilities among 'first line' operational managers who own and manage risk and implement controls as part of their day-to-day work; 'second line' managers and functional risk leads who monitor risk and controls, set standards and define overall risk appetite; and 'third line' independent assurance functions. The Executive Director is ultimately accountable for the enterprise wide implementation of risk management and has assigned accountability to the Assistant Executive Director, Resource Management and Chief Financial Officer to oversee and provide direction to the Enterprise Risk Management function.

56. WFP's internal control framework, also aligned with COSO, is designed to provide reasonable assurance regarding the achievement of WFP's objectives. Along with the enterprise risk management framework, it addresses risks to the achievement of objectives by reducing them to acceptable levels. The enterprise risk management framework is broader than, and encompasses, internal control, since it deals with risk responses (risk avoidance, acceptance, sharing, reduction and pursuit) at a strategic level. The Assistant Executive Director, Resource Management and Chief Financial Officer a) serves as steward for the internal control framework and monitors its implementation through annual assurance statements from global management and oversight recommendation follow-up and reporting; and b) ensures that a clear action plan exists for addressing internal control issues raised in the annual Statement on Internal Control. This Statement on Internal Control is issued with the annual financial statements and provides assurance on the effectiveness of internal control, including significant risk and control issues and management's approach to addressing them.

57. WFP has adopted clear policies related to the public disclosure of the results of independent evaluations, audits and inspections. Evaluation reports and the accompanying management responses dating back to 2000 can be found on WFP's public website. Reports of the External Auditor and management responses are available on the Executive Board's public website. Internal audit and inspection reports are posted on WFP's public website in

accordance with the Policy for Disclosure of Oversight Reports. In addition, annual updates to the Executive Board on Joint Inspection Unit recommendations are available on the Executive Board's public website.

Treasury risk management

58. 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 potential adverse effects on the financial performance of WFP.

59. Financial risk management is carried out by a central treasury function using guidelines set out by the Executive Director who is advised by the WFP Investment Committee. Policies cover foreign exchange, interest rate and credit risk, the use of derivative financial instruments, and investing of excess liquidity.

60. In 2018, building on the established framework of potential financial risk mitigation policies and processes surrounding CBT operations, WFP continues to expand its focus to promote end-to-end assurance within cash assistance operations. Within 2018, WFP worked to further refine, enhance and reinforce compliance with the CBT Business Process Model and the responsibility and accountability framework associated with it. The portfolio of activities focused on an array of key areas such as: oversight, development of analytical tools and guidelines, responsibility matrix as well as dissemination of global lessons learned and best practices, which serve to contribute to better protection of WFP assets.

61. WFP's employee benefit liabilities were USD 778.2 million at 31 December 2018. WFP sets aside assets for the long-term employee benefit liabilities in the form of cash and long-term investments (bonds and equities). In accordance with the current funding plan approved by the Board in 2010, an incremental annual funding of USD 7.5 million is included in the standard staff cost over a 15-year period starting in 2011, with a view towards achieving a full funded status of the long-term employee benefit liabilities in 2025. WFP determines the funding level based on the long-term employee benefit liabilities. As at 31 December 2018, the level of assets set aside (USD 586.4 million) for the funding of the long-term employee benefit liabilities (USD 737.0 million) represents an 80 percent funding level. This is an increase from the 68 percent funding level in 2017 and is primarily due to a decrease in the long-term employee benefit liabilities, given an increase in the discount rates used to valuate these liabilities. Based on the actuarial valuation results of this year, it is projected that the fully funded status will be achieved during 2026 (one year earlier compared to the projections in 2017 valuation). The asset-liability study undertaken by the Secretariat to evaluate the appropriateness of the current funding policy also confirmed funding projections are in line with previous expectations and proposed minor alternatives to the asset allocation policy.

Sustainability

62. WFP's financial statements are prepared on a going-concern basis. In making this determination, WFP has considered the consequences of any potential significant reduction in contributions and whether this would lead to a consequential reduction in the scale of operations and number of people 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.

63. My statement on sustainability is supported by: i) the requirements I put forward in the WFP Management Plan (2019–2021); ii) the Strategic Plan (2017–2021) approved by the Executive Board in 2016; iii) the net assets held at the end of the period and contributions received in 2018; iv) the projected contributions levels for the year 2019; and v) the trend in donor support that has been sustaining WFP's mandate since its inception in 1963.

Administrative matters

64. WFP's principal place of business as well as the names and addresses of its General Counsel, actuaries, principal bankers and External Auditor are shown in Annex I to this document.

Responsibility

65. 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 2018.

Statement I Statement of Financial Position at 31 December 2018

Statement II Statement of Financial Performance for the year ended 31 December 2018

Statement III Statement of Changes in Net Assets for the year ended 31 December 2018

Statement IV Statement of Cash Flow for the year ended 31 December 2018

Statement V Statement of Comparison of Budget and Actual amounts for the year ended 31 December 2018

Notes to the Financial Statements

David M. Beasley

Executive Director Rome, 29 March 2019

Statement on Internal Control

Scope of responsibility and purpose of internal control

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

WFP's operating environment

2. The humanitarian imperative obliges WFP to respond when needed. This principle exposes WFP to operating environments and situations with a high level of inherent risk, including in terms of the security of its employees and beneficiaries, and, in some cases, the ability to maintain the highest standards of internal control.

Internal control and enterprise risk management frameworks

3. WFP's internal control framework is aligned with guidance issued by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). WFP defines internal control as a process, effected by WFP's Executive Board, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.
4. WFP's enterprise risk management framework is aligned with COSO guidance on enterprise risk management, which integrates risk, strategy and performance. WFP's 2018 enterprise risk management policy[2] aims to establish a pragmatic, systematic and disciplined approach to identifying and managing risks throughout WFP that is clearly linked to the achievement of its strategic objectives.

Review of the effectiveness of internal control

5. Managers within WFP who are responsible for implementing internal controls in their areas of responsibility inform an annual review of the effectiveness of WFP's internal controls. This includes:

   a) **Statements of assurance on the effectiveness of internal control** are signed by all 137 senior WFP managers including the Chief of Staff; Deputy Executive Director; Assistant Executive Directors; regional directors; country directors; directors of WFP Offices; and directors of headquarters divisions. Submissions were subject to review by supervisors, as applicable. Managers supported their responses with evidence and actions taken or planned.

   b) **The Office of the Inspector General's 2018 Assurance Opinion**, which did not identify any material weaknesses in WFP's governance, risk management or control processes that would seriously compromise the achievement of WFP's strategic and operational objectives.

   c) **Other evidence,** including oversight findings from the Office of the Inspector General (OIG), External Audit and the United Nations Joint Inspection Unit; Corporate Risk

[2] WFP/EB.2/2018/5-C

Registers; and meetings of the Audit Committee, which advises the Executive Director and Executive Board on internal control, risk management and other matters.

Significant risk and internal control matters

Issues arising in 2018

6. One significant risk and internal control issue arose during 2018:

- **Non-governmental organizations (NGO) management.** OIG and management feedback note insufficient resources devoted to addressing risks associated with NGOs. Eleven NGO-related oversight matters were identified in 2016 including lack of systematic due diligence and capacity assessments by WFP of NGO partners; insufficient monitoring and spot checks; issues with timeliness, quality and submission of distribution reports; and management of NGO sub-contracting. High-risk areas identified in the 2018 NGO assurance advisory involved gaps in policies and tools; NGO risk management; second-line roles and responsibilities and resourcing; data quality issues with NGO information in corporate systems and NGO reporting protocols on sexual exploitation and abuse (SEA) and fraud. Weaknesses in NGO management also led to increased risk of fraud and, in some cases, instances of fraud. OIGI investigations related to cooperating partners (CPs) and NGOs generated the highest level of substantiated losses to WFP in 2018.
- As a result, the Office of the Inspector General increased its focus on NGO partnerships including through headquarters due diligence reviews of key NGOs. Moreover, in January 2018, WFP issued corporate guidance on management of NGO partnerships, the implementation of which is expected to lead to strengthened NGO partnerships, better quality programming, and improved risk management.
- In response to media coverage of a SEA allegation at one NGO in early 2018, country directors worldwide were instructed in February 2018 to immediately review partnership agreements to ensure that related content is included and verify that partner capacity assessments and due diligence reviews were undertaken and performance assessments were satisfactory; meet with personnel to ensure that policies, training requirements, recourse mechanisms and their application to partners are well-understood; meet with partners about SEA prevention and discuss potential exposure, protection and mitigation opportunities and roles and responsibilities; ensure that beneficiary feedback systems and communication mechanisms are present and fully functioning; and complete a control self-assessment on prevention of SEA.
- One of the main topics of the 2018 Annual Partnership Consultation (APC) was PSEA. There were three different panels that focused on the following topics: effectively preventing and responding to sexual exploitation and abuse, raising awareness of SEA and building trust in communities, and responsibilities towards people affected by SEA.

Issues carried forward from the 2017 Statement on Internal Control

7. The 2017 Statement on Internal Control drew attention to six significant risk and internal control issues. Progress has been made in all six areas; however, further work is needed in five of them.

a) **Beneficiary management.** Concerted efforts are ongoing to build WFP's organizational capacity to support the deployment of the SCOPE (system for cash operations) beneficiary and transfer management platform, and put in place a cross-functional change management process to address policy, operational and technical implementation aspects of digital beneficiary management, which remains a corporate priority. Biometric registration in SCOPE is an effective tool in guarding against diversion of food and cash, and efforts are being made to accelerate the roll-out of biometrics where appropriate. At 1 March 2019, 35.1 million identities have been registered in SCOPE (24.9 million at 31 December 2017).

Despite progress in this area, controls in some beneficiary management processes, such as data sharing, targeting, registration, monitoring, verification, and complaints and feedback mechanisms, require strengthening. For example,

- the internal audit of WFP operations in South Sudan highlighted high-priority targeting, and registration and verification issues;
- the one high-priority observation from the internal audit of WFP operations in the Philippines involved issues in collaboration with and assessment of partners, which limited WFP's visibility over targeting of beneficiaries and led to weaknesses in commodity management;
- gaps in beneficiary targeting and registration were highlighted in the internal audits of WFP operations in Nigeria and Yemen;
- an observation from the inspection report on WFP operations in Uganda involved registration of refugees and management of the refugee database; and
- ten agreed actions from the 2017 internal audit of beneficiary management remain outstanding.

In 2018, WFP has strengthened engagement on beneficiary management including development of policy and guidance on, for example, profiling, targeting, prioritization, verification; comprehensive programmatic guidance for registration and identity management; a personal data protection toolkit for WFP's registration and processing of beneficiaries' personal data, including risk assessments for third party data sharing; a policy decision on the use of SCOPE and programmatic implications; consideration of a policy framework to complement existing guidance to ensure implementation of beneficiary feedback mechanisms; updating of the field-level agreement and cooperating partner selection guidance; and beneficiary information management.

WFP rolled out an e-learning course aimed at building the capacity of staff to manage beneficiary data in SCOPE and has put in place the technical capability to identify duplicate records based on biometric data. WFP also developed technical standard operating procedures for beneficiary registration in SCOPE in 2018.

The SCOPE User and Roles Framework has been established and aligned with the corporate process for identifying and reviewing risks related to control and role assignments. The framework maps the process and controls for managing user accounts from creation to deactivation, and details roles and responsibilities.

In 2019, management will continue to strengthen beneficiary management processes and controls, including in relation to beneficiary verification, profiling and prioritization. WFP will also finalize beneficiary management guidance, which covers various aspects of how WFP manages beneficiary identities and the personal data protection considerations guiding this.

The WFP Management Plan (2019–2021)[3] includes a critical corporate initiative spend of USD 20 million for a cash and digital assistance platform, enhancing the existing SCOPE solution. This is envisaged to strengthen WFP's digital capabilities primarily for cash-based transfers. In particular, the initiative will focus on secure beneficiary identity and information management; improved programme design and delivery; enhanced transfer delivery; increased assurances, safeguards and risk management; and centralized data analytics and insights. WFP aims to strengthen its workforce capabilities and capacity alongside the technology investment.

b) **IT governance, controls and cybersecurity.** In 2018, WFP made significant progress in addressing cybersecurity issues as a result of the substantial investments by the organization to strengthen data protection activities, implement threat detection solutions, decommission legacy systems, rearchitect the network environment, and improve overall internal controls. These measures are building blocks towards modernizing the overall cybersecurity programme to the next phase of digital and cyber transformation, improving WFP's cybersecurity posture and safeguarding the confidentiality, integrity and availability of data and programmes.

The increased focus on and investment in proactively improving WFP's cyberposture is intended to mitigate the risk of fraud, data loss, business disruption and potentially severe financial loss due to cyber threats that increasingly challenge WFP's ability to protect business-critical systems and safeguard the confidentiality, integrity and availability of information.

Notwithstanding significant progress and investments in this area, the Office of the Inspector General identified shortcomings in systems and technology, notably in travel management, asset management, monitoring, staff entitlements, and vendor management, where lack of systems integration remains a pervasive issue preventing adequate controls and efficiencies. The focus of significant resources in this area is a reflection of management's view that systems-related issues and cybersecurity remain significant risks to the organization as it becomes increasingly reliant on technology.

The WFP Management Plan (2019–2021) also includes USD 5 million for 2019 for integrating WFP's corporate systems and IT-enabled efficiencies. This includes investment in a platform that integrates existing and new systems. Investing in the integration of corporate systems will first require identification of the challenges to and gaps in existing system alignment. Subsequent work on the development of tools, such as the incorporation of data analytics and the strengthening of linkages between resources and results, will enhance the transparency of the data provided to Member States via the CSP data portal and the presentation of management insights via the WFP management dashboard. In 2019, WFP will also continue to deliver simplified and automated core functional processes with a view to improving the efficiency of its operations. Actions in this area include the roll-out of a global service management tool for business support functions, increased automation of data flows among systems in order to eliminate the need for manual entry, and an assessment of the feasibility of using process automation technologies for simplifying repetitive tasks.

c) **Scale-up of support to cope with the emergency portfolio.** 2018 saw the extension of Level 3 or Level 2 emergency responses in Colombia, Central African Republic, Democratic Republic of the Congo, Iraq, Libya, Cameroon, Mali, Myanmar/Bangladesh, Nigeria, South Sudan, Syrian Arab Republic and

[3] WFP/EB.2/2018/6-A/1/Rev.1

Syrian refugees, and Yemen. The potential inability of WFP to cope with the proliferation of crises in recent years continued to feature as a high-priority risk on the Corporate Risk Register in 2018.

Similarly, the Office of the Inspector General highlighted in their 2018 Assurance Opinion the impact on internal controls of staffing and capacity gaps in emergencies due to funding inadequacies, inaccessibility to food distribution sites and management vacancies and turnover, which have negatively affected delivery of WFP humanitarian assistance. For example, management vacancies and turnover adversely affected the successful delivery of WFP's humanitarian assistance in the Central African Republic. Similarly, understaffing and extended vacancies in Libya, combined with inadequate technical skills and capacity, resulted in a dependency on temporary staff and sub-optimal governance, risk management and internal control practices. It was also noted that emergency declarations were not observed to result in sufficient mobilization of resources and support from headquarters and regional bureaux, particularly for L2 emergencies.

Initiatives taken to address these issues include developing a comprehensive plan to address staffing requirements in emergencies and build surge capacity; enhancing the emergency response roster; implementing an Emergency Coordinator Roster; issuing an interim corporate emergency activation protocol; establishing an Operational Surge Support Unit; incorporating into the Country Strategic Plan Framework immediate response mechanisms that facilitate emergency-related strategic outcomes/activities; and establishing a corporate alert system linked to the preparedness task force.

d) **Improving operational monitoring and review systems**. Monitoring and review remains a significant risk and internal control issue. An internal audit of monitoring in WFP during 2018 highlighted gaps in controls due to a focus on collecting data for corporate reporting purposes at the expense of measuring project achievements and informing operational decision making; insufficient staff capacity and skills; and deprioritization of resources for monitoring. High priority issues were observed in the areas of monitoring budget, planning and coverage; monitoring checks and data quality; and reporting, follow-up and use of data.

Similarly, a 2018 internal audit of the development and delivery of COMET identified several improvement areas, including ineffective governance and project management structures, high priority observations related to issues of clarity on business needs and on system criticality, and success in meeting user needs; and technical ownership of COMET, reliance on the external developer and sustainability. Other audits highlighted access limitations that prevented adequate monitoring on the ground, notably in Yemen.

The planned COMET monitoring module is expected to be developed in 2019.

WFP's Corporate Monitoring Strategy (2018–2021) outlines WFP's commitment to performance management and aims to address three priority areas: workforce planning, financial commitment and functional capacity. The strategy addresses observed weaknesses in WFP's monitoring while laying out its vision for a credible and relevant monitoring function.

In November 2018, the Executive Board approved WFP's Revised Corporate Results Framework (2017–2021),[4] which guides the planning, implementation, and monitoring

[4] WFP/EB.2/2018/5-B/Rev.1

of WFP's programmes towards the objectives identified in the WFP Strategic Plan (2017–2021).

e) **Talent management and workforce planning.** WFP has continued to face challenges with timely placement of sufficient staff with the right skills in key positions. Country offices continue to experience issues in recruiting qualified staff, particularly in hardship duty stations. Virtually all WFP oversight bodies and senior management have identified workforce planning as a significant challenge. As such, this area remains a significant risk and control issue. Audits of country offices consistently highlight high- and medium-risk issues with staff capacity leading to deprioritization of control activities and potentially affecting the achievement of objectives under the country strategic plans. In its 2018 assurance opinion, the Office of the Inspector General noted a correlation between operations with low audit ratings and lack of alignment of their structure and workforce to the country strategic plans.

To ensure continuous alignment of our workforce with operational needs and priorities, WFP has been integrating workforce planning as part of the standard planning processes under the Integrated Road Map (IRM), whereby each country office is systematically assessing workforce composition as part of its country strategic plan development. Workforce planning is a part of the IRM organizational readiness Human Resources toolkit for country offices.

During 2018, WFP worked on the design of a corporate workforce planning framework and piloted the concept in functions such as nutrition, using the feedback collected to outline its 'Workforce 2020' initiative, detailing a management plan commitment of USD 11.1m over a two-year period to address:

- Workforce and skills development planning
- Functional capability development and surge capacity
- Cross-cutting skills development initiatives
- Learning technologies and toolsets

An online dashboard that provides an overview of WFP's current workforce and empowers decision makers to more effectively manage their workforce was also launched in 2018.

WFP has rolled out a customized supervisory skills programme (with 603 participants completing the programme so far) and is strengthening the performance management process and tools. In addition, WFP is developing a programme for newly appointed country directors and heads of sub-offices.

WFP introduced a Talent Review to gain insights into current leadership capability and potential, which provides an opportunity for staff to receive feedback on leadership strengths and areas for development. WFP also launched the Future International Talent (FIT) pool, a pipeline of pre-qualified professionals ready to fill international professional positions and available to serve where needed. As of March 2019, the FIT pool includes over 400 people and has grown as new functional areas have been added. The FIT pool now includes communications, security, procurement, administration, programme and policy (including cash-based transfers), nutrition, human resources, finance, vulnerability and mapping (VAM), monitoring and evaluation, and supply chain/logistics. Of the membership, 41percent are internal to WFP and 54 percent are women. So far, the FIT pool has been used to fill 21 positions (of which 16 women). The FIT pools will be refreshed periodically.

Issues from 2017 no longer deemed a significant risk and internal control issue

8. **Enterprise risk management and management oversight.** A Chief Risk Officer was appointed in 2018 to lead the newly established Enterprise Risk Management Division (RMR). Under his leadership, the Enterprise Risk Management Division continued to prioritize and strengthen risk management and internal control. During 2018, RMR updated the WFP oversight framework,[5] which the Executive Board approved in June 2018. The oversight framework spells out the governance architecture for WFP and the operation of the three lines of defence as a risk management and control framework.

9. In November 2018, the Executive Board approved the 2018 enterprise risk management policy, which included an update to WFP's risk appetite statements and a standard risk categorization. In addition to engaging with headquarters divisions on risk metrics for the risk appetite statements, defining key indicators to improve both internal and external risk feedback, the RMR division launched the new risk review process with the Annual Performance Plan and, in conjunction with the Performance Management and Monitoring Division, trained COs and RBs on the entire process. The RMR division also strengthened the risk management section within the country strategic plan.

10. In 2019, in addition to continuing to operationalize the revised enterprise risk management policy, the RMR division will implement a new governance, risk and compliance system, which will enable further improvements in risk management processes. RMR will also roll out an eLearning course on the three lines of defence model.

11. Aside from the above areas, WFP recognizes its obligation to reflect in this Statement material events that occurred in 2018. In Yemen, restrictions on WFP's operations have limited the organization's ability to institute robust procedures and controls. Evidence uncovered by WFP of diversion of humanitarian food relief, some of which was being sold on the open market in the capital, has highlighted shortcomings, which are being addressed. In addition to demanding an immediate end to the diversion of humanitarian food relief in Yemen, WFP is pressing for more monitoring, reform of the beneficiary selection process, and nationwide introduction of biometric registration of beneficiaries.

12. Following the influx of refugees from South Sudan and the Democratic Republic of the Congo, the Uganda country office received allegations of fraud in connection with the beneficiary registration process. In 2018, the Office of the Prime Minister (OPM) and UNHCR, the United Nations refugee agency, carried out a countrywide biometric verification exercise of all asylum seekers and refugees. Cases of multiple registrations were identified and removed from the database. Following the verification, new food assistance collection procedures were instituted to mitigate the risk of fraud and ensure that assistance is well managed and provided only to verified, eligible refugees and asylum seekers. Additionally, the Uganda country office has introduced robust controls along its supply chain, strengthened its beneficiary complaints and feedback mechanism, enhanced its partnership management processes, and closely worked with all partners to restore confidence in the refugee response operation.

---

[5] WFP/EB.A/2018/5-C*

13. In 2018, WFP initiated a review of regional bureau and headquarters roles and responsibilities and country office presence to reduce cost duplication and recalibrate span of control; while reinforcing support, oversight, information flow and country office empowerment. Thus far, WFP has defined consolidated regional bureau and headquarters terms of reference; options for regional geographic boundaries and a revised span of control; and a country presence framework; as well as provided input on regional bureau and country office resource allocation. Upcoming priorities include defining functional terms of reference in line with the agreed roles of headquarters and regional bureaux; core funding reallocation in line with regional bureau/country office needs and selected geographic scope option; a country presence viability test; and deep dives into the results of the viability test and country office alternative models.

14. The newly established management-side anti-fraud anti-corruption (AFAC) function within the Enterprise Risk Management Division rolled out a strategy and action plan to further integrate anti-fraud controls into organizational frameworks and operational management, strengthen awareness and capabilities, clarify policies and roles/responsibilities, and improve processes/tools and standards. In addition to incorporating risk management and internal control topics in functional training, RMR conducted in-house AFAC training in Nigeria and South Sudan and coordinated two Certified Fraud Examiner training sessions for selected staff based in headquarters, regional bureaux and country offices. Notwithstanding increased efforts to counter fraud and corruption, underreporting remains an issue. The External Auditor is expected to highlight this and other improvement areas in his forthcoming audit report on fraud prevention, detection and repression.

Statement

15. All internal controls have inherent limitations – including the possibility of circumvention – and therefore can provide only reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance. Further, because of changing conditions, the effectiveness of internal controls may vary over time.

16. Based on the above, I consider, to the best of my knowledge and information, that WFP operated satisfactory systems of internal control for the year ended 31 December 2018 in line with COSO's 2013 Internal Control - Integrated Framework.

17. WFP is committed to addressing the internal control and risk management issues identified above as part of the continuous improvement of its internal controls.

David M. Beasley

Executive Director Rome, 29 March 2019

WORLD FOOD PROGRAMME
STATEMENT I
STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018
(USD million)

	Note	2018	2017
Assets			
Current assets			
Cash and cash equivalents	2.1	1 116.1	1 268.9
Short-term investments	2.2	1 669.3	1 206.3
Contributions receivable	2.3	3 011.0	3 523.8
Inventories	2.4	853.8	704.8
Other receivables	2.5	218.0	136.6
		6 868.2	**6 840.4**
Non-current assets			
Contributions receivable	2.3	510.8	378.2
Long-term investments	2.6	629.3	626.9
Property, plant and equipment	2.7	162.2	128.4
Intangible assets	2.8	4.5	5.6
		1 306.8	**1 139.1**
Total assets		**8 175.0**	**7 979.5**
Liabilities			
Current liabilities			
Payables and accruals	2.9	727.8	654.9
Deferred revenue	2.10	783.4	1 550.0
Provisions	2.11	11.8	6.3
Employee benefits	2.12	41.2	36.9
Loan	2.13	5.7	5.7
		1 569.9	**2 253.8**
Non-current liabilities			
Deferred revenue	2.10	495.8	378.2
Employee benefits	2.12	737.0	841.2
Loan	2.13	66.6	72.4
		1 299.4	**1 291.8**
Total liabilities		**2 869.3**	**3 545.6**
Net assets		**5 305.7**	**4 433.9**
Fund balances and reserves			
Fund balances	2.15	4 898.4	4 053.5
Reserves	2.15	407.3	380.4
Total fund balances and reserves		**5 305.7**	**4 433.9**

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

David M. Beasley
Executive Director
Rome, 29 March 2019

Manoj Juneja
Assistant Executive Director and
Chief Financial Officer

WORLD FOOD PROGRAMME

STATEMENT II

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2018

(USD million)

	Note	2018	2017
Revenue			
Monetary contributions	3.1	6 783.4	5 614.8
In-kind contributions	3.2	451.5	385.1
Currency exchange differences	3.3	(84.4)	231.0
Return on investments	3.4	44.4	51.0
Other revenue	3.5	173.4	149.0
Total revenue		**7 368.3**	**6 430.9**
Expenses			
Cash-based transfers distributed	4.1	1 760.5	1 446.1
Food commodities distributed	4.2	2 132.6	2 197.5
Distribution and related services	4.3	758.7	664.4
Wages, salaries, employee benefits and other staff costs	4.4	979.7	884.0
Supplies, consumables and other running costs	4.5	163.3	174.4
Contracted and other services	4.6	750.9	759.5
Finance costs	4.7	1.8	1.9
Depreciation and amortization	4.8	47.4	47.7
Other expenses	4.9	44.8	43.7
Total expenses		**6 639.7**	**6 219.2**
Surplus for the year		**728.6**	**211.7**

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 2018

(USD million)

	Note	Accumulated surplus/fund	Surplus (deficit)	Reserves	Total net assets
Total net assets at 31 December 2017		**3 841.8**	**211.7**	**380.4**	**4 433.9**
Allocation of the surplus for 2017		211.7	(211.7)	-	-
Movements in fund balances and reserves in 2018					
Transfer from/to reserves	2.15	(26.9)	-	26.9	-
Net unrealized (losses) on long-term investments	2.6/2.15	(34.3)	-	-	(34.3)
Actuarial gains on employee benefit liabilities	2.12	177.5	-	-	177.5
Surplus for the year		-	728.6	-	728.6
Total movements during the year		**116.3**	**728.6**	**26.9**	**871.8**
Total net assets at 31 December 2018		**4 169.8**	**728.6**	**407.3**	**5 305.7**

	Note	Accumulated surplus/fund balances	Surplus (deficit)	Reserves	Total net assets
Total net assets at 31 December 2016		**3 413.5**	**541.4**	**329.7**	**4 284.6**
Allocation of the surplus for 2016		541.4	(541.4)	-	-
Movements in fund balances and reserves in 2017					
Transfer from/to reserves	2.15	(50.7)	-	50.7	-
Net unrealized gains on long-term investments	2.15	58.0	-	-	58.0
Actuarial (losses) on employee benefit liabilities	2.15	(120.4)	-	-	(120.4)
Surplus for the year		-	211.7	-	211.7
Total movements during the year		**(113.1)**	**211.7**	**50.7**	**149.3**
Total net assets at 31 December 2017		**3 841.8**	**211.7**	**380.4**	**4 433.9**

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 2018
(USD million)

	Note	2018	2017
Cash flows from operating activities:			
Surplus for the year		728.6	211.7
Adjustments to reconcile surplus to net cash flows from operating activities			
Depreciation and amortization	2.7/2.8	47.4	47.7
Unrealized (gain) loss on short-term investments	2.2	(0.6)	0.5
Unrealized loss (gain) on long-term investments	2.6	5.7	(8.8)
(Increase) in amortized value of long-term investments	2.2/2.6	(3.5)	(3.7)
(Decrease) in amortized value of long-term loan	2.13	(0.4)	(0.4)
Interest expense on long-term loan	2.13	2.2	2.3
(Increase) in inventories	2.4	(149.0)	(61.6)
Decrease (increase) in contributions receivable	2.3	380.2	(656.7)
(Increase) in other receivables	2.5	(76.9)	(8.7)
(Increase) in property, plant and equipment (donated in kind)	2.7	(0.4)	(1.5)
Increase in payables and accruals	2.9	72.9	97.1
(Decrease) increase in deferred revenue	2.10	(649.0)	942.0
Increase (decrease) in provisions	2.11	5.5	(0.7)
Increase in employee benefits net of actuarial gain/loss on post-employment benefits	2.12	77.6	55.1
Net cash flows from operating activities		**440.3**	**614.3**
Cash flows from investing activities:			
(Increase) in short-term investments	2.2	(455.0)	(22.7)
(Increase) in accrued interest receivable	2.5	(4.6)	(0.8)
(Increase) in long-term investments	2.6	(46.3)	(57.5)
(Increase) in property, plant and equipment	2.7	(79.2)	(33.0)
(Increase) in intangible assets	2.8	(0.5)	(1.2)
Net cash flows from investing activities		**(585.6)**	**(115.2)**
Cash flows from financing activities:			
Interest paid on loan	2.13	(2.2)	(2.4)
Repayment of annual principal on loan	2.13	(5.3)	(5.3)
Net cash flows from financing activities		**(7.5)**	**(7.7)**
Net (decrease) increase in cash and cash equivalents		**(152.8)**	**491.4**
Cash and cash equivalents at beginning of the year	2.1	**1 268.9**	**777.5**
Cash and cash equivalents at end of the year	2.1	**1 116.1**	**1 268.9**

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

WORLD FOOD PROGRAMME

STATEMENT V

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS[1]

FOR THE YEAR ENDED 31 DECEMBER 2018

(USD million)

	Note	Budget amount		Actual on	Difference: final	Implementation
Project costs	6	**Original budget**	**Final budget[2]**	**comparable basis**	**budget and actual**	**plan**
Food and related DOC		-	1 971.7	1 460.6	511.1	-
Cash-based transfers and related DOC		-	713.8	359.4	354.4	-
Capacity augmentation		-	201.9	166.0	35.9	-
DSC		-	318.2	327.5	(9.3)	-
Subtotal direct project costs		**-**	**3 205.6**	**2 313.5**	**892.1**	**-**
CSP costs[3]						
SR.1 Everyone has access to food		5 549.0	4 248.6	2 866.4	1 382.2	3 390.6
SR.2 No one suffers from malnutrition		807.4	535.3	225.3	310.0	510.2
SR.3 Smallholders have improved food security and nutrition through improved productivity and incomes		333.6	236.6	107.0	129.6	208.2
SR.4 Food systems are sustainable		160.0	133.8	66.8	67.0	106.8
SR.5 Developing countries have strengthened capacity to implement the SDGs		87.4	72.6	29.6	43.0	48.2
SR.6 Policies to support sustainable development are coherent		2.1	2.8	0.2	2.6	0.8
SR.7 Developing countries access a range of financial resources for development investment		0.2	0.2	0.4	(0.2)	0.1
SR.8 Sharing of knowledge, expertise and technology, strengthen global partnership support to country efforts to achieve the SDGs		940.2	930.9	669.4	261.5	834.7
Adjusted DSC		580.8	258.7	145.1	113.6	419.4
Subtotal CSP costs		**8 460.7**	**6 419.5**	**4 110.2**	**2 309.3**	**5 519.0**
Regular programme support and administrative costs		335.4	335.4	334.9	0.5	335.4
Critical corporate initiatives		35.6	43.0	36.0	7.0	35.6
Subtotal indirect costs		**371.0**	**378.4**	**370.9**	**7.5**	**371.0**
Total		**8 831.7**	**10 003.5**	**6 794.6**	**3 208.9**	**5 890.0**

The accompanying notes form an integral part of these financial statements

[1] Prepared on a commitment basis.

[2] Final budget represents approved operational needs as of 31 December of the reporting year. Instead, Implementation plan represents operational needs prioritized taking into account funding forecasts of available resources and operational challenges.

[3] At the time of the approval of the WFP Management Plan (2018–2020), original budget and implementation plan amounts covered all countries, including those that moved to the CSPs during 2018 and those that will move in 2019.

Notes to the Financial Statements at 31 December 2018

Note 1: Accounting policies

Reporting entity

1. The World Food Programme (WFP) was established in 1961 by the United Nations GA and Food and Agriculture Organization of the United Nations (FAO) conference as the United Nations system's food aid organization. The purposes of WFP are: a) to use food aid to support economic and social development; b) to meet refugee and other emergency and protracted relief food needs; and c) to promote world food security in accordance with the recommendations of the United Nations and FAO.

2. WFP is governed by a 36 member Executive Board which provides intergovernmental support, direction and supervision of WFP's activities. The organization is headed by an Executive Director, who is appointed jointly by the United Nations Secretary-General and the Director-General of FAO.

3. WFP has its headquarters in Rome, Italy. At 31 December 2018, WFP provided assistance in 83 countries, where its work is overseen through the six regional bureaux.

4. The financial statements include the operations of WFP, while jointly controlled entities are disclosed in Note 12.

Basis of preparation

5. 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.

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

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

Use of estimates and judgements

8. The preparation of the financial statements in conformity with IPSAS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. The estimates and associated assumptions are based on past experience and various other factors that are believed to be reasonable under the circumstances, and information available at the date of preparation of the financial statements, the results of which form the basis of judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and any future periods affected.

9. Significant estimates and assumptions that may result in material adjustments in future periods include: actuarial measurement of employee benefits; impairment of assets; selection of useful lives and the depreciation/amortization method for property, plant and equipment/intangible assets; provisions and contingent liabilities.

Cash and cash equivalents

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

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

Financial instruments

12. 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.

13. 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.

14. 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.

15. 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.

16. 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 net assets to surplus or deficit when the assets are derecognized.

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

Inventories

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

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

Contributions receivable

20. Contributions receivable are recognized when confirmed in writing by donors.

21. Contributions receivable are presented net of allowance for impairment and allowance for estimated reduction in contribution revenue.

22. 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.

23. Donated property, plant and equipment and intangible assets are valued at fair market value and recognized as property, plant, and equipment or intangible asset and contributions revenue.

Property, plant and equipment

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

25. 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.

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

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

Intangible assets

27. 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.

28. Amortization is provided over the estimated useful life using the straight-line method. The estimated useful life for intangible asset classes is 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

29. WFP recognizes the following categories of employee benefits:

- short-term employee benefits due to be settled within 12 months after the end of the accounting period in which employees render the related service;
- post-employment benefits; and
- other long-term employee benefits
- termination benefits.

  Termination benefits are recognized as an expense only when WFP is demonstrably committed, without realistic possibility of withdrawal, to either terminate the employment of a staff member before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

United Nations Joint Staff Pension Fund

30. WFP is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF or the Fund), which was established by the GA to provide retirement, death, disability and related benefits to employees. The 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.

31. The Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the plan. WFP and the UNJSPF, in line with the other participating organizations in the Fund, are not in a position to identify WFP's 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 39, Employee Benefits. WFP's contributions to the Fund during the financial period are recognized as expenses in the Statement of Financial Performance.

Provisions and contingent liabilities

32. 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.

33. 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.

Contributions revenue

34. WFP recognizes contributions revenue when confirmed in writing and where the contribution has been stipulated for the current financial reporting year. For contributions stipulated for future years, WFP recognizes an asset (cash or receivable) and a liability (deferred revenue) when the agreement is confirmed in writing. Deferred revenue is reduced, and revenue is recognized only when the contribution year, as stipulated by the donor, starts.

Food commodities and cash-based transfers distributed

35. Food commodities are expensed when distributed directly by WFP or once they are handed over to Cooperating Partners or Service Providers for distribution.

36. Cash-based transfers are expensed when distributed directly by WFP or once they are distributed by the Cooperating Partners or Service Providers.

Fund accounting and segment reporting

37. 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.

38. 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.

39. Following the approval of the WFP Strategic Plan (2017–2021), the CSPs with the country portfolio budgets applied new programmatic and financial framework, which necessitated amendments to the WFP General Rules and Financial Regulations. Pending normative amendments, the Board authorized the temporary application to the country portfolio budgets of provisions of the WFP General Rules and Financial Regulations referring to existing programme categories as if they referred to CSPs.[2] During its 2018 Second Regular Session, the Board approved the proposed amendments of the General Rules and Financial Regulations and decided that such amendments shall come into effect on 1 January 2019.[3]

[2] WFP/EB.2/2016/15

[3] WFP/EB.2/2018/5-A/1

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

41. 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.

42. 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 to account for contributions, the purpose, scope and reporting procedures of which have been agreed upon with the donor under specific trust fund agreements.

43. 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.

44. 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

45. 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 or strategic result into WFP cost categories.

46. 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 critical corporate initiatives. Budgets may be subsequently amended by the Board or through the exercise of delegated authority.

47. 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.

48. The budget in Statement V represents WFP's operational requirements, which includes the Implementation plan. This Implementation plan represents a prioritized plan of work based on estimated forecast contributions taking into account the fact that WFP is a voluntarily funded organization and its operations and financial management therefore depend on the level of funding actually received. The Implementation plan is detailed in the Management Plan and includes the prioritized programme of work for the direct cost portion and the budgeted regular programme support and administrative costs and critical corporate initiatives for the indirect cost portion.

Note 2.1: Cash and cash equivalents

	2018	2017
	USD million	
Cash and cash equivalents		
Bank and cash at headquarters	172.0	110.4
Bank and cash at regional bureaux and country offices	67.3	62.7
Money market and deposit accounts at headquarters	575.0	398.0
Cash and cash equivalents held by investment managers	301.8	697.8
Total cash and cash equivalents	**1 116.1**	**1 268.9**

49. 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

	2018	2017
	USD million	
Short-term investments		
Short-term investments	1 662.1	1 198.9
Current portion of long-term investments (Note 2.6)	7.2	7.4
Total short-term investments	**1 669.3**	**1 206.3**

50. 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 2018 and remained at very low levels in the context of a market environment of low absolute yields.

51. Short-term investments were valued at USD 1 662.1 million at 31 December 2018 (USD 1 198.9 million at 31 December 2017). Of this amount, USD 880.1 million pertains to bonds issued or guaranteed by governments or government agencies (reclassed USD 685.0 million at 31 December 2017); USD 412.1 million pertains to corporate bonds (reclassed USD 277.8 million at 31 December 2017) and USD 369.9 million pertains to asset-backed securities (USD 236.1 million at 31 December 2017). 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.

52. At 31 December 2018, derivatives usage in short-term investments was limited to bond futures and derivatives exposure was considered not to be material. The notional amount of the derivatives financial instruments held in the investment portfolio is USD 12.4 million (USD 1.4 million at 31 December 2017).

	2017	Net additions/ (deductions)	Interest received/ amortized	Net realized gains/ (losses)	Net unrealized gains/(losses)	2018
	USD million					
Short-term investments	1 198.9	434.1	31.2	(2.7)	0.6	1 662.1
Current portion of long-term investments	7.4	(0.6)	0.4	-	-	7.2
Total short-term investments	**1 206.3**	**433.5**	**31.6**	**(2.7)**	**0.6**	**1 669.3**

53. During 2018, short-term investments increased by USD 463.0 million. This increase includes net unrealized gain of USD 0.6 million presented in the reconciliation of surplus to operating cash flows in the Statement of Cash Flow and amortized interest on the current portion of the long-term investment of USD 0.4 million, also presented in the reconciliation as part of the increase in amortized value of the long-term investment of USD 3.5 million. The remaining balance, net of reclassification from long-term to short-term of USD 7.0 million, amounting to USD 455.0 million is presented in the Statement of Cash Flow under investing activities.

Note 2.3: Contributions receivable

	2018	2017
	USD million	
Composition:		
Current	3 011.0	3 523.8
Non-current	510.8	378.2
Total net contributions receivable	**3 521.8**	**3 902.0**
Monetary contributions receivable	3 432.7	3 825.2
In-kind contributions receivable	198.4	208.4
Total contributions receivable before allowance	**3 631.1**	**4 033.6**
Allowance for reduction in contribution revenue	(99.8)	(124.2)
Allowance for impairment	(9.5)	(7.4)
Total net contributions receivable	**3 521.8**	**3 902.0**

54. Current contributions receivable is for confirmed contributions that are due within 12 months while non-current contributions receivable is those that are due after 12 months from 31 December 2018.

55. 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.

56. The following table illustrates the composition of contributions receivable by aging:

	2018		2017	
	USD million	***%***	***USD million***	***%***
Aging				
2018	3 200.0	87		
2017	275.4	7	3 286.1	83
2016	177.2	5	555.6	14
2015 and earlier	39.0	1	136.2	3
Subtotal	**3 691.6**	**100**	**3 977.9**	**100**
Revaluation adjustments (non-USD contributions receivable)	(60.5)	-	55.7	-
Total contributions receivable before allowance	**3 631.1**	**100**	**4 033.6**	**100**

57. Contributions receivable are presented net of allowance for impairment and allowance for estimated reductions in contribution revenue.

58. 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.

59. The change in the allowance for reductions in contribution revenue during 2018 is as follows:

	2017	Utilization	Increase/ (decrease)	2018
	USD million			
Total allowance for reduction in contribution revenue	**124.2**	**(82.5)**	**58.1**	**99.8**

60. During 2018, the reductions in contributions receivable amounted to USD 82.5 million. These reductions are recorded as a utilization of the allowance for reductions in contribution revenue and reported in the Statement of Financial Position. At 31 December 2018, the estimated final allowance required is USD 99.8 million. Accordingly, an increase of USD 58.1 million was recorded as an adjustment to monetary contribution revenue for the period and is reported in the Statement of Financial Performance.

61. The allowance for impairment is recorded based on a review of open contributions receivable to determine any line items that may not be collectible based on objective evidence of impairment as a result of one or more events that occurred after initial recognition of the receivable ("loss event") and that loss event(s) has an impact on the estimated future cash flows of the contributions receivable or group of receivables. Note that this is for 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 more than USD 10,000.

62. The change in the allowance for impairment during 2018 is as follows:

	2017	Utilization	Increase/ (decrease)	2018
	USD million			
Total allowance for impairment	**7.4**	**(0.1)**	**2.2**	**9.5**

63. During 2018, write-offs of USD 0.1 million were recorded as a utilization of the allowance for impairment and reported in the Statement of Financial Position. At 31 December 2018, the estimated final allowance for impairment required is USD 9.5 million. Accordingly, an increase of USD 2.2 million was recorded as an adjustment for the period and is reported in the Statement of Financial Performance.

Note 2.4: Inventories

64. 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.

	2018	2017
	USD million	
Food on hand	552.9	503.1
Food in transit	289.1	190.3
Subtotal food	**842.0**	**693.4**
Less: allowance for impairment – food	(3.9)	(3.8)
Total food	**838.1**	**689.6**
Non-food items	16.4	15.8
Less: allowance for impairment – non-food	(0.7)	(0.6)
Total non-food items	**15.7**	**15.2**
Total inventories	**853.8**	**704.8**

Food reconciliation	2018	2017
	USD million	
Opening inventory	689.6	626.8
Add back: impairment allowance	3.8	3.4
Food purchased	1 460.0	1 443.2
In-kind commodities received	428.3	400.0
Transport and related costs	372.7	411.0
Total inventory available for distribution	**2 954.4**	**2 884.4**
Less: Food distributed	(2 112.4)	(2 191.0)
Less: Allowance for impairment	(3.9)	(3.8)
Total food	**838.1**	**689.6**

65. For 2018, food and non-food items distributed totalled USD 2 132.6 million (USD 2 197.5 million in 2017), as reported in the Statement of Financial Performance. Of this amount, USD 2 112.4 million relates to food commodities and USD 20.2 million relates to non-food items (USD 2 191.0 million and USD 6.5 million, respectively, in 2017).

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

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

68. Inventories include non-food items held at WFP warehouses in Dubai and at various strategic storage depots managed by the United Nations Humanitarian Response Depot network.

69. Non-food items include: prefabricated buildings/warehouses, storage tents, water treatment units, solar power packs, satellite phones, ballistic blankets, tyres, motor vehicles and spare parts.

70. Food commodity stocks at 31 December 2018 were 1.6 million mt, valued at USD 842.0 million (1.1 million mt valued at USD 693.4 million at 31 December 2017).

71. An allowance for impairment has been made for possible loss or damage to inventories under WFP's custody. The allowance is based on past experience and has been set at 0.46 percent of total food and 4.22 percent for non-food items (in 2017, the allowance for food was 0.55 percent and the allowance for non-food items was 3.65 percent). Inventories are valued net of any impairments or obsolescence. During 2018, USD 0.6 million representing the total value of non-food items impaired are recorded as a utilization of the allowance for impairment in the Statement of Financial Position. As at 31 December 2018, the estimated final allowance for impairment required is USD 4.6 million. Accordingly, an increase in the allowance for impairment of USD 0.8 million is reported in the Statement of Financial Performance.

72. The change in the allowances for impairment during 2018 is as follows:

	2017	Utilization	Increase/ (decrease)	2018
		USD million		
Allowance for impairment – food	3.8	-	0.1	3.9
Allowance for impairment – non-food	0.6	(0.6)	0.7	0.7
Total allowance	**4.4**	**(0.6)**	**0.8**	**4.6**

Note 2.5: Other receivables

	2018	2017
	USD million	
Advances to vendors	69.6	38.8
Advances to staff	28.5	27.1
TPA receivables	6.5	6.2
Miscellaneous receivables	141.7	96.0
Total other receivables before allowance	**246.3**	**168.1**
Allowance for impairment	**(28.3)**	**(31.5)**
Total net other receivables	**218.0**	**136.6**

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

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

75. 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 to reflect the net position with the third parties.

76. Miscellaneous receivables include amounts due from clients for services provided, accrued interest receivable and value-added tax receivables where outright tax exemptions have not been obtained from governments.

77. Other receivables are reviewed to determine whether any allowance for impairment is required. As at 31 December 2018, the estimated allowance required is USD 28.3 million, of which USD 27.2 million is for value-added tax receivable and USD 1.1 million is for other receivables (USD 29.7 million for value-added tax receivable and USD 1.8 million for other receivables in 2017).

78. The change in the allowance for impairment during 2018 is as follows:

	2017	Utilization	Increase/ (decrease)	Revaluation adjustment	2018
	USD million				
Total allowance for impairment	**31.5**	**(0.6)**	**8.1**	**(10.7)**	**28.3**

79. The revaluation adjustment reflects the revaluation of the allowance denominated in non-USD currency.

80. The increase in the allowance for impairment of USD 8.1 million was recorded as an expense for the period and is reported in the Statement of Financial Performance.

Note 2.6: Long-term investments

	2018	2017
	USD million	
US Treasury STRIPS	61.1	65.2
Current portion (Note 2.2)	(7.2)	(7.4)
Long-term portion, US Treasury STRIPS	**53.9**	**57.8**
Bonds	300.8	281.6
Equities	274.6	287.5
Total bonds and equities	**575.4**	**569.1**
Total long-term investments	**629.3**	**626.9**

81. Long-term investments consist of investments in STRIPS and investments in bonds and equities.

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

83. Changes in market value of the investment in STRIPS are not recognized. At 31 December 2018, the market value of this investment was USD 71.4 million (USD 78.4 million at 31 December 2017).

84. The investments in bonds and equities have been designated as being held for funding of WFP's post-employment benefits liabilities and are not expected to be used in support of WFP's current operations. Although these investments are designated for this purpose, and are not available for funding current operations, the investments are not subject to separate legal restrictions and do not qualify as Plan Assets as defined in IPSAS 39, Employee Benefits.

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

86. The increase in the value of the long-term bond and equity investments of USD 6.3 million resulted from the investment of cash into bonds and equities of amounts charged to funds and projects in relation to the employee benefit liabilities and was offset by the decrease in market value of invested assets. The cash transfer of USD 48.1 million is invested in line with the WFP asset allocation policy of investing 50 percent in global bonds and 50 percent in global equities of funds set aside to meet employee benefit liabilities. These investments are stated at fair value based on valuation provided by the independent custodian bank responsible for the administration and safekeeping of the securities.

87. The movement of long-term investments accounts during 2018 is as follows:

	2017	Additions/ (deductions)	Interest received/ amortized	Net realized gains/ (losses)	Net unrealized gains/ (losses)	2018
	USD million					
Bonds and equities	**569.1**	48.1	6.7	(8.5)	(40.0)	**575.4**
Investment in STRIPS	**57.8**	(7.0)	3.1	-	-	**53.9**
Total long-term investment	**626.9**	**41.1**	**9.8**	**(8.5)**	**(40.0)**	**629.3**

88. During 2018, long-term investments increased by USD 2.4 million. Long-term bonds and equities are treated as available-for-sale financial assets except the investment in derivative financial instruments (notional amount USD 44.1 million) which are treated as held for trading financial assets. Accordingly, under IPSAS, the net unrealized losses of USD 34.3 million related to those financial assets treated as available-for-sale are transferred to net assets and presented in the Statement of Changes in Net Assets. The net unrealized losses of USD 0.6 million related to derivative financial instruments and the net unrealized losses of USD 5.1 million related to foreign exchange differences on monetary items are presented in the Statement of Financial Performance. The amortized interest on the investment in STRIPS of USD 3.1 million is presented in the reconciliation of surplus to operating cash flows in the Statement of Cash Flow as part of the increase in amortized value of the long-term investment of USD 3.5 million. The remaining balance, net of a reclassification from long-term to short-term of USD 7.0 million, amounting to USD 46.3 million is presented in the Statement of Cash Flow under investing activities.

Note 2.7: Property, plant and equipment

	Cost				Accumulated depreciation				Net carrying amount
	At 31 Dec 2017	Additions	Disposal/ transfers	At 31 Dec 2018	At 31 Dec 2017	Depreciation expense	Disposal/ transfers	At 31 Dec 2018	At 31 Dec 2018
	USD million								
Buildings									
Permanent	25.3	18.8	(1.0)	43.1	(3.9)	(1.2)	1.0	(4.1)	39.0
Temporary	103.1	14.0	(7.3)	109.8	(71.4)	(13.0)	6.0	(78.4)	31.4
Computer equipment	12.4	1.4	(0.3)	13.5	(10.9)	(1.1)	0.3	(11.7)	1.8
Office equipment	29.0	4.4	(2.8)	30.6	(25.1)	(3.2)	2.7	(25.6)	5.0
Office fixtures and fittings	0.6	1.4	-	2.0	(0.3)	(0.1)	-	(0.4)	1.6
Security and safety equipment	6.2	1.2	-	7.4	(5.4)	(0.6)	-	(6.0)	1.4
Telecommunication equipment	11.0	1.6	(0.2)	12.4	(9.4)	(1.2)	0.2	(10.4)	2.0
Motor vehicles	175.9	28.1	(17.6)	186.4	(121.0)	(22.2)	14.7	(128.5)	57.9
Workshop equipment	8.2	1.6	(1.1)	8.7	(6.2)	(1.2)	1.0	(6.4)	2.3
Leasehold improvements	21.7	1.3	(0.5)	22.5	(16.6)	(2.0)	0.5	(18.1)	4.4
Fixed assets under construction	5.2	14.6	(4.4)	15.4	-	-	-	-	15.4
Total	**398.6**	**88.4**	**(35.2)**	**451.8**	**(270.2)**	**(45.8)**	**26.4**	**(289.6)**	**162.2**

	Cost				Accumulated depreciation				Net carrying amount
	At 31 Dec 2016	Additions	Disposal/ transfers	At 31 Dec 2017	At 31 Dec 2016	Depreciation expense	Disposal/ transfers	At 31 Dec 2017	At 31 Dec 2017
	USD million								
Buildings									
Permanent	25.1	0.2	-	25.3	(3.3)	(0.6)	-	(3.9)	21.4
Temporary	96.1	10.3	(3.3)	103.1	(60.5)	(13.4)	2.5	(71.4)	31.7
Computer equipment	11.8	0.9	(0.3)	12.4	(10.2)	(0.9)	0.2	(10.9)	1.5
Office equipment	28.2	2.2	(1.4)	29.0	(23.4)	(2.9)	1.2	(25.1)	3.9
Office fixtures and fittings	0.6	-	-	0.6	(0.3)	-	-	(0.3)	0.3
Security and safety equipment	5.8	0.6	(0.2)	6.2	(5.2)	(0.5)	0.3	(5.4)	0.8
Telecommunication equipment	10.1	0.9	-	11.0	(8.0)	(1.4)	-	(9.4)	1.6
Motor vehicles	174.1	17.6	(15.8)	175.9	(112.8)	(23.5)	15.3	(121.0)	54.9
Workshop equipment	7.0	1.9	(0.7)	8.2	(5.3)	(1.0)	0.1	(6.2)	2.0
Leasehold improvements	20.9	1.7	(0.9)	21.7	(15.4)	(2.2)	1.0	(16.6)	5.1
Fixed assets under construction	5.0	0.9	(0.7)	5.2	-	-	-	-	5.2
Total	**384.7**	**37.2**	**(23.3)**	**398.6**	**(244.4)**	**(46.4)**	**20.6**	**(270.2)**	**128.4**

89. In 2018, major additions to PP&E were for buildings, motor vehicles and assets under construction. Net acquisitions (after disposals) for the period ended 31 December 2018 totalled USD 53.2 million (USD 13.9 million at 31 December 2017) of which USD 0.4 million relate to donated in-kind property, plant and equipment (USD 1.5 million at 31 December 2017). Net carrying amount of PP&E is reported in the Statement of Financial Position and the depreciation expense for the year of USD 45.8 million is reported in the Statement of Financial Performance (USD 46.4 million in 2017).

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

91. Assets are reviewed annually to determine if there is any impairment in their value. The review that was undertaken in 2018 did not result in any of the PP&E being impaired in value.

Note 2.8: Intangible assets

	Cost				Accumulated depreciation				Net carrying amount
	At 31 Dec 2017	Additions	Disposal/ transfers	At 31 Dec 2018	At 31 Dec 2017	Amortization expense	Disposal/ transfers	At 31 Dec 2018	At 31 Dec 2018
	USD million								
Internally generated software	56.5	0.3	0.6	57.4	(51.5)	1.6	-	(53.1)	4.3
Externally acquired software	2.8	-	-	2.8	(2.8)	-	-	(2.8)	-
Licenses and rights	0.7	-	-	0.7	(0.7)	-	-	(0.7)	-
Intangible asset under construction	0.6	0.2	(0.6)	0.2	-	-	-	-	0.2
Total intangible assets	**60.6**	**0.5**	**-**	**61.1**	**(55.0)**	**1.6**	**-**	**(56.6)**	**4.5**

	Cost				Accumulated depreciation				Net carrying amount
	At 31 Dec 2016	Additions	Disposal/ transfers	At 31 Dec 2017	At 31 Dec 2016	Amortization expense	Disposal/ transfers	At 31 Dec 2017	At 31 Dec 2017
	USD million								
Internally generated software	54.8	0.5	1.2	56.5	(50.2)	(1.3)	-	(51.5)	5.0
Externally acquired software	2.8	-	-	2.8	(2.8)	-	-	(2.8)	-
Licenses and rights	0.7	-	-	0.7	(0.7)	-	-	(0.7)	-
Intangible asset under construction	1.1	0.7	(1.2)	0.6	-	-	-	-	0.6
Total intangible assets	**59.4**	**1.2**	**-**	**60.6**	**(53.7)**	**(1.3)**	**-**	**(55.0)**	**5.6**

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

93. Net carrying amount of intangible assets is reported in the Statement of Financial Position while the amortization expense for the year of USD 1.6 million is reported in the Statement of Financial Performance.

Note 2.9: Payables and accruals

	2018	2017
	USD million	
Vendor payables	138.9	157.5
Donor payables	12.3	27.2
Miscellaneous	71.8	67.7
Subtotal payables	**223.0**	**252.4**
Accruals	504.8	402.5
Total payables and accruals	**727.8**	**654.9**

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

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

96. 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.

97. Miscellaneous payables include amounts due to staff and other United Nations agencies for services received and the fair value of foreign exchange forward contracts.

Note 2.10: Deferred revenue

	2018	2017
	USD million	
Composition:		
Current	783.4	1 550.0
Non-current	495.8	378.2
Total deferred revenue	**1 279.2**	**1 928.2**

98. Deferred revenue represents contributions where revenue recognition has been deferred to future financial periods since the year stipulated by the donor starts after the current financial period.

99. The current portion denotes revenue deferred for contributions related to the next 12 months. The non-current portion denotes revenue deferred for contributions related to the period beyond 12 months after the financial year-end.

100. In line with the accounting policy for contribution revenue as described in Note 1, deferred revenue is reduced, and contribution revenue is recognized in the Statement of Financial Performance when the contribution year, as stipulated by the donor, starts.

101. The following table illustrates the composition of deferred revenue by contribution year, as stipulated by the donor:

	2018	2017
	USD million	
Contribution year		
2023	1.1	
2022	14.7	
2021	159.8	17.2
2020	320.2	111.4
2019	783.4	249.6
2018	-	1 550.0
Total deferred revenue	**1 279.2**	**1 928.2**

Note 2.11: Provisions

	2018	2017
	USD million	
Provision for refunds to donors	9.2	6.3
Other provision	2.6	-
Total provisions	**11.8**	**6.3**

102. 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.

103. The change in the provision for refunds to donors during 2018 is as follows:

	2017	Utilization	Increase/ (decrease)	2018
	USD million			
Provision for refunds to donors	**6.3**	**(7.1)**	**10.0**	**9.2**

104. During 2018, refunds made to donors totalled USD 7.1 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 2018, the estimated final provision required is USD 9.2 million. Accordingly, an increase of USD 10.0 million was recorded as an adjustment to monetary contribution revenue for the period and is reported in the Statement of Financial Performance.

105. Other provision is recognized for legal claims where it is probable that there will be an outflow of resources to settle the claims and the amounts can be reliably estimated.

106. The change in the provision for legal claims during 2018 is as follows:

	2017	Utilization	Increase/ (decrease)	2018
			USD million	
Provision for legal claims	-	-	**2.6**	**2.6**

Note 2.12: Employee benefits

	2018	2017
	USD million	
Composition:		
Current	41.2	36.9
Non-current	737.0	841.2
Total employee benefits liabilities	**778.2**	**878.1**

	2018			2017
	Actuarial valuation	WFP valuation	Total	
		USD million		
Short-term employee benefits	3.3	37.9	41.2	36.9
Post-employment benefits	657.8	1.6	659.4	767.5
Other long-term employee benefits	72.1	5.5	77.6	73.7
Total employee benefits liabilities	**733.2**	**45.0**	**778.2**	**878.1**

2.12.1 Short-term employee benefits

107. Short-term employee benefits consist of annual leave, education grants and incurred but not paid amounts relating to all benefit plans. The benefits amount incurred but not paid were estimated by professional actuaries and accrued as short-term employee benefit liabilities.

2.12.2 Post-employment benefits

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

109. Post-employment benefits are established for two groups of staff: a) staff members who are in the professional category and general service in headquarters; and b) WFP's national professional officers and general service staff members in the country offices and regional bureaux (collectively, locally recruited staff members). Both groups of staff are covered by the FAO Staff Rules and the United Nations Staff Rules.

110. The After-Service Medical Plan (ASMP) allows eligible retirees and their eligible family members to participate in the Basic Medical Insurance Plan (BMIP) or the Medical Insurance Coverage Scheme (MICS) depending on which staff group they belong to. BMIP is provided to staff members in professional category and general service category in headquarters. MICS is provided to locally recruited staff members in country offices and regional bureaux. The ASMP defined benefit obligation represents the present value of the organization's medical insurance costs for retirees and active staff post-employment benefits accrued to-date.

111. The Separation Payments Scheme is a plan to fund severance pay for WFP general service staff at the duty stations in Italy.

112. 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 and, in certain circumstances, to supplement the disability and survivors' pensions paid by the UNJSPF.

2.12.3 Other long-term employee benefits

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

2.12.4 Valuation of employee benefit liabilities

114. Employee benefit liabilities are measured by professional actuaries or calculated by WFP. At 31 December 2018, total employee benefit liabilities amounted to USD 778.2 million, of which USD 733.2 million were calculated by the actuaries and USD 45.0 million were calculated by WFP (USD 837.6 million and USD 40.5 million, respectively, at 31 December 2017).

115. Of the total employee benefit liabilities of USD 778.2 million, the amount of USD 601.8 million has been charged against relevant funds and projects (USD 516.9 million at 31 December 2017). The balance of liabilities in the amount of USD 176.4 million has been allocated against the General Fund (USD 361.2 million at 31 December 2017).

116. During the 2010 Annual Session, the Board approved a funding plan to provide for the unfunded employee benefit liabilities currently allocated to the General Fund. The funding plan includes an incremental annual funding of USD 7.5 million in the standard staff cost over a 15-year period starting in 2011 with a view to achieving fully funded status at the end of the 15-year period if all assumptions are realized.

2.12.5 Actuarial valuations of post-employment and other separation-related benefits

117. Liabilities arising from post-employment benefits (After-Service Medical Plans, Separation Payments Scheme and Compensation Plan Reserve Fund) and Other separation-related benefits are determined by professional actuaries on the basis of actuarial assumptions and methods, reflecting the plan rules and benefit payments.

118. Post-employment benefits and other separation-related benefits liabilities which are calculated by actuaries totalled USD 729.9 million at 31 December 2018 (USD 834.6 million in 2017), of which USD 533.5 million pertains to staff members who are in the professional category and general service in headquarters (USD 580.1 million in 2017) and USD 196.4 million pertains to the benefits for locally recruited staff members (USD 254.5 million in 2017).

119. Under IPSAS 39, the annual expense for post-employment benefits liabilities as determined by the actuaries does not include amortization of actuarial gains/(losses). The full amount of actuarial gains/(losses) for post-employment benefits is recognized in the Statement of Changes in Net Assets. The actuarial gains/(losses) for other separation-related benefits continue to be recognized as an expense in the Statement of Financial Performance for the year in which they arise.

2.12.5.1 Actuarial assumptions and methods

120. 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 2018 valuation, the assumptions and methods used are described in the following table which also indicates the assumptions and methods used for the 2017 valuation.

121. The assumptions and methods adopted for the 2018 actuarial valuation, together with plan experience since the prior valuation date, resulted in a decrease in the post-employment and other separation-related benefits net liabilities in the total amount of USD 104.7 million (increase of USD 146.8 million in 2017).

122. The principal actuarial assumptions are required to be disclosed in the financial statements in accordance with IPSAS 39. In addition, each actuarial assumption is required to be disclosed in absolute terms.

123. 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 2018.

Discount rate	3.2 percent for accounting and funding based on yield curve approach for plans provided to staff members in professional category and general service category in headquarters (2.7 percent in 2017 valuation) 4.8 percent based on yield curve approach for plans provided to locally recruited staff members (4.0 percent in 2017 valuation)
Medical cost increases (ASMP only)	BMIP – 4.6 percent per year during 2019, decreasing 0.1 percent every two years to 4.0 percent in 2030, and then decreasing 0.1 percent each year to 3.7 percent for 2033 and every year thereafter (same in 2017 valuation) MICS – 9.4 percent from 2019, decreasing by 0.3 percent each year to 6.7 percent in 2028, then decreasing by 0.2 percent each year to 4.9 percent in 2037, and then decreasing by 0.1 percent each year until it reaches 4.0 percent in 2046 and beyond (9.2 percent during 2018, decreasing 0.3 percent each year to 7.1 percent in 2025, then 0.2 percent each year to 5.1 percent in 2035, and then 0.1 percent each year to 4.0 percent in 2046 and beyond in 2017 valuation)
Annual salary scale	3.0 percent plus merit component (3.5 percent plus merit component in 2017 valuation)
Annual cost of living increases	1.9 percent for the International Staff and 2.2 percent for the National Staff (same in 2017 valuation)
Future exchange rates	United Nations rates at 31 December 2018
Mortality rates	Mortality rates match the 31 December 2017 valuation of the UNJSPF in 2017 valuation
Disability rates	Disability rates match the 31 December 2017 valuation of the UNJSPF in 2017 valuation
Withdrawal rates	Based on a study of WFP's withdrawal rates from 2013 to 2018 (Based on a study of WFP's withdrawal rates from 2009 to 2013 in 2017 valuation)
Retirement rates	Based on a study of WFP's withdrawal rates from 2013 to 2018 (Based on a study of WFP's withdrawal rates from 2009 to 2013 in 2017 valuation)
Actuarial method	After-Service Medical Plans, 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. Other Separation-Related Payments Schemes: For accrued leave, projected unit credit with an attribution period from the entry on duty date to separation. For repatriation travel and removal, projected unit credit with an attribution period from the entry on duty date to separation. For repatriation grant and death grant, projected unit credit with an attribution based on the actual benefit formula.

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

2.12.5.2 Reconciliation of defined benefit obligation

	After-Service Medical Plans	Other separation-related benefits	Separation Payments Scheme	Compensation Plan Reserve Fund	Total
			USD million		
Defined benefit obligation at 31 December 2017	**729.6**	**68.6**	**22.9**	**13.5**	**834.6**
Service cost for 2018	50.9	8.0	1.9	0.7	61.5
Interest cost for 2018	22.8	1.8	0.6	0.4	25.6
Actual gross benefit payments for 2018	(7.4)	(5.3)	(1.8)	(0.6)	(15.1)
Participant contributions	1.8	-	-	-	1.8
Exchange rate movements	(16.1)	(0.1)	(1.0)	-	(17.2)
Other actuarial gains	(156.5)	(0.9)	(2.6)	(1.3)	(161.3)
Defined benefit obligation at 31 December 2018	**625.1**	**72.1**	**20.0**	**12.7**	**729.9**

2.12.5.3 Annual expense for calendar year 2018

	After-service medical plans	Other separation-related benefits	Separation payments scheme	Compensation plan reserve fund	Total
			USD million		
Service cost	50.9	8.0	1.9	0.7	61.5
Interest cost	22.8	1.8	0.6	0.4	25.6
Actuarial gains	-	(1.0)	-	-	(1.0)
Total expense	**73.7**	**8.8**	**2.5**	**1.1**	**86.1**

2.12.5.4 Reconciliation of present value of defined benefit obligation

	After-service medical plans	Other separation-related benefits	Separation payments scheme	Compensation plan reserve fund	Total
			USD million		
Defined benefit obligation					
Inactive	442.5	72.1	20.0	3.0	537.6
Active	182.6	-	-	9.7	192.3
Total	**625.1**	**72.1**	**20.0**	**12.7**	**729.9**
Gain on defined benefit obligation	(172.6)	(1.0)	(3.6)	(1.3)	(178.5)

2.12.6 Employee benefits liability – sensitivity analysis

125. The principle assumption in the valuation of all employee benefit plans is the discount rate. Sensitivity analysis for the discount rate for the employee benefits liabilities is presented in the following table.

	After-Service Medical Plans	Other separation-related benefits	Separation payments scheme	Staff Compensation Plan	Total
Defined benefit obligation			***USD million***		
Current discount rate assumption minus 1%	804.1	78.7	21.7	15.3	919.8
Current discount rate assumption	625.1	72.1	20.0	12.7	729.9
Current discount rate assumption plus 1%	494.9	66.5	18.5	10.8	590.7

2.12.6.1 After-Service Medical Plans – sensitivity analysis

126. Three principal assumptions in the valuation of the After-Service Medical Plans 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.

127. Sensitivity analysis for each of these significant assumptions for BMIP is presented in the following table.

		Long-term medical inflation per year		
Exchange rate	**Discount rate**	**2.7%**	**3.7%**	**4.7%**
			USD million	
1.042 USD per EUR	4.2%	267.5	329.0	410.1
1.142 USD per EUR	4.2%	284.0	349.3	435.5
1.242 USD per EUR	4.2%	300.5	369.6	460.8
1.042 USD per EUR	3.2%	330.4	412.8	523.2
1.142 USD per EUR	3.2%	350.8	438.3	555.5
1.242 USD per EUR	3.2%	371.2	463.8	587.8
1.042 USD per EUR	2.2%	415.6	527.9	680.5
1.142 USD per EUR	2.2%	441.2	560.6	722.6
1.242 USD per EUR	2.2%	466.9	593.2	764.6

128. The results assume that claims costs and premium rates would increase by the same percentage as the medical inflation, but that all other assumptions would be unaffected.

129. Sensitivity analysis for the actuarial estimates for MICS is presented in the following table.

	Long-term medical inflation per year		
Discount rate	**3.0%**	**4.0%**	**5.0%**
		USD million	
5.8%	115.5	145.6	185.7
4.8%	146.1	186.7	241.6
3.8%	187.7	243.5	319.8

2.12.7 Expected costs during 2019

130. The expected contribution of WFP in 2019 to the defined benefits plans is USD 15.2 million which is determined based on expected benefit payments for that year.

	After-Service Medical Plans	**Other separation-related benefits**	**Separation payments scheme**	**Staff Compensation Plan**	**Total**
			USD million		
Expected organization contributions during 2019	5.7	7.4	1.6	0.5	15.2

2.12.8 United Nations Joint Staff Pension Fund

131. The 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.

132. 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 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 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.

133. During 2017, the Fund identified that there were anomalies in the census data utilized in the actuarial valuation performed as of 31 December 2015. As such, as an exception to the normal biannual cycle, a roll forward of the participation data as of 31 December 2013 to 31 December 2016 was used by the Fund for their 2016 financial statements.

134. The actuarial valuation as of 31 December 2017 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 139.2 percent (150.1 percent in the 2016 roll forward). The funded ratio was 102.7 percent (101.4 percent in the 2016 roll forward) when the current system of pension adjustments was taken into account.

135. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2017, 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.

136. Should Article 26 be invoked due to an actuarial deficiency, either during the ongoing operation or due to the termination of the UNJSPF pension plan, deficiency payments required from each member organization would be based upon the proportion of that member organization's contributions to the total contributions paid to the UNJSPF during the three years preceding the valuation date. Total contributions paid to the UNJSPF during the preceding three years (2015, 2016 and 2017) amounted to USD 6,931.39 million, of which 4 percent was contributed by WFP.

137. During 2018, WFP's contributions paid to the UNJSPF amounted to 106.5 million (2017: USD 97.5 million). Expected contributions due in 2019 are approximately USD 113.2 million.

138. Membership of the Fund may be terminated by decision of the United Nations General Assembly, upon the affirmative recommendation of the Pension Board. A proportionate share of the total assets of the Fund at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Fund. The amount is determined by the UNJSPF Board based on an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets which are in excess of the liabilities are included in the amount.

139. The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the UNJSPF 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.

2.12.9 Social security arrangements for employees under service contracts

140. 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 2.13: Loan

	2018	2017
	USD million	
Current portion of loan	5.7	5.7
Non-current portion of loan	66.6	72.4
Total loan	**72.3**	**78.1**

141. 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, a USD 106.0 million long-term loan was obtained from a government agency of the donor country and used to purchase food commodities.

142. The loan is payable over 30 years and interest on the loan is at the rate of 2 percent per year for the first ten years and 3 percent per year on the declining balance each year thereafter. Current portion of long-term loan includes an annual principal amount of USD 5.3 million and an amortization cost of USD 0.4 million using the effective interest method. Investments in US Treasury STRIPS (Note 2.6) acquired in 2001 are held to maturity up to 2031 for the payment of interest and principal of the commodity loan of USD 106.0 million.

143. The loan is reflected at amortized cost using the effective interest rate of 2.44 percent. At 31 December 2018, total amortized cost was USD 72.3 million (USD 78.1 million at 31 December 2017) with an amount due within one year of USD 5.7 million and a long-term portion of USD 66.6 million (USD 5.7 million and USD 72.4 million, respectively in 2017).

144. Interest expense during 2018 totalled USD 1.8 million (USD 1.9 million at 31 December 2017) as reflected in the Statement of Financial Performance, of which USD 2.2 million represents the annual interest paid in May 2018 and USD (0.4) million represents the amortized cost resulting from the recognition of the long-term loan at its net present value.

145. In the Statement of Cash Flow, interest paid during the year in the amount of USD 2.2 million principal repayment of USD 5.3 million are presented under financing activities, while interest expense of USD 1.8 million is presented under reconciliation to net cash flows from operating activities.

Note 2.14: Financial instruments

2.14.1 Nature of financial instruments

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

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

	2018	2017
	USD million	
Financial assets at fair value through surplus or deficit	1 662.0	1 199.3
Held-to-maturity investments	61.1	65.2
Loans and receivables	4 754.7	5 103.3
Available-for-sale financial assets	575.5	568.7
Subtotal	**7 053.3**	**6 936.5**
Non-financial assets	1 121.7	1 043.0
Total	**8 175.0**	**7 979.5**

148. Financial assets at fair value through surplus or deficit are categorized as held-for-trading.

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

150. The following table presents the WFP assets that are measured at fair value at 31 December 2018 and 2017, respectively.

	2018				**2017**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
	USD million				***USD million***			
Financial assets at fair value through surplus or deficit	-	1 656.5	5.5	1 662.0	-	1 199.3	-	1 199.3
Available-for-sale financial assets	250.4	325.1	-	575.5	263.4	304.2	1.1	568.7
Total	**250.4**	**1 981.6**	**5.5**	**2 237.5**	**263.4**	**1 503.5**	**1.1**	**1 768.0**

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

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

153. The following table presents the changes in Level 3 financial instruments for the years ended 31 December 2018 and 2017, respectively.

	2018			2017		
	Financial assets at fair value through surplus or deficit	**Available-for-sale financial assets**	**Total**	**Financial assets at fair value through surplus or deficit**	**Available-for-sale financial assets**	**Total**
	USD million			***USD million***		
Opening balance	-	1.1	1.1	1.0	1.9	2.9
Gains (losses) recognized in Statement of Net Assets	-	(0.1)	(0.1)	-	0.2	0.2
Purchases	5.5	-	5.5	-	1.1	1.1
Sales	-	-	-	-	(1.0)	(1.0)
Transfer	-	(1.0)	(1.0)	(1.0)	(1.1)	(2.1)
Closing balance	**5.5**	**-**	**5.5**	**-**	**1.1**	**1.1**

154. During 2018, USD 1.0 million transferred from Level 3 to Level 2 due to an increase in the availability of market data in relation to one corporate bond.

2.14.2 Credit risk

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

156. 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.

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

2.14.3 Interest rate risk

158. WFP is exposed to interest rate risk through short-term investments and long-term bonds. At 31 December 2018, the effective interest rates of these two investment portfolios were 2.85 percent and 2.59 percent, respectively (1.80 percent and 1.97 percent, respectively, in 2017). A measurement of interest rate sensitivity indicates that the effective duration is 0.69 years for the short-term investments and 6.84 years for the long-term bonds (0.71 years and 6.48 years, respectively, in December 2017). Fixed income derivatives are used by external investment managers to manage interest rate risk under strict investment guidelines.

2.14.4 Foreign currency risk

159. At 31 December 2018, 92 percent of cash, cash equivalent and investments are denominated in the US dollar base currency and 8 percent are denominated in Euros and other currencies (same as in 2017). Non-US dollar holdings have the primary objective of supporting operating activities. In addition, 55 percent of contributions receivable is denominated in the US dollar base currency, 25 percent is denominated in Euros, 7 percent in Swedish krona, 6 percent in UK pounds and 7 percent is denominated in other currencies (59 percent in the US dollar base currency, 23 percent in Euros, 5 percent in Canadian dollars and 13 percent in other currencies at 31 December 2017).

160. 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 2018, 12 contracts were settled at a realized gain of USD 1.1 million (12 contracts were settled during the year ended 31 December 2017 at a realized gain of USD 0.3 million). In addition, a new hedging strategy was implemented for 2018, in which WFP entered into 12 foreign exchange forward contracts to purchase a total of Euro 53.4 million over 12 months at a fixed exchange rate. At 31 December 2018, the 12 contracts have a notional amount of USD 64.5 million and an unrealized loss of USD 2.4 million using the forward rate at 31 December 2018. Both the realized gain and unrealized loss are included in currency exchange differences presented in the Statement of Financial Performance.

2.14.5 Market risk

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

162. Interest rate sensitivity – For short-term investments, if interest rates were to rise (fall) by 1 percent, the impact to the Statement of Financial Performance is a USD 13.6 million unrealized loss (gain). For long-term bond portfolio, if interest rates were to rise (fall) by 1 percent, the impact to the Statement of Changes in Net Assets is a USD 20.7 million unrealized loss (gain).

163. Futures price sensitivity – For short-term investments, if futures prices were to rise (fall) by 1 percent, the impact to the Statement of Financial Performance is a USD 0.1 million unrealized loss (gain). For long-term bond portfolio, if futures prices were to rise (fall) by 1 percent, the impact to the Statement of Changes in Net Assets is a USD 0.4 million unrealized gain (loss).

164. Equity price sensitivity – The equity investments track the MSCI All Country World Index, a recognized index of stocks of all world markets. If equity prices were to rise (fall) by 1 percent proportionally across the six regional equity funds, the impact to the Statement of Changes in Net Assets is a USD 2.7 million unrealized gain (loss).

165. Foreign Exchange forwards sensitivity - For the remaining 12 PSA hedge forward contracts, if USD/EUR rate were to rise (fall) by 1 percent, the impact to the Statement of Financial Performance is a USD 0.6 million unrealized gain (loss), with all other variables held constant. For long-term investments, if foreign currency prices were to appreciate (depreciate) versus the USD by 1 percent across the forward currency positions currently held, the impact to the Statement of Financial Performance is a USD 0.4 million unrealized loss (gain).

Note 2.15: Fund balances and reserves

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

	2018				
	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**
Opening balance at 1 January 2018	**3 692.8**	**184.4**	**176.3**	**380.4**	**4 433.9**
Surplus (deficit) for the year	**347.1**	**(49.4)**	**430.9**	**-**	**728.6**
Movements in fund balances and reserves in 2018					
Advances to projects	144.3	-	-	(144.3)	**-**
Repayments by projects	(68.3)	-	-	68.3	**-**
Other transfer from/to reserves	-	-	(102.9)	102.9	**-**
Transfer between funds	280.3	26.4	(306.7)	-	**-**
Actuarial gains (losses) on employee benefit liabilities	-	-	177.5	-	**177.5**
Net unrealized gains (losses) on long-term investments	-	-	(34.3)	-	**(34.3)**
Total movements during the year	**356.2**	**26.5**	**(266.4)**	**26.9**	**143.2**
Closing balance at 31 December 2018	**4 396.2**	**161.4**	**340.8**	**407.3**	**5 305.7**

	2017				
	Programme category funds	Bilateral operations and trust funds	General Fund and Special Accounts		Total
	(fund balance)	(fund balance)	(fund balance)	Reserves	
Opening balance at 1 January 2017 (restated)	**3 761.0**	**225.4**	**(31.5)**	**329.7**	**4 284.6**
Surplus (deficit) for the year	**(333.0)**	**(66.7)**	**611.4**	**-**	**211.7**
Movements in fund balances and reserves in 2017					
Advances to projects	154.2	-	-	(154.2)	**-**
Repayments by projects	(114.5)	-	-	114.5	**-**
Other transfer from/to reserves	-	-	(90.4)	90.4	**-**
Transfer between funds	225.1	25.7	(250.8)	-	**-**
Actuarial gains (losses) on employee benefit liabilities	-	-	(120.4)	-	**(120.4)**
Net unrealized gains (losses) on long-term investments	-	-	58.0	-	**58.0**
Total movements during the year	**264.8**	**25.7**	**(403.6)**	**50.7**	**(62.4)**
Closing balance at 31 December 2017	**3 692.8**	**184.4**	**176.3**	**380.4**	**4 433.9**

167. Transfer from/to reserves includes advances made from the IRA reserve to projects and repayments by projects (note 2.15.3), replenishment to reserves and other allocations approved by the Executive Board.

168. 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.

169. Reserves are established by the Board as facilities for funding and/or financing specific activities under specific circumstances. During 2018, WFP had four active reserves: i) Operational Reserve (OR); ii) Global Commodity Management Facility (GCMF) reserve; iii) Immediate Response Account (IRA); and the iv) PSA Equalization Account (PSAEA). The following table presents WFP's reserves.

	2018				
	OR	**GCMF**	**IRA**	**PSAEA**	**Total**
Note	**2 15.1**	**2 15.2**	**2 15.3**	**2 15.4**	
Opening balance at 1 January 2018	**93.0**	**6.0**	**24.6**	**256.8**	**380.4**
Advances to projects	-	-	(144.3)	-	**(144.3)**
Repayments by projects	-	-	68.3	-	**68.3**
Approved Board allocations	-	-	-	(65.6)	**(65.6)**
Repayment of unspent Board allocations	-	-	-	0.6	**0.6**
Replenishments	2.2	-	66.4	-	**68.6**
Transfer from PSAEA to IRA	-	-	44.0	(44.0)	**-**
Surplus of ISC revenue from PSA expense	-	-	-	99.3	**99.3**
Total movements during the year	**2.2**	**-**	**34.4**	**(9.7)**	**26.9**
Closing balance at 31 December 2018	**95.2**	**6.0**	**59.0**	**247.1**	**407.3**

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

2.15.1 Operational Reserve

171. Financial Regulation 10.5 calls for the maintenance of an Operational Reserve to ensure the continuity of operations in the event of a temporary shortfall of resources. In addition, the Operational Reserve is used to manage the risk associated with the Internal Project Lending Facility (previously referred to as the Working Capital Financing Facility).

172. In 2018, the Executive Board approved a USD 2.2 million replenishment of the Operational Reserve from the General Fund in accordance with Financial Regulation 10.6. The balance of the Operational Reserve at 31 December 2018 is at its approved level of USD 95.2 million.

2.15.2 Global Commodity Management Facility reserve

173. The Global Commodity Management Facility reserve account was established in 2014 as a result of a comprehensive review of the Working Capital Financing Facility to back internal lending under the Global Commodity Management Facility (Decision 2014/EB.A/8).

174. The balance of the Global Commodity Management Facility Reserve at 31 December 2018 is USD 6.0 million.

2.15.3 Immediate Response Account

175. 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.

176. In 2018, the IRA received USD 66.4 million in replenishments. In addition, USD 44.0 million was transferred from the PSA Equalization Account to the IRA based on the Executive Board approved decisions (USD 9.0 million per Decision 2017/EB.2/5-A/1/Rev.1 and USD 35.0 million as per Decision 2018/EB.A/6-C/1/Rev.1).

177. Advances made to projects totalled USD 144.3 million and repayments by projects amounted to USD 68.3 million.

178. In 2018, the IRA received USD 178.7 million in replenishments, repayments of advances and additional funding transferred from the PSAEA. The target IRA level is USD 200.0 million as established by the Executive Board Decision 2014/EB.2/4.

179. Outstanding advances to projects made by the IRA at 31 December 2018 totalled USD 99.5 million (USD 89.5 million in 2017).

2.15.4 Programme Support and Administrative Budget Equalization Account

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

181. USD 35.6 million was allocated from the PSAEA for critical corporate initiatives based on the WFP Management Plan (2018–2020) (Decision WFP/EB.2/2017/5-A/1/Rev.1), and USD 30.0 million was transferred to the emerging donor matching fund as approved during the Executive Board Annual Session (WFP/EB.A/2018/6-C/1/Rev.1).

182. Unspent balances totalling USD 0.6 million pertaining to allocations approved by the Board from the PSAEA in previous periods were returned back to the PSAEA in 2018 pursuant to Financial Regulation 9.9.

183. The excess of ISC revenue over PSA expenses totalling USD 99.3 million was transferred to the PSAEA in 2018 (USD 72.5 million surplus in 2017).

184. The PSAEA balance at 31 December 2018 is USD 247.1 million.

Note 3: Revenue

		2018	2017
		USD million	
3.1	**Monetary contributions**		
	Contributions for direct costs	6 405.6	5 407.3
	ISC contributions	439.6	401.2
	Subtotal	**6 845.2**	**5 808.5**
	Less:		
	Refunds, reprogrammes and reductions in contribution revenue	(61.8)	(193.7)
	Total monetary contributions	**6 783.4**	**5 614.8**
3.2	**In-kind contributions**		
	Commodities in-kind contributions	413.7	352.5
	Services and non-food items in-kind contributions	41.0	31.6
	Subtotal	**454.7**	**384.1**
	Add (deduct):		
	Increase (decrease) in contribution revenue	(3.2)	1.0
	Total in-kind contributions	**451.5**	**385.1**
3.3	**Currency exchange differences**	**(84.4)**	**231.0**
3.4	**Return on investments**		
	Net realized gains (losses) on investments	(10.0)	9.5
	Net unrealized gains (losses) on investments	(4.2)	8.5
	Interest earned	58.6	33.0
	Total return on investments	**44.4**	**51.0**
3.5	**Other revenue**		
	Revenue generated from provision of goods and services	155.4	128.4
	Miscellaneous revenue	18.0	20.6
	Total other revenue	**173.4**	**149.0**
	Total revenue	**7 368.3**	**6 430.9**

185. Contribution revenue is adjusted by changes in the levels of the allowance for reduction in contribution revenue (Note 2.3) and in the level of the provision for refunds to donors (Note 2.11). Actual refunds and reduction in contribution revenue are made against specific contributions.

186. In-kind contributions represent confirmed contributions of food commodities, services or non-food items during the year.

187. During 2018, other revenue amounted to USD 173.4 million of which USD 155.4 million was generated from the provision of goods and services (USD 128.4 million at 31 December 2017) and USD 18.0 million from miscellaneous revenue (USD 20.6 million at 31 December 2017). 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 other logistics services. Miscellaneous revenue included proceeds from sale of damaged commodities and other assets.

Note 4: Expenses

		2018	2017
		USD million	
4.1	**Cash-based transfers distributed**		
	Cash and voucher transfers	1 669.5	1 368.7
	Commodity voucher transfers	91.0	77.4
	Cash-based transfers distributed	**1 760.5**	**1 446.1**
4.2	**Food commodities distributed**	**2 132.6**	**2 197.5**
4.3	**Distribution and related services**	**758.7**	**664.4**
4.4	**Wages, salaries, employee benefits and other staff costs**		
	International and national staff	709.5	644.3
	Consultants	137.6	123.0
	United Nations volunteers	2.6	2.5
	Temporary staff	96.9	89.9
	Other personnel costs	33.1	24.3
	Total wages, salaries, employee benefits and other staff costs	**979.7**	**884.0**
4.5	**Supplies, consumables and other running costs**		
	Telecommunications and Information Technology	17.4	13.9
	Equipment	73.8	106.5
	Office supplies and consumables	30.7	19.5
	Utilities	7.6	7.4
	Vehicle maintenance and running costs	33.8	27.1
	Total supplies, consumables and other running costs	**163.3**	**174.4**
4.6	**Contracted and other services**		
	Air operations	294.1	336.8
	Other contracted services	358.2	335.8
	Telecommunications/IT related services	28.3	30.2
	Security and other services	28.2	22.1
	Leases	42.1	34.6
	Total contracted and other services	**750.9**	**759.5**
4.7	**Finance costs**	**1.8**	**1.9**
4.8	**Depreciation and amortization**	**47.4**	**47.7**
4.9	**Other expenses**		
	Maintenance services	7.8	5.3
	Insurance	2.7	15.4
	Bank charges/investment manager and custodian fees	4.2	4.2
	Impairment and write-offs	13.1	(0.1)
	Other	17.0	18.9
	Total other expenses	**44.8**	**43.7**
	Total expenses	**6 639.7**	**6 219.2**

188. 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 pre- and post-delivery losses of USD 14.4 million (USD 20.5 million in 2017) (Note 9).

189. Given WFP's accounting policy to expense when food is handed over to the cooperating partners, at 31 December 2018, USD 57.9 million (86,040 mt) of food held by cooperating partners was yet to be distributed to beneficiaries (USD 87.0 million (121,914 mt) at 31 December 2017).

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

191. Wages, salaries, employee benefits and other staff costs are for WFP staff, consultants and service contract holders and include employee and consultant travel, training and staff workshops, and incentives.

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

Note 5: Statement of cash flow

193. Cash flows from operating activities are not adjusted for donations of commodities-in-kind or services-in-kind as these donations 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

194. WFP's budget and financial statements are prepared using different bases. 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.

195. As required under IPSAS 24, Presentation of Budget Information in Financial Statements, 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.

196. Budget amounts have been presented on a functional classification basis in accordance with the WFP Management Plan (2018–2020), which presents a breakdown of the budget by year.

197. Statement V includes a column – Implementation plan – which represents a prioritized plan of work based on estimated forecast contributions taking into account the fact that WFP is a voluntarily funded organization and its operations and financial management therefore depend on the level of funding actually received. The prioritized plan of work includes direct project and CSP costs, the regular programme support and administrative costs and critical corporate initiatives approved by the Executive Board in November 2017 (WFP/EB.2/2017/5-A/1/Rev.1).

198. Explanations of material differences between the original budget and final budget, final budget and the actual amounts and Implementation plan and the actual amounts are presented under the Financial and Budget Analysis section of the Executive Director's Statement.

199. 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. Open commitments including open purchase orders and net cash flows from operating, investing and financing activities are presented as Basis differences.

200. 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.

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

202. 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. 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.

203. A 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 2018 is presented below:

	Operating	**Investing**	**Financing**	**Total**
	USD million			
Actual amount on comparable basis (Statement V)	**(6 794.4)**	**-**	**-**	**(6 794.4)**
Basis differences	(92.8)	(585.6)	(7.5)	(686.6)
Presentation differences	7 442.8	-	-	7 443.5
Entity differences	(115.3)	-	-	(115.3)
Actual amount in the Statement of Cash Flow (Statement IV)	**440.3**	**(585.6)**	**(7.5)**	**(152.8)**

Note 7: Segment reporting

Note 7.1: Statement of financial position by segment

	2018					2017
	Programme Category Funds	**General Fund and Special Accounts**	**Bilateral Operations and Trust Funds**	**Inter-Segment Transactions**	**Total**	
	USD million					
Assets						
Current assets						
Cash, cash equivalents and short-term investments	1 866.4	653.6	265.4	-	2 785.4	2 475.2
Contributions receivable	2 731.0	239.3	40.7	-	3 011.0	3 523.8
Inventories	729.9	121.5	2.4	-	853.8	704.8
Other receivables	182.7	517.7	3.3	(485.7)	218.0	136.6
	5 510.0	**1 532.1**	**311.8**	**(485.7)**	**6 868.2**	**6 840.4**
Non-current assets						
Contributions receivable	147.7	337.4	25.7	-	510.8	378.2
Long-term investments	-	629.3	-	-	629.3	626.9
Property, plant and equipment	116.8	43.9	1.5	-	162.2	128.4
Intangible assets	0.1	4.4	-	-	4.5	5.6
	264.6	**1 015.0**	**27.2**	**-**	**1 306.8**	**1 139.1**
Total assets	**5 774.6**	**2 547.1**	**339.0**	**(485.7)**	**8 175.0**	**7 979.5**
Liabilities						
Current liabilities						
Payables and accruals	781.8	309.7	122.0	(485.7)	727.8	654.9
Deferred revenue	455.2	298.8	29.4	-	783.4	1 550.0
Provisions	8.0	2.6	1.2	-	11.8	6.3
Employee benefits	-	41.2	-	-	41.2	36.9
Loan	-	5.7	-	-	5.7	5.7
	1 245.0	**658.0**	**152.6**	**(485.7)**	**1 569.9**	**2 253.8**
Non-current liabilities						
Deferred revenue	133.4	337.4	25.0	-	495.8	378.2
Employee benefits	-	737.0	-	-	737.0	841.2
Loan	-	66.6	-	-	66.6	72.4
	133.4	**1 141.0**	**25.0**	**-**	**1 299.4**	**1 291.8**
Total liabilities	**1 378.4**	**1 799.0**	**177.6**	**(485.7)**	**2 869.3**	**3 545.6**
Net assets	**4 396.2**	**748.1**	**161.4**	**-**	**5 305.7**	**4 433.9**
Fund balances and reserves						
Fund balances	4 396.2	340.8	161.4	-	4 898.4	4 053.5
Reserves	-	407.3	-	-	407.3	380.4
Total fund balances and reserves, 31 December 2018	**4 396.2**	**748.1**	**161.4**	**-**	**5 305.7**	
Total fund balances and reserves, 31 December 2017	**3 692.8**	**556.7**	**184.4**	**-**	**4 433.9**	

Note 7.2: Statement of financial performance by segment

	2018					2017
	Programme Category Funds	**General Fund and Special Accounts**	**Bilateral Operations and Trust Funds**	**Inter-Segment Transactions**	**Total**	
	USD million					
Revenue						
Monetary contributions	5 860.0	863.2	60.2	-	6 783.4	5 614.8
In-kind contributions	423.6	24.1	3.8	-	451.5	385.1
Currency exchange differences	(4.8)	(81.5)	1.9	-	(84.4)	231.0
Return on investments	0.3	44.1	-	-	44.4	51.0
Other revenue	137.0	1 045.0	-	(1 008.6)	173.4	149.0
Total revenue	**6 416.1**	**1 894.9**	**65.9**	**(1 008.6)**	**7 368.3**	**6 430.9**
Expenses						
Cash-based transfers distributed	1 759.4	-	1.1	-	1 760.5	1 446.1
Food commodities distributed	2 103.1	847.0	9.3	(826.8)	2 132.6	2 197.5
Distribution and related services	770.8	13.1	6.7	(31.9)	758.7	664.4
Wages, salaries, employee benefits and other staff costs	573.5	354.9	65.6	(14.3)	979.7	884.0
Supplies, consumables and other running costs	132.3	43.8	6.8	(19.6)	163.3	174.4
Contracted and other services	640.9	150.5	23.9	(64.4)	750.9	759.5
Finance costs	-	1.8	-	-	1.8	1.9
Depreciation and amortization	29.0	17.8	0.6	-	47.4	47.7
Other expenses	60.0	35.1	1.3	(51.6)	44.8	43.7
Total expenses	**6 069.0**	**1 464.0**	**115.3**	**(1 008.6)**	**6 639.7**	**6 219.2**
Surplus (deficit) for the year, 2018	**347.1**	**430.9**	**(49.4)**	**-**	**728.6**	**211.7**
Surplus (deficit) for the year, 2017	**(333.0)**	**611.4**	**(66.7)**	**-**	**211.7**	

204. 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.

	2018	2017
	USD million	
Cash and cash equivalents	1 116.1	1 268.9
Short-term investments	1 669.3	1 206.3
Total cash and cash equivalents and short-term investments	**2 785.4**	**2 475.2**

205. Some internal activities lead to accounting transactions that created 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.

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

Note 8: Commitments and contingencies

Note 8.1: Commitments

8.1.1 Property leases

	2018	2017
	USD million	
Obligations for property leases:		
Within 1 year	46.1	41.3
Later than 1 year and not later than 5 years	53.3	58.6
Beyond 5 years	9.4	5.0
Total property leases obligations	**108.8**	**104.9**

207. At 31 December 2018, property lease obligations for the WFP headquarters building in Rome represent 18 percent of the total obligations under the within 1-year category and 48 percent under the later than 1 year and not later than 5 years category (17 percent and 51 percent, respectively, at 31 December 2017). 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

208. At 31 December 2018, WFP had commitments for the acquisition of food commodities, transportation, services, non-food items, and capital commitments contracted but not delivered as follows:

	2018	2017
	USD million	
Food commodities	320.8	206.6
Transportation – Food commodities	97.0	142.0
Services	193.9	119.1
Non-food items	66.8	42.2
Capital commitments	11.8	10.7
Total open commitments	**690.3**	**520.6**

209. These commitments will be recognized as expenses in future financial periods and will be settled from the unexpended portion of contributions after receipt of the related goods or services.

Note 8.2: Contingent liabilities and contingent assets

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

211. There are two material contingent assets resulting from an arbitration award in 2010 and a claim against a food commodity supplier in 2018 as described below.

212. In 2005, two WFP employees in the WFP regional bureau in South Africa were found to have committed fraud resulting in a loss of approximately USD 6.0 million. A criminal trial began in 2008, and the South African authorities restrained the employees' known assets, reportedly valued at ZAR 40 million (approximately USD 2.7 million at 31 December 2018).

213. WFP also initiated arbitration against the two employees for recovery of the misappropriated funds, 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, for approximately USD 5.6 million, plus interest and costs. Following the required waiver by the United Nations and the FAO of WFP's immunity, WFP applied to the High Court of South Africa to make the arbitral award an order of court for the purpose of enforcement in South Africa, which was granted in October 2011 and is now final.

214. In December 2012, the two employees were found guilty and subsequently sentenced to 25 years of imprisonment. In 2016, the defendants' convictions were finalized.

215. Enforcement of the court decision against the restrained assets is under way now that the criminal proceedings have concluded.

216. In 2018, WFP detected that a supplier had delivered defective SuperCereal products to WFP programmes in numerous country offices. The defective products were accepted by WFP on the basis of the clean accompanying certificates of quality and quantity issued at the site of production by the WFP appointed inspection company. Following complaints from beneficiaries, an investigation was launched which led to a series of joint inspections and samplings for independent laboratory analysis. The resulting certificates of analysis confirmed that the products were off-specifications.

217. The supplier has in principle accepted their liability arising from the supply of the off-specifications products and WFP is evaluating the extent of its damages.

218. WFP further notified the inspection company, hired by WFP to certify the quantity and quality of the product in question, of the results of the joint inspections and its intention to seek damages for breach of contract.

219. The matter is currently under investigation by the Office of Inspections and Investigations and its findings may require WFP to re-evaluate its approach to resolving the matter.

Note 9: Losses, *ex-gratia* payments and write-offs

220. 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."

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

	2018	**2017 (restated)**
	USD million	
Ex-gratia payments	-	0.3
Contributions receivable	0.5	2.8
Food commodity losses	14.4	20.5
Write-off of commodity	-	5.6
Non-food item losses	0.6	1.3
Other assets and cash losses	0.9	0.9
	In mt	
Commodity losses (quantity)	22 163	28 590

222. The ex-gratia payments mainly pertain to critical issues affecting WFP personnel. Contributions receivable relates to the write-off of receivables from donors. The other assets and cash losses related mainly to write-offs of other receivables from customers and service providers.

223. Prior to 2018, the food commodity losses disclosed in Note 9 included only post-delivery losses, occurring from the first delivery point in WFP's custody in the recipient country and until distribution to the beneficiaries, either directly or through the cooperating partners. Starting from 2018 the pre-delivery losses, occurring when food is in transit, are included in the disclosures, and the comparative 2017 food commodity losses amounts, and metric tonnage is restated to reflect the change in the disclosure. During 2018, USD 5.9 million was recovered from the third parties responsible for the food commodity

losses (USD 7.7 million in 2017). The non-food item losses related mainly to warehouse losses.

224. Fraud substantiated by the Office of Investigations and Inspections in 2018 comprised entitlement, vendor and partner fraud involving WFP staff and third parties valued at USD 747,286 and presumptive fraud, related to ongoing investigations, valued at USD 581,351 (in 2017 fraud was valued at USD 141,198 and presumptive fraud at USD 397,343).

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
			USD million				
Key management personnel, 2018	8	6	1.1	0.7	0.3	2.1	0.2
Key management personnel, 2017	8	6	1.1	0.8	0.3	2.2	0.1

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

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
			USD million				
Other senior management, 2018	38	33	4.8	2.1	1.3	8.2	1.1
Other senior management, 2017	36	28	4.3	2.2	1.2	7.7	1.2

226. In addition to key management personnel whose remuneration, advances and loans are required to be disclosed under IPSAS 20 Related Party Disclosures, 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.

227. The tables above detail the number of positions and the number of staffs who held these positions over the course of the year. The Executive Board consists of 36 Member States without personal appointment.

228. The aggregate remuneration paid to key management personnel and other senior management 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.

229. Key management personnel and other senior management 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 2.12. Key management personnel and other senior management are ordinary members of the UNJSPF.

230. During 2018, compensation provided to close members of the family of other senior management amounted to USD 0.5 million (USD 0.2 million in 2017). There was no compensation provided to close members of the family of the key management personnel in 2018 and 2017.

231. Advances are those made against entitlements in accordance with staff rules and regulations and are widely available to all WFP staff.

Note 11: Events after reporting date

232. WFP's reporting date is 31 December 2018. 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.

Note 12: Interest in other entities

International Computing Centre

233. The International Computing Centre (ICC) was established in January 1971 pursuant to Resolution 2741 (XXV) of the United Nations General Assembly. ICC provides Information Technology and Communications services to Partners and Users in the United Nations system. As a Partner bound by the Mandate of the ICC, WFP would be proportionately responsible for any third-party claim or liability arising from or related to service activities of the ICC as specified in the ICC Mandate. At 31 December 2018, there are no known claims that impact WFP. Ownership of assets is with ICC until dissolution. Upon dissolution, the division of all assets and liabilities amongst Partner Organizations shall be agreed by the Management Committee by a formula defined at that time.

African Risk Capacity Agency

234. WFP and the African Risk Capacity (ARC) Agency signed an administrative service agreement in June 2015 expiring on 31 August 2019. ARC is a Specialized Agency of the African Union which shares the goal of promoting food security with WFP.

235. While ARC is a separate legal entity, its financial and operating policies with reference to this agreement are subject to WFP rules. Funds received under this agreement are held under an ARC Trust Fund by WFP. WFP provides technical, administrative, personnel, and project management services to ARC. The Director-General of the ARC is employed by WFP and is accountable to both the WFP Executive Director and ARC. The agreement is considered joint operation where, based on the terms of the agreement, the financial transactions of ARC are consolidated within WFP financial statements. As at 31 December 2018, the accumulated surplus held under an ARC trust fund totalled USD 20.2 million.

Section II

Cour des comptes
FRANCE

The First President

Paris, 29 MARS 2019

To the Executive Board

AUDIT OPINION

Opinion

We have audited the Financial Statements of the World Food Programme (WFP), for the 12 month period ended 31 December 2018. These Financial Statements include a Statement of Financial Position as at 31 December 2018, a Statement of Financial Performance, a Statement of Changes in Net Assets, a Statement of Cash Flow, a Statement of Comparison of Budget and Actual Amounts and Notes, including a summary of the accounting policies and other information.

In our opinion, the Financial Statements present fairly the financial position of the World Food Programme as at 31 December 2018 and the results of the operations for the period, in conformity with the International Public Sector Accounting Standards (IPSAS). The Financial Statements were prepared in accordance with the stated accounting policies and the accounting policies were applied on a basis consistent with that of the preceding financial period. All transactions that we became aware of or that we tested during our audit have been carried out in compliance with the Financial Regulations and with the authorizations granted by legislative authority.

Basis for Opinion

We have conducted our audit in accordance with the International Standards on Auditing (ISA) and in accordance with Article XIV of the Financial Regulations of the World Food Programme and its annex relating to external audit. These Standards require us to comply with the ethical rules and to plan and perform our audit in order to obtain a reasonable assurance that the Financial Statements are free from material misstatements. As required by the Charter of ethics of the Cour des comptes, we guarantee the independence, the fairness, the neutrality, the integrity and the professional discretion of the auditors. Furthermore, we also fulfilled our other ethical obligations in compliance with the Code of Ethics of the International Organisation of Supreme Audit Institutions (INTOSAI). The responsibilities of the External Auditor are more extensively described in the section “Auditor’s Responsibilities for the Audit of the Financial Statements”.

We believe that the audit evidence collected is sufficient and appropriate to constitute a reasonable basis for our opinion.

Management's Responsibilities for the Financial Statements

Within the framework of Article XIV.6 (b) of the General Regulations and by virtue of the Articles 13.1 and 13.3 of the Financial Regulations, the Executive Director of the World Food Programme is responsible for presenting the Financial Statements. These Statements are in conformity with the International Public Sector Accounting Standards. This responsibility includes the design, implementation and monitoring of internal control procedures to ensure the preparation and the fair presentation of Financial Statements, free of significant misstatements, resulting either from frauds or errors. This responsibility also includes the determination of fair accounting estimates adapted to the circumstances.

Auditor's Responsibilities for the Audit of the Financial Statements

The goal of the audit is to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

An audit therefore consists in implementing audit procedures in order to collect audit evidence regarding the amounts and the information presented in the Financial Statements. The External Auditor takes into account the internal control in effect in the entity, relative to the establishment and preparation of financial statements, so as to define appropriate audit procedures in the circumstances, and not with the aim of expressing an opinion on the effectiveness of this control. The choice of the audit procedures is based on the External Auditor's professional judgment, as is the case for the risk evaluation of the Financial Statements, for the assessment of the appropriateness of the accounting policies and of the accounting estimates, and for the overall presentation of the Financial Statements.

Didier MIGAUD

Cour des comptes
FRANCE

EXTERNAL AUDIT OF THE WORLD FOOD PROGRAMME

AUDIT REPORT

FINANCIAL STATEMENTS OF THE WORLD FOOD PROGRAMME

FOR THE YEAR ENDED 31 DECEMBER 2018

COUR DES COMPTES REFERENCE: WFP-2019-1

WFP
World Food Programme

TABLE OF CONTENTS

I. OBJECTIVES AND SCOPE OF THE AUDIT

1. In accordance with our notification letter of 3 December 2018, a team of five external auditors conducted the audit of the Financial Statements of the World Food Programme (WFP) for the year ended 31 December 2018. The objective of this audit was to issue an audit opinion on WFP's Financial Statements for the year ended 31 December 2018. The audit work was carried out mainly at WFP's headquarters in Rome during two phases:

- an interim mission from 15 to 26 October 2018;
- a final mission from 18 February to 8 March 2019.

2. Pursuant to an Executive Board decision of 10 November 2015, the WFP External Audit was entrusted to the First President of the Cour des Comptes of France for the period 1 July 2016 to 30 June 2022, in accordance with Article 14.1 of the WFP Financial Regulations.

3. The External Auditor's mandate is contained in Article XIV of the WFP Financial Regulations and its Appendix, and in the call for applications for the appointment of the External Auditor. Its terms of reference comprise the call for applications, together with the offer of services of the Cour des Comptes – particularly the detailed technical offer, which was approved by the Board.

4. The responsibilities of the External Auditor consist of auditing the accounts of WFP (Article 14.1 of the Financial Regulations) and making observations, if he sees fit, regarding the efficiency of the financial procedures, the accounting system, internal financial controls and, in general, the administration and management of WFP (Article 14.4 of the Financial Regulations).

5. Pursuant to Article XIV.6 (b) of the WFP General Regulations and by virtue of Articles 13.1 and 13.3 of its Financial Regulations, the Executive Director submits the annual Financial Statements to the Board for its approval, after having submitted them to the External Auditor for examination and opinion. These Financial Statements are prepared in accordance with International Public Sector Accounting Standards (IPSAS). It is the responsibility of the management to design, implement and maintain internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatements, whether due to fraud or error. This responsibility also includes making accounting estimates that are reasonable in the circumstances. In conformity with Article 3.1 of the Financial Regulations, the Executive Director is also responsible for the financial management of the activities of WFP, for which he is accountable to the Board.

6. A letter of engagement was drawn up with the Executive Director in order to ensure that, in accordance with the International Standards on Auditing (ISA), the respective obligations of the management and the External Auditor are clearly understood. In addition, before each audit, the External Auditor informs the Secretariat of the scope of the verifications to be undertaken.

7. This report comes under the annual work plan of the External Auditor submitted to the WFP Executive Board during its Second Regular Session in November 2018, which details the verifications to be carried out between July 2018 and June 2019. Pursuant to the terms of reference, each year the External Auditor must produce an audit report on the Financial Statements of WFP (subject to the approval of the Board), accompanied by an opinion on the accounts, two reports on the performance and the regularity of the management of WFP, also known as "performance audit reports" (submitted to the Board for consideration) and ten management letters prepared at the end of visits to external offices (including regional bureaux and country offices). The External Auditor also validates the draft annual report on the implementation status of its previous recommendations, submitted by the Secretariat to the Board for consideration.

8. The audit of the Financial Statements was carried out in accordance with the ISA and with the International Standards of Supreme Audit Institutions (ISSAI) on financial auditing.

9. The field visits to country offices and regional bureaux[1] related mainly to the regularity of the management of the offices, although the verifications carried out also contributed to preparation of this report.

10. The aim of the audit was to determine with reasonable assurance:

- whether the Financial Statements fairly reflect, in all material respects, WFP's financial position at 31 December 2018 and results of operations recognized during the period, in accordance with IPSAS;

- whether the Financial Statements were prepared in accordance with the Financial Regulations and the stated accounting policies;

- whether the accounting policies applied are consistent with those used in the previous year;

- whether the transactions were carried out in compliance with the Financial Regulations and legislative authority.

11. Each observation and each recommendation were discussed with the relevant staff. The audit closure meeting was held with senior management of WFP's Finance and Treasury Division (RMF) on 7 March 2019. The management received the External Auditor's draft report and provided feedback; this report fully takes into account its comments and answers.

12. The External Auditor expressed an **unqualified** opinion on the Financial Statements.

[1] Regional bureaux in Nairobi and Panama and country offices in Bangladesh, Guatemala, Haiti, Jordan, Uganda and the United Republic of Tanzania.

II. LIST OF RECOMMENDATIONS

13. Recommendations are ranked according to their priority level:

- ***Priority 1*****:** An essential matter requiring the immediate attention of management;
- ***Priority 2*****:** A less urgent control issue requiring management attention;
- ***Priority 3*****:** An issue, brought to the attention of management, pertaining to which controls could be improved.

Field	Priority	Recommendations
Cash-based transfers	1	1. The External Auditor recommends continuing the implementation of the recommendations made for the 2016 and 2017 fiscal years regarding cash-based transfers (CBTs) by continuing to roll out the SCOPE beneficiary tracking system, with the goal of covering, by the end of 2019, 85 percent of cash-based transfers in value.
WINGS enterprise resource planning software	2	2. In line with the recommendations made in 2016 and 2017, the External Auditor recommends making a special effort to improve the security policy in WINGS II, particularly to strengthen the general IT controls and application controls.
Financial reporting	2	3. The External Auditor recommends that WFP improve its financial communication regarding revenues and expenses, in order to better highlight the drivers of surplus growth
Employee benefits	3	4. The External Auditor recommends that WFP solicit its actuary to provide more information in order to more effectively assess the methodology and assumptions used for the actuarial estimates. 5. The External Auditor recommends that WFP obtain from the United Nations Development Programme, which manages part of WFP's salaries, an assurance on the reliability of the payroll system used for this purpose**.**

III. OBSERVATIONS AND RECOMMENDATIONS

1. Follow-up on the previous recommendations

14. The External Auditor did review the status of implementation of the seven recommendations issued in 2017 based on interviews conducted in February 2019 and the documentation provided by WFP. His assessment of the level of implementation is summarized in the table below.

Table 1: Implementation status of the External Auditor's recommendations relating to the audit of WFP's Financial Statements for the year ended 31 December 2017

Subject	*Implemented*	*Being implemented*	*Replaced*	*Total*	*Reference paragraphs in the 2017 report*
Cash-based transfers	1	1		2	Paras. 15-17
1. Increase the deployment rate of SCOPE with the goal of covering 80 percent of cash-based transfers		X			
2 Ensure, once a year, that the beneficiary data recorded in SCOPE are up to date	X				
Contributions receivable	2			2	Paras. 18-19 and 43
3 Improve the audit trail by formalizing and documenting the controls carried out to record donations	X				
5 Add a chapter on in-kind contributions to the financial resources management manual	X				
WINGS enterprise resource planning software			1	1	Paras. 20
4 Address the weaknesses in general and application controls			X		
COMET programme reporting system	1	1		2	Paras. 44-51
6 Ensure that the country offices carry out the reporting in COMET each month	X				
7 Reconcile COMET and WINGS each month for the amounts of cash transfers distributed and COMET and LESS for goods transferred from the stock to partners		X			
Total	4	2	1	7	

Source : External Auditor

15. Concerning cash-based transfers, WFP has begun implementing the recommendation on the deployment of SCOPE,[2] prioritizing 15 priority countries to achieve the 80 percent target proposed by the External Auditor. WFP considers that it will now be able to cover 85 percent of cash-based transfers in value by the end of 2019. At the end of 2018, there were 35 million beneficiaries in SCOPE, which is a significant increase compared with the 28 million recorded in May 2018 when the audit report on the 2017 Financial Statements was issued. WFP has also prepared Beneficiary Management Guidance that states that the country offices should perform regular verifications of the updating of the beneficiary information in SCOPE.

Recommendation 1. The External Auditor recommends that WFP continue the implementation of the recommendations made for the 2016 and 2017 fiscal years regarding cash-based transfers (CBTs) by continuing to roll out the SCOPE beneficiary tracking system, with the goal of covering, by the end of 2019, 85 percent of cash-based transfers in value.

16. Concerning contributions receivable, WFP has implemented the two recommendations by formalizing the revenue recognition controls in a manual on internal control for recording contributions and by adding to the Financial Resource Management Manual a chapter on the recognition of revenue relating to in-kind contributions. However, the internal control manual could be improved and would be enhanced by specifying, for each control identified, who performs it, who supervises it and what documentation will be kept to prove, in subsequent audits, that the control has been carried out.

17. Concerning the IT controls in the enterprise resource planning (ERP) system WINGS II, the tests conducted by the External Auditor during the final mission revealed the persistence of shortcomings in terms of general IT controls[3] and application controls.[4] The detailed results of this work are presented in part 3.1 of this report. Anomalies similar to those found in previous years' reviews lead the External Auditor to consider that the recommendations he issued in 2016 and 2017 in this area remain relevant. They are repeated in the following recommendation.

Recommendation 2. In line with the recommendations made in 2016 and 2017, the External Auditor recommends making a special effort to improve the security policy in WINGS II, particularly to strengthen the general IT controls and application controls.

18. Concerning the COMET programme reporting system, WFP has introduced review procedures in the regional bureaux and at headquarters to ensure that the country offices properly report their distribution data each month. Furthermore, WFP has partially implemented the recommendation on reconciliations. The data concerning food distributions is now being reconciled between LESS and COMET and that regarding cash-type transfers between WINGS and COMET is being implemented.

19. We have also examined the status of implementation of the nine recommendations made in the external audit of WFP's Financial Statements for the year ended 31 December 2016. Our assessment of the level of implementation is summarized in the table below.

---

[2] SCOPE is the system for tracking the beneficiaries of aid distributed by WFP.

[3] General IT controls are linked to ensuring secure access to the WINGS II enterprise resource planning system. This includes managing privileged access rights to SAP_NEW, SAP_ALL and Firefighter and monitoring the profile of each user, particularly deactivating their rights when they leave WFP.

[4] Application controls are linked to managing the separation of tasks in the processes that feed into the relevant accounts (for example the procurement process where there must be a separation of tasks between placing an order, receipt of the order and payment). WFP has deployed the SAP GRC module to separate tasks in WINGS II.

Table 2: Implementation status of the External Auditor's recommendations relating to the audit of WFP's Financial Statements for the year ended 31 December 2016

Subject	*Implemented*	*Being implemented*	*Not implemented*	*Replaced*	*Total*	*Reference paragraphs in the 2016 report*
Cash-based transfers				4	4	Paras. 33-36
1 Increase the deployment rate of SCOPE				X		
2 Update beneficiary information				X		
3 Establish a secure data transmission system				X		
4 Extend analysis of data				X		
Contributions revenue and receivables	3			1	4	Paras. 37-44
5 Analyse conditions associated with contributions	X					
6 Make an inventory of organizations for which WFP provides a management service	X					
7 Examine the accounting treatment of in-kind donations	X					
8 Improve the audit trail				X		
IT review				1	1	Paras. 45-48
9 Address the weaknesses in general and application controls				x		
Total	3	0	0	6	9	

Source: External Auditor

20. WFP implemented three recommendations related to revenue and receivables by conducting further analyses to ensure that the various types of contributions were properly recognized in accordance with IPSAS. This work did not reveal any anomalies and improved the information provided by the notes to the Financial Statements, including Note 12 on WFP's interests in other entities.

21. During the year ended 31 December 2017, WFP implemented the six other recommendations made in the audit report for the year ended 31 December 2016. To take into account the corresponding actions and facilitate monitoring, these recommendations were reformulated in the form of new recommendations in the audit report for the year ended 31 December 2017. Thus, the four recommendations concerning cash-based transfers in the 2016 audit report were replaced by recommendations 1 and 2 in the 2017 audit report. In addition, recommendation 8 concerning the audit trail in the 2016 report was incorporated into recommendation 3 of the 2017 report. Finally, recommendation 9 concerning the WINGS II IT review in the 2016 report was reproduced in recommendation 4 of the 2017 report.

2. Overview of WFP's financial position at 31 December 2018

2.1 Presentation of the simplified Statement of Financial Position

Table 3: Presentation of the simplified Statement of Financial Position (*in USD million*)

	31/12/2018	31/12/2017
Current assets		
Cash and investments	2 785	2 475
Contributions receivable	3 011	3 524
Inventories	854	705
Other	218	136
Total current assets	***6 868***	***6 840***
Non-current assets		
Contributions receivable	511	378
Investments	629	627
Property, plant and equipment and intangible assets	167	134
Total non-current assets	***1 307***	**1 139**
TOTAL ASSETS (a)	***8 175***	***7 979***
Current liabilities		
Deferred revenues	783	1 550
Vendor payables and other liabilities	787	704
Total current liabilities	**1 570**	**2 254**
Non-current liabilities		
Deferred revenues	496	378
Employee benefits	737	841
Loan	66	73
Total non-current liabilities	**1 299**	**1 292**
TOTAL LIABILITIES (b)	***2 869***	***3 546***
NET ASSETS (a)–(b)	**5 306**	**4 434**

Source: Statement I of WFP's Financial Statements (rounded amounts)

22. Unlike in 2017, in 2018 there was no change in the accounting policy linked to the adoption of new IPSAS standards. The Financial Statements for 2018 and 2017 are therefore directly comparable.

23. WFP's simplified Statement of Financial Position, presented above, shows a solid financial position with net assets of USD 5.31 billion at 31 December 2018, an increase of USD 872 million compared with the figure at 31 December 2017 indicated in the previous Financial Statements. This financial strength is also illustrated by the composition of the assets on the Statement of Financial Position at the end of 2018, which, out of a total of USD 8.17 billion, includes USD 3.41 billion in cash and cash equivalents and short-term and long-term investments, i.e., 42 percent of the total for the Statement of Financial Position.

24. This sound financial structure is the result of WFP's capacity, demonstrated in recent years, to increase the volume of contributions it collects. This translated into a healthy cash position of USD 1.11 billion[5] at the end of 2018, USD 239 million of which was held in the bank accounts of headquarters, the regional bureaux and the country offices. This amount is significantly higher than the figure at the end of 2017 (USD 173 million), due to some large cash inflows in the last quarter of 2018. Nonetheless, WFP applies a cash investment policy that is adapted to its needs and primarily aims to maintain the level of liquidity necessary for its activities[6] and gives preference to low-risk investments. Thus, at 31 December 2018, in addition to long-term financial investments that account for US 629 million, WFP had USD 1.669 billion of short-term financial investments, up USD 463 million compared with 31 December 2017.

25. WFP's non-current liabilities include employee benefits (the largest portion of which concerns the after-service medical plan), which accounted for USD 737 million at the end of 2018. WFP has set up a long-term investment to fund these liabilities, in accordance with the Executive Board's decision in December 2010. The balance already covered by this investment at the end of 2017 stood at USD 575 million and the signs indicate that the current funding mechanism will allow the employee benefits obligations to be covered by 2027[7] at the latest, consistent with the 2010 decision.

[5] The USD 2.78 billion of cash and investments at 31/12/2018 in Table 3 comprise USD 1.11 billion of cash and USD 1.67 billion of investments.
[6] The USD 239 million of uninvested cash is equivalent to approximately two weeks of operating costs.
[7] This should happen in 2026 according to the 2018 report of the actuary.

2.2 *Presentation of WFP's simplified Statement of Financial Performance*

Table 4: WFP's simplified Statement of Financial Performance (*in USD million*)

	2018	2017
Revenue		
Contributions	7 235	6 000
Other revenue	133	431
Total revenue	***7 368***	***6 431***
Expenses		
Food commodities distributed	2 132	2 198
Cash-based transfers distributed	1 760	1 446
Distribution and related services	759	664
Employee costs	980	884
Other expenses	1 008	1 027
Total expenses	***6 639***	***6 219***
Surplus for the year	***729***	**212**

Source: Statement II of WFP's Financial Statements (rounded amounts)

26. 2018 was characterized by a very high level of contributions, totalling USD 7.2 billion, i.e., USD 1.2 billion more than the 2017 figure. This continues an upward trend observed over several years, since these contributions were only USD 4.7 million in 2015. This increase of 53 percent in three years bears witness to WFP's capacity to mobilize donors.

27. The difference between revenue and expenses resulted in a surplus of USD 729 million, which is almost 3.5 times higher than that in 2017. This situation may seem paradoxical for a non-profit organization and there is a risk that it could be interpreted by some donors as WFP's inability to spend the money it raises. This risk is even greater given that other elements of the Financial Statements could be interpreted in the same way, such as the fact that in 2018 WFP allocated USD 455 million to increasing its short-term financial investments, which appears clearly in Statement IV on cash flows. To limit this risk, WFP has provided some explanations regarding this situation in the preamble to the Financial Statements presented by the Executive Director and these have been strengthened following a suggestion by the Audit Committee. These explanations underline the temporary time lag between the raising of the funds and their allocation and show that the bulk of the surplus is concentrated in the two L3 emergency operations that received the highest funding in 2018, namely the Syrian refugee crisis and the conflict in Yemen.

28. Despite the significant increase in its resources, the value of WFP's traditional activity of food distribution dropped to USD 2.13 billion in 2018, down from USD 2.20 billion in 2017 for an equivalent distributed tonnage. This is explained in part by WFP's decision to develop cash-based transfers, the value of which increased to USD 1.76 billion in 2018, up from USD 1.45 billion in 2017. Cash-based transfers accounted for 45 percent of WFP distributions in 2018, compared with 27 percent of distributions three years earlier in 2015. The food distribution activity remained at the same level as in 2017 by volume (expressed in metric tons) and slightly decreased in value while other expenditure items such as employee costs (+11 percent) and distribution and related services (+14 percent) are increasing. There is a risk that some donors may consider these increases to be a less rigorous approach in a context of abundant resources. The risk of misinterpretation is even higher given that other elements of the Financial Statements could be interpreted, without explanation, in the same way, such as the fact that WFP increased its food stock by USD 148 million between the end of 2017 and the end of 2018, and invested USD 32.8 million in its buildings, including USD 13.3 million in storage buildings.

29. The presentation of the expenses does not make it possible to determine precisely what portion of the expenses directly reaches the beneficiaries of food assistance provided by WFP. It is possible to distinguish expenses related to food distributions and CBTs, but the Statement of Financial Performance does not enable the portion of employee costs and logistics costs directly related to distributions to be separated out from overheads, in other words costs that do not change according to production. Food distributions and CBTs to beneficiaries totalled USD 3.89 billion, i.e. USD 248 million more than in 2017 and 58 percent of total expenses (the same as in 2017). However, with the new financial framework introduced by the Integrated Road Map and rolled out to all the country offices in 2019, WFP will be able to precisely indicate this allocation. The External Auditor made a recommendation addressing this issue in the Performance Audit Report on the country portfolio budgets.

Recommendation 3. The External Auditor recommends that WFP improve its financial communication regarding revenues and expenses, in order to better highlight the drivers of surplus growth.

3. Main internal control points

3.1 WINGS enterprise resource planning software

30. The enterprise resource planning system WINGS II (SAP architecture) plays a major role in the process of producing the Financial Statements given that WFP is a highly decentralized organization that is very dependent on its information systems and operates in a high-risk environment in terms of control risks and risk of fraud.

31. Having a robust IT security policy, particularly for general IT controls and application controls, must be a priority for WFP as it is an effective way of limiting its risks. For this reason, since his appointment in 2016, the External Auditor has performed IT reviews centred on WINGS II and in his Financial Audit Reports for 2016 and 2017 made recommendations to improve the IT security of WINGS II.

32. WFP management agrees that constant attention should be paid to IT security improvements. Indeed, in the 2017 Statement on Internal Control, the Executive Director cited the governance, controls and cybersecurity of information systems as one of the two significant risks identified in 2017. This observation is based on several internal audit processes (AR/17/03, AR/17/16) that reached similar conclusions to those of the External Auditor.

33. In the first week of the final mission of the Financial Audit, the External Auditor performed tests in WINGS II to make an independent assessment of the level of implementation of his previous recommendations. The results of those tests reveal weaknesses comparable to those identified in the 2016 IT review.

34. The tests conducted in February 2019 showed that 22 employee users of WINGS II still had a valid profile in the system after their contractual separation date[8] or date for account deactivation plus a 90-day grace period. In addition, there are cases where staff actually leave before the contractual date. Tests showed that 429 WINGS II users who had left WFP in 2018 ahead of their contract end date (according to data supplied by the Human Resources Divison – HRM) still had a profile in the information system. The External Auditor considers that this situation poses a risk in the event of malicious use of those profiles.

35. The tests conducted in February 2019 found that 38 user profiles had privileged access to WINGS II (25 SAP_ALL[9] and 13 SAP_NEW[10]. This figure is also higher than that revealed in the 2016 IT review (26 cases). The Technology Division (TEC) has pointed out that these 38 profiles actually represent 25 users, as individuals with a SAP_ALL profile in practice have the SAP_NEW profile. The range of actions that these profiles can carry out would pose a high risk in the event of their malicious use. WFP's However, no corrective actions were taken between the 2016 IT review and the interim financial audit in October 2017. Following tests conducted by the External Auditor during this audit, since 20 February 2019 the Technology Division has reduced the number of privileged access profiles to 21, corresponding to 13 users (13 SAP_ALL and 8 SAP_NEW). Although operational needs require these accesses to be maintained, it is necessary to implement mitigating controls to monitor their activity; this would be facilitated if users with privileged access to WINGS II had Firefighter[11] IDs in the GRC module of WINGS II. It is also necessary to periodically review the need for these accesses and improve the traceability of the activation and deactivation of these accounts.

36. At the time of the audit, some users in the Finance and Treasury and Human Resources divisions had profiles in WINGS II that enabled them, if necessary, to perform actions incompatible with the rules on the separation of tasks.[12] In order to address this risk, the Technology Division has suggested creating Firefighter IDs for those users in the GRC module of WINGS, which would enable better control and better traceability of their activity.

37. The tests conducted in February 2019 found that 92 users had more than one WINGS II access, 26 of which were still active. This figure is even higher than that revealed in the 2016 IT review (only 14 cases). Multiple accesses pose a risk in terms of the traceability of actions performed in WINGS II. The Technology Division says that it has corrected this anomaly in light of the External Auditor’s tests and has deleted all these multiple accesses.

38. Some user profiles (19 according to the Technology Division) did not comply with best practice with regard to the separation of tasks (for example approving orders and authorizing payments). The Technology Division clarified that only four users posed in its opinion a real risk, and that these conflicts are inevitable given the highly decentralized nature of WFP's organizational structure. The Technology Division also pointed out that they are limited in time and that there are manual mitigating controls in these cases.

---

[8] The contractual separation date, or date of the last day of validity of the contract, is entered in the NTE “not to exceed” date field of WINGS II.

[9] SAP_ALL access makes it possible to access all transactions recorded in WINGS.

[10] SAP_NEW access makes it possible to make changes in WINGS settings.

[11] This device makes it possible to trace actions performed in WINGS with privileged access.

[12] The separation of tasks aims to reduce control risk by limiting the powers of each actor within the organization: hence, the person who performs an action is different from the person who checks it, or the person who decides a transaction is different from the person who records it and the person who arranges the associated cash movement.

39. **Taking these considerations into account, the External Auditor notes that the recommendations he made in his 2016 and 2017 Financial Audit Reports to improve IT security in WINGS II have not been completely implemented. Therefore, he reiterates his recommendation (see recommendation 2) and encourages the Technology Division to continue its efforts to improve IT security in WINGS II, continuing to give special attention to the following points:**

- periodically review users' access rights and the traceability of the actions performed to activate and deactivate profiles;

- implement mitigating controls for the SAP_ALL and SAP_NEW privileged access granted to certain users;

- implement appropriate prevention and detection controls for users that have a Firefighter profile and maintain traceability of the actions they perform in WINGS;

- limit to a strict minimum the number of user profiles that do not comply with best practice with regard to the separation of tasks and implement robust mitigating controls.

3.2 Actuarial calculations for long-term employee benefits

40. Non-current employee benefits recognized as liabilities in Statement I stood at USD 737 million at the end of 2018, compared with USD 841 million at the end of 2017. Most of this amount (USD 730 million) is the result of actuarial estimates by the actuarial firm under contract with WFP, as detailed in the table below:

Table 5: State of long-term employee benefits
(USD million)

	Estimates by the actuarial firm	WFP estimates	2018	2017	Variation
After-service medical plan	625		**625**	730	-14%
Other non-current employee benefits[13]	72		**72**	68	+5%
Separation payment scheme	20		**20**	23	-12%
Compensation plan reserve fund[14]	13	2	**15**	15	-5%
Home leave travel		5	**5**	5	+7%
Total	**730**	**7**	**737**	**841**	**-12%**

Source: External Auditor based on financial statements.

41. An actuarial estimate is based on complex methods and assumptions that have a strong impact on the result obtained, as they are applied to a huge volume of data. Therefore, it is important for WFP to take the necessary steps to assess the work of the actuary where its results have a material impact on the Financial Statements, especially as this impact is likely to become stronger as WFP's staff numbers increase. Consequently, in 2018 the External Auditor decided to place a particular focus on audit procedures relating to non-current employee benefits.

42. The main findings of this work are presented below.

43. Home leave is estimated by WFP without using an actuarial method. Even though the amount involved is not significant, application of the provisions of paragraphs 158 and 159 of IPSAS 39 should lead to the adoption of an actuarial method to estimate this benefit. WFP considers that the potential impact of the method applied to the Financial Statements is not significant, given the amount related to this compensation (USD 5.5 million in liabilities at the end of 2018).

[13] These benefits include death grants and repatriation grants.
[14] This plan is to compensate staff and their families in the event of work-related death, injury or illness.

44. Paragraph 4 of the 2016 contract between WFP and its actuarial firm provides for double checking (by WFP and the actuary) to validate the data on which the actuary will work. The External Auditor performed a verification on 31 December 2018 and found that 115 people (20 international staff and 95 national staff) had not been taken into account for the actuarial valuation. This is linked to the time constraints regarding closure of the accounts, which led the actuary to use data from 30 September 2018. However, the difference with the year-end headcount should have given rise to an adjustment. When checking the data from 30 September 2018, the External Auditor also noted that six people (three international staff and three national staff) had not been taken into account for the actuarial valuation. This situation reveals incomplete validation of data and poses a risk that could result in an underestimation of the debt as at 31 December 2018. WFP considers that personnel accounting be conducted in accordance with accounting standards and best practices and underlines that updates are also more frequent than in other organizations. The External Auditor, in view of the examples mentioned, nevertheless feels that accounting for staff could be more accurate.

45. WFP is dependent on the Food and Agriculture Organization of the United Nations (FAO) for certain data. FAO provides data linked to staff who have left the organization and their family members, which are necessary to estimate the after-service medical insurance. Although WFP remains legally responsible for the reliability of these data and the way they affect the Financial Statements, it does not have a firm assurance (such as a third-party audit report) regarding their validity.

46. The External Auditor does not consider sufficient information to be available to assess the methodology used by the actuary. The actuary uses the PROVAL software, access to which is restricted for intellectual property reasons. An alternative could be to work with Excel on real samples representing each staff category for each benefit, in order to ensure that the calculation formulas used comply with the method prescribed by paragraph 69 of IPSAS 39.[15] The actuary did not provide this information, which it does not consider to be included in its contractual obligations to WFP. However, the External Auditor has performed this type of work with other international organizations, which also uses the services of the actuarial firm under contract with WFP. In general, the information provided by the actuary is insufficient to constitute an effective audit trail. In particular, it lacks details of the calculations leading to the choice of a discount rate that weights the currency zones for international staff (58 percent in euros, 4 percent in dollars), the estimate of the turnover rate for each staff and seniority category, and the calculation spreadsheets justifying the underlying assumptions and their degree of uncertainty.

47. The assumptions used for the mortality rate, *disability* rate and future salary growth are those developed in a harmonized manner by the United Nations and validated by the professional actuary of the United Nations Joint Staff Pension Fund (UNJSPF). The External Auditor has not seen evidence of validation work to ensure that these assumptions were relevant in the case of WFP, even though paragraph 9 of Annex 2 of the contract entered into between WFP and its actuary in 2016 states that these assumptions must be adapted to the situation of the international organizations based in Rome. In response, the Finance and Treasury Division has noted that these hypotheses were subject to examination before being adopted by WFP. Nevertheless, the External Auditor considers this examination to be insufficiently documented.

[15] The projected unit credit method.

48. The assumptions used for the discount rates[16] (3.2 percent for international staff and 4.8 percent for national staff) are derived from the rate curve and the weighting between the dollar zone and the euro zone (58 percent in euros, 42 percent in dollars for international staff; 100 percent in dollars for national staff). These rates are then used to assign a value to all the benefits. Paragraphs 85 to 88 of IPSAS 39 state that the discount rate must be adapted to each type of benefit to take into account each one's timescale and reflect the cost of money over time. The External Auditor performed a brief revaluation of the discount rates taking into account the different timescales of each benefit, as mentioned in the actuarial report, and came out with lower average discount rates (3 percent for international staff and 4.27 percent for national staff). This situation could lead to an underestimation of the debt as at 31 December 2018. WFP considers that the choice of using an aggregate rate is a decision of the entity, as permitted by paragraph 87 of IPSAS 39. This does not prevent the External Auditor from assessing that choice. In a context of increasing challenges in relation to the valuation of employee benefits and growth in staff numbers, anything that might resemble an estimate that tends to undervalue the debt seems undesirable.

49. In general, the documentation provided by the actuary to assess the accuracy of its estimates is insufficient. These estimates should be associated with confidence intervals making it possible to assess the uncertainty. The Actuarial Standards of Practice (ASOPs)[17] state that the actuary should identify and assess the valuation risk, take into consideration the uncertainties linked to the valuations and present in its report its assessment of the valuation risk and associated uncertainties.

50. The sensitivity of actuarial assumptions analyses are limited to just three assumptions (staff turnover rate, growth rate of medical expenses and discount rate) and are only presented in the annex to the Financial Statements for the after-service medical plan. However, paragraph 13.7 of the 2016 contract between WFP and its actuary states that sensitivity analyses should be carried out for all benefits and for all the assumptions. Furthermore, paragraphs 146 and 147 of IPSAS 39 state that sensitivity analyses for all benefits and all significant assumptions should be presented in the annex. WFP indicates that its practice is comparable to that of other international organizations based in Rome. However, the External Auditor considers that WFP should do more in this respect given its size and the growth of its staff numbers, which are increasing the financial implications linked to employee benefits.

51. **Taking into account these elements, the External Auditor considers that WFP could improve its capacity to validate the data used by the contractual actuary, to assess the methodology used and examine the underlying assumptions. This work will require the actuary under contract with WFP to provide more information, but should enable more accurate estimation of these liabilities. The main actions to be carried out are:**

- **Examine the advantages and disadvantages of using an actuarial method to evaluate home leave in accordance with the financial reporting framework (IPSAS);**

- **Strengthen the validation of all data relating to employees, former employees and their family members eligible for each of the benefits before sending it to the actuary and ensuring sufficient traceability of the checks performed (the scope of these checks must also include data generated by FAO on behalf of WFP);**

---

[16] The discount rate is the rate applied to render a future expense and an immediate expense comparable. See paragraph 85 of IPSAS 39.
[17] Particularly ASOP 4 para. 3.3.2, ASOP 41 paras. 3.4.1 and 4.1.3, and ASOP 51 paras. 3.2, 3.3 and 4.1.

- **Ask the actuary to provide all necessary data to assess the methodology used;**
- **Obtain from the actuary documentation making it possible to assess the robustness of the estimates made and the underlying assumptions;**
- **Use different discount rates for each benefit, taking into account its specific timescale;**
- **Extend the sensitivity analyses to all significant assumptions and present them in the annex to the Financial Statements for all significant benefits.**

Recommendation 4. The External Auditor recommends that WFP solicit from its actuary more information in order to more effectively assess the methodology and assumptions used for the actuarial estimates.

3.3 Employee costs

52. The staff of WFP increased from 15,625 people in 2016 to 17,043 people in 2018 (+9 percent), leading to a rise in employee costs from USD 827 million in 2016 to USD 980 million in 2018 (namely +19 percent). The increasing importance of employee costs for WFP has a material impact on the Financial Statements, which has prompted the External Auditor to step up his checks in this area.

53. The payroll of a proportion of the WFP staff[18] is managed by the United Nations Development Programme (UNDP) via the ATLAS information system, accounting for a sum of USD 113 million in 2018. The External Auditor does not have any assurance from an internal or external auditor of UNDP as to the reliability of this data. This type of assurance should cover the reliability of the general IT controls and application controls in ATLAS, particularly those that ensure the reliability of the data and its compliance with the WFP Programme Staff Regulations and Rules.

54. In its response WFP stressed that the principle of mutual recognition[19] allows a United Nations entity to use the operational mechanisms, systems and procedures of another entity to implement activities of its own without obligatory evaluation, verification or approval. The External Auditor recognizes the value of this principle and has not issued any reservations about the fact that the data for a portion of WFP's payroll are produced by another organization. It nevertheless recognizes that mutual recognition is not an obstacle to WFP and its External Auditor obtaining a satisfactory assurance as to the reliability of the data produced by the UNDP.

55. The External Auditor has also noted the presence of old employee-related debts on the assets side of Statement I. Advances related to education grants issued more than a year ago stood at USD 2.1 million at the end of 2018 (USD 2.5 million at the end of 2017). Travel advances not cleared within the timeframe stipulated in the rules (30 days, extended to 60 days for missions of more than a month) represent USD 236,000, the oldest of which date back to 2009. Even though these amounts are not significant with regard to the Financial Statements, it is necessary to strengthen the internal control procedures to clear advances related to education grants and travel advances within the timeframes stipulated in the regulations.

[18] National professional officers and general service staff recruited locally.
[19] See Resolution 71/243 of the General Assembly of the United Nations dated 21 December 2016.

Recommendation 5. The External Auditor recommends that WFP obtain from the United Nations Development Programme, which manages part of WFP's salaries, an assurance on the reliability of the payroll system used for this purpose.

4. WFP communication concerning fraud, amounts written off and ex gratia payments

4.1 Prevention of fraud risk

56. As repeatedly highlighted by the External Auditor in his reports, WFP is exposed to an inherent risk of fraud due to its activity, the regions in which it operates, the nature of its assets, the highly decentralized nature of its organization and the large number of partners with which it interacts. Albeit in limited numbers, frauds are regularly detected, as shown by the annual reports of the Inspector General. In 2018, the Inspector General reported to the External Auditor that he was aware of 14 cases of fraud (USD 747,286) or suspected fraud under investigation (USD 581,351) giving a total loss of USD 1,329,637. These figures are higher than those for the nine cases of fraud (USD 141,198) or suspected fraud (USD 397,343) reported in 2017, for a loss of USD 538, 541.

57. The role of the External Auditor is not to investigate frauds or to provide any assurance on the matter whatsoever. Nevertheless, the External Auditor does rely on his assessment of the risk of fraud to define his audit strategy and his work in accordance with ISA 240. In view of the previous paragraph, the External Auditor considered that inherent fraud risk was high within WFP. As such, he adapted his procedures accordingly, in particular to take into account the unpredictability of a portion of the accounting entries tested and to devote one of his performance audits to the prevention and management by WFP of the fraud risk. The results of this audit and the corresponding recommendations are set out in a separate report.

4.2 Write-offs and ex gratia payments

58. All ex gratia payments and amounts written off of losses of cash, stocks of food commodities, other items and other assets must be formally approved by the Executive Director, as per Article 12.4 of the Financial Regulations. Thus, a note signed by the Executive Director was submitted to the External Auditor on 29 March 2019 for ex gratia payments and write-offs recognized in 2018. A similar note should be signed by the Executive Director for the ex gratia payments and write-offs recognized in 2018, which are presented in note 9 of the Financial Statements.

59. As of the cut-off date, the write-offs of food commodities (USD 14.4 million in 2018, USD 20.5 million in 2017) had not undergone a systematic detailed analysis, and there was no plan of action to limit the future risk even though article 12.4 provides that "the Executive Director may, after full investigation, authorize the writing-off of losses of cash, commodities and other assets...". As the External Auditor has already indicated in his reports and the Financial Statements for 2016 and 2017, write-offs should only be recognized after formal authorization from the Executive Director, on the basis of the annual report on post-delivery food losses, after full investigation, in accordance with the provisions of article 12.4 of the Financial Regulations.

IV. ACKNOWLEDGEMENTS

60. The audit team would like to express its sincere gratitude to the Finance and Treasury Division (RMF) for its support during this audit, and in particular to the Chief, General Accounts Branch (RMFG), who was the primary focal point for this audit. It would also like to thank the other WFP divisions for their contribution to the audit of the Financial Statements, particularly the Technology Division (TEC).

End of audit observations.

ANNEX

	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 Consulting, Inc.	200 East Randolph Chicago, IL 60601 United States of America
Principal Bankers	Citibank N.A.	Via Mercanti, 12 20121 Milan, Italy
	Standard Chartered Plc	1 Basinghall Avenue London, EC2V 5DD, U.K.
External Auditor	First President of the Cour des Comptes (France)	13 rue Cambon 75001 Paris, France

Acronyms used in the document

ARC	African Risk Capacity
ASMP	After-Service Medical Plan
BMIP	Basic Medical Insurance Plan
CBT	cash-based transfer
COMET	country office tool for managing effectively
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CSP	country strategic plan
DOC	direct operational costs
DSC	direct support costs
ERP	Enterprise Resource Planning
FAO	Food and Agriculture Organization of the United Nations
FIT	Future International Talent
GA	General Assembly
GCMF	Global Commodity Management Facility
ICC	International Computing Centre
ICSP	interim country strategic plan
IPSAS	International Public Sector Accounting Standard
IRA	Immediate Response Account
IRM	Integrated Road Map
LESS	Logistics Execution Support System
MICS	Medical Insurance Coverage Scheme
MSCI	Morgan Stanley Capital International
NGO	non-governmental organization
OR	Operational Reserve
PP&E	property, plant and equipment
PSA	Programme Support and Administrative (budget)
PSAEA	PSA Equalization Account
SCOPE	WFP’s corporate digital beneficiary and transfer management platform
SDG	Sustainable Development Goal
SEA	Sexual exploitation and abuse
SR	Strategic Result
STRIPS	United States Treasury Separate Trading of Registered Interest and Principal of Securities
TEC	WFP Technology Division

T-ICSP	transitional interim country strategic plan
UNDP	United Nations Development Programme
UNJSPF	United Nations Joint Staff Pension Fund
UNORE	United Nations Operational Rates of Exchange
WINGS	WFP Information Network and Global System