

برنامج
الأغذية
العالمي



Programme
Alimentaire
Mondial

World
Food
Programme

Programa
Mundial
de Alimentos

**Executive Board
Annual Session**

Rome, 9–12 June 2008

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For approval



Distribution: GENERAL

WFP/EB.A/2008/6-A/1/1

25 April 2008

ORIGINAL: ENGLISH

AUDITED BIENNIAL ACCOUNTS (2006–2007): SECTION I

**Report of the Executive Director on the
Financial Administration of the World Food
Programme for the Biennium 2006–2007**

NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for approval.

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

Chief Financial Officer and Director, FL*: Mr A. Abdulla tel.: 066513-2401

Deputy Chief Financial Officer and Director, FLA**: Mr E. Whiting tel.: 066513-2701

Chief, FLAG***: Ms M. Bautista-Owen tel.: 066513-2240

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

* Finance and Legal Division
** Office of Financial Accounting
*** General Accounts Branch



The “Report of the Executive Director on the Financial Administration of the World Food Programme for the Biennium 2006–2007 (Section I)” (WFP/EB.A/2008/6-A/1/1) is the first of a set of four documents submitted to the Board in accordance with General Regulation XIV.6 (b) and Financial Regulation 13.1, which provide for the submission to the Board of the audited biennial financial statements of WFP. The report sets out the highlights of the financial administration of WFP during the biennium and concludes with recommendations to the Board.

The other three parts of the audited biennial accounts are:

- “Opinion of the External Auditor and the Audited Financial Statements 2006–2007 (Section II)”, (WFP/EB.A/2008/6-A/1/2);
- “Report by the External Auditor on the Audit of the Financial Statements of the World Food Programme, 2006–2007 (Section III)” (WFP/EB.A/2008/6-A/1/3), the long-form report of the External Auditor providing information on the outcome of audit work during the biennium; and
- “Response by the Secretariat to the Report by the External Auditor on the Audit of the Financial Statements of the World Food Programme, 2006–2007 (Section IV)” (WFP/EB.A/2008/6-A/1/4).

EXECUTIVE SUMMARY

Financial Administration

The Financial Administration and Reporting standards in WFP were enhanced during the 2006–2007 biennium by increasing the accountability of WFP managers and improving oversight tools.

Amendments to the General Regulations, General Rules and Financial Regulations were approved to position WFP for the introduction of International Public Sector Accounting Standards from 2008, and important accounting policy changes were introduced in respect of expenditure recognition and staff liabilities.

WFP financing modalities have continued to be a vital source of advance financing for WFP projects to mitigate pipeline breaks and ensure that resources are available throughout the life of the projects.

Improvements in treasury management were introduced during the biennium, including revised investment and treasury management policies.

WFP has worked with other United Nations organizations on International Public Sector Accounting Standards, Financial Regulations and Rules, common funding mechanisms and delivery of “One UN”.

Financial Highlights

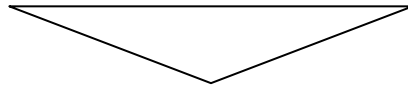
WFP ended the biennium with total income of US\$6 billion, a decrease of US\$0.3 billion (5.5 percent) over the previous biennium. However, when bilateral operations and trust fund contributions are excluded, there was an increase of US\$0.2 billion in regular contributions for WFP projects and special accounts (US\$5.3 billion in contributions in the 2006–2007 biennium against US\$5.1 billion in the 2004–2005 biennium).

The above income includes approximately US\$15 million in contributions that were received in the form of stand-by personnel and other in-kind contributions. There was also a significant increase in the amount of miscellaneous income realized by the Programme during 2006–2007: approximately US\$190 million compared to miscellaneous income realized during 2004–2005 of US\$95.5 million. The increase in miscellaneous income was mainly due to activities relating to the aviation and the Global Vehicle Leasing Programme and locally generated funds.

Expenditures totalled US\$5.8 billion during the biennium, a decrease of US\$0.2 billion (3.8 percent) compared with the previous biennium.



DRAFT DECISION*



The Board:

- i) approves the 2006–2007 Biennial Financial Statements of WFP, together with the Report of the External Auditor, pursuant to General Regulation XIV.6 (b);
- ii) approves, in accordance with Financial Regulation 10.6, the replenishment of the Operational Reserve from the General Fund in the amount of US\$5.9 million, relating to a drawdown from the Operational Reserve based on a forecast contribution that did not materialize; and
- iii) notes the funding from the General Fund of US\$4.5 million during the biennium for the write-off of cash losses, unfunded expenditures and contributions and accounts receivable.

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations (document WFP/EB.A/2008/16) issued at the end of the session.



INTRODUCTION

1. In accordance with Article XIV.6 (b) of the General Regulations, the Executive Director has the honour to submit the financial statements of WFP for the biennium ending 31 December 2007.
2. The financial statements for 2006–2007 will be the last biennial statements prepared for WFP: beginning with the 2008 financial period, financial statements will be prepared annually.
3. The progressive introduction of improvements in WFP's financial administration and financial reporting, which began in the 2002–2003 biennium, continued in 2006–2007. These improvements have positioned WFP to meet the rigorous standards required to ensure compliance with International Public-Sector Accounting Standards (IPSAS) from January 2008.
4. Financial administration during 2006–2007 was also enhanced through the work of the Audit Committee, including advice to the Executive Director and the Secretariat on proposed accounting policy changes, the review of the annual and biennial financial statements and related discussions with external and internal audit, and through interaction with the Chief Financial Officer on financial risk, financial management and administration issues.
5. The highlights of WFP's financial administration and reporting during 2006–2007 include:
 - i. capacity-building and training in financial management for country directors and finance staff;
 - ii. enhancement of management oversight tools to review the financial administration performance of field offices and Headquarters units with financial responsibilities;
 - iii. changes in accounting policies, the General Regulations, General Rules and Financial Regulations;
 - iv. rationalization of the internal financing mechanisms and treasury management;
 - v. support for reform in the United Nations system; and
 - vi. progress in the transition to IPSAS.
6. The financial results for WFP for 2006–2007 reflect the impact of reduced levels of contribution income and increases in most cost components, including commodities, which have steadily increased throughout the biennium and particularly in 2007. Programme Support and Administrative (PSA) costs also increased significantly in 2006–2007 as a result of mainstreaming activities into PSA that were previously funded by capacity-building funds, staff cost increases and the impact of negative exchange rate fluctuations – the decline in value of the United States dollar against many local currencies. This was partly offset by the application of hedging strategies introduced at the beginning of 2006.



FINANCIAL ADMINISTRATION

Financial Accountability of Managers

7. In view of the decentralized nature of WFP operations, greater reliance is being placed on managers in the field to ensure that financial transactions are properly and promptly recorded and that financial procedures and reporting requirements are complied with.
8. In 2006, the Chief Financial Officer conducted financial management training workshops in all regional bureaux and at Headquarters with the objective of building capacity in financial management. The success of these workshops and other communications on financial management was demonstrated with the introduction of the new accounting policy on expense recognition, under which expense is recognized on the basis of goods and services supplied to WFP rather than purchase orders or other commitments, which was the previous policy. The completion of internal letters of representation by managers in respect of completeness in the recording of financial transactions provided a higher level of assurance from managers than had been sought in previous financial periods.

Oversight Improvements

9. The minimum monthly closure (MMC) reporting package introduced in 2005 to monitor the performance of field offices in timely recording, reconciling and clearing financial transactions was enhanced during 2006–2007, and is now used by all WFP field offices. MMC reports are certified by country directors and reviewed and followed up by regional bureaux.
10. In 2007, the Chief Financial Officer introduced a management monitoring tool called the “Dashboard”, which provides a monthly snapshot of open financial transaction documents such as purchase orders, bank transactions, vendor transactions and goods receipts. The Dashboard highlights outstanding transactions and reports on all transactions on the basis of the age of the accounts or the length of time the transactions have been outstanding. Management is thus able to identify risk areas resulting from delays in transaction clearing and can monitor positive and negative trends in the number of outstanding transactions. Since the introduction of the Dashboard, the number of outstanding transactions in country offices has fallen considerably, and there has been a significant improvement in the clearing of accounts that have been outstanding for a long period.

Changes in Accounting Policies

11. The Secretariat introduced two major accounting policy changes in 2006–2007 in advance of IPSAS implementation in 2008, brought forward because they have a major impact on financial reporting and require changes to processes in Headquarters and field offices. The decision was taken to spread the impact of process and procedural changes required under IPSAS and to avoid the risk of overloading WFP in 2008 with financial reporting changes. The Board was informed of the proposed accounting policy changes, which were supported by the External Auditor and the Audit Committee.
12. The first change concerned the recognition of expenditure for goods and services supplied to WFP. With effect from 2006, expenditures were recorded on a delivery basis: recording expenditures on the basis of goods and services delivered rather than contracted ensures that expenditures are recorded in the financial period in which they are incurred. This policy change will also improve the financial information available to measure



performance results in the future. The introduction of commodity inventory accounting under IPSAS in 2008 will further improve the matching of expenditure with operational activities and results.

13. The second change was the introduction of full recognition of staff liabilities, including those payable after staff have retired or separated from WFP. The introduction of this policy results from: (i) recommendations by the United Nations Controller to United Nations system organizations to accrue staff liabilities; (ii) recommendations by the External Auditor; and (iii) the requirement that all such staff liabilities must be recognized under IPSAS. As reflected in the “Audited Financial Statements (2006–2007), Section II” (WFP/EB.A/2008/6-A/1/2), full recognition of staff liabilities results in an unfunded liability for a portion of these liabilities of US\$108.4 million. The important issue of funding options for staff liabilities is discussed in the “Update to the WFP Management Plan (2008–2009)” (WFP/EB.A/2008/6-C/1) to be presented during the 2008 Annual Session of the Board.
14. These changes in accounting policy constitute major improvements in WFP’s financial reporting standards.

Amendments to General Regulations, General Rules and Financial Regulations

15. In preparation for the introduction of IPSAS and the change to annual rather than biennial financial reporting, amendments were made to a number of regulations and rules.
16. Amendments to the General Regulations approved by the Executive Board under decision 2006/EB.2/4, changing the financial period from biennial to annual, were approved by the Food and Agriculture Organization of the United Nations (FAO) Conference and General Assembly in 2007.
17. General Rules and Financial Regulations amendments related to the financial period, and specific issues required to ensure that the rules and regulations impacted by IPSAS are amended accordingly, were approved by the Executive Board under decisions 2006/EB.2/4 and 2007/EB.A/4.
18. These amendments are effective from 1 January 2008.

Financing Modalities

19. In early 2007, WFP completed the review of advance financing processes and mechanisms – the Immediate Response Account (IRA), the Direct Support Cost Advance Facility (DSCAF) and working-capital financing (WCF) loans – that aimed to increase the efficiency of advance financing mechanisms, streamline the processes when advance financing is requested and reduce lead times when food is delivered to beneficiaries.
20. The review resulted in the introduction of (i) standard processes applied to the financing mechanisms, (ii) a two-tier approval process having regard to the value of the transactions and related enhanced oversight and (iii) centralized monitoring of advance financing mechanisms to facilitate corporate overview of WFP’s financial exposure.
21. With these three internal financing facilities, WFP’s ability to respond immediately to crises and fill pipeline shortfalls improved considerably during the 2006–2007 biennium. In total, US\$517.2 million was advanced to projects during the 2006–2007 biennium from the three internal facilities.



⇒ *Immediate Response Account*

22. The IRA is maintained through contributions from donors and, with the consent of the donors concerned, through insurance recoveries from commodity losses and from interest income on bilateral funds owed to donors. A total of US\$283.7 million was utilized for operations during the biennium; US\$274.3 million flowed into the IRA either through new contributions or recoveries from donor contributions to projects for which funding had been provided by the IRA. In 2006, the Board approved the reprogramming of US\$20 million from the PSA Equalization Account to the IRA. The IRA had a balance of US\$41.5 million at the end of the 2006–2007 biennium, compared with US\$30.8 million at the end of the 2004–2005 biennium. The annual target level is US\$70 million, as approved by the Board in October 2004.

⇒ *Direct Support Cost Advance Facility*

23. DSCAF is used to finance support costs and other direct operational costs in operations pending confirmation of contributions. Advances made to projects during the biennium amounted to US\$111.7 million; recoveries totalled US\$101.2 million. The balance of DSCAF at the end of 2007 amounted to US\$38.9 million. Its approved level is US\$60 million.

⇒ *Working-Capital Financing*

24. In February 2004, the Board approved the use of the Operational Reserve to pre-finance projects on the basis of forecast contributions. In February 2005 it approved a working capital advance ceiling of US\$180 million to ensure continued financing of projects pending confirmation of forecast contributions.
25. During the 2006–2007 biennium US\$122 million was advanced to projects, of which US\$98.3 million was recovered. Since the inception of WCF in 2004, US\$273 million has been advanced to projects.
26. An advance of US\$5.9 million made to a project during the 2004–2005 biennium could not be recovered. It had been granted on the basis of forecast contributions that in the event never materialized, and was approved for write-off by the Executive Director in 2006 as provided in Financial Regulation 12.4. The Executive Director is requesting the replenishment of this amount from the General Fund under Financial Regulation 10.6.

Treasury Management

27. During the 2006–2007 biennium, significant progress was achieved in treasury management. The main treasury policies were revised to ensure consistency with WFP's strategies, operational procedures and market circumstances. The revised treasury policies included investment policy, foreign exchange management, the mandate and composition of the investment committee and the delegated authority for treasury management.
28. Implementation of the new investment policy for the short-term investment portfolio was particularly important. The rationale included:
- i. enhanced financial risk management based on the establishment of risk tolerance levels and the use of risk budgets by investment managers;



- ii. an enhanced framework for periodic review of strategic asset allocation, benchmarks, the portfolio tranching structure and risk tolerance levels; and
 - iii. potential for enhanced returns on short-term investments.
29. The foreign exchange hedging strategy for staff expenditure incurred in Euros was implemented for the biennium, which enhanced the certainty of PSA staff expenditure and mitigated the impact of increased staff expenditure. Improved services were obtained in foreign exchange conversions, credit interest conditions and custodial services. Significant improvements were made in financial control processes, including increased automatic daily uploads of bank statements, a new database for all bank accounts and signatories, and implementation of new control functions in electronic payment systems.

United Nations System-Wide Activities

30. During 2006–2007, WFP continued to work with other United Nations funds, programmes and specialized agencies on United Nations system activities and reform. As reported in the document “Sixth Progress Report on the Implementation of IPSAS” (WFP/EB.A/2008/6-F/1), WFP is fully involved with the introduction of IPSAS into the United Nations system and is active in the Steering Committee and Task Force on Accounting Standards, working under the auspices of the Finance and Budget Network of the United Nations System Chief Executives’ Board (CEB) and the High-Level Committee on Management (HLCM).
31. The Chief Financial Officer is also working with the controllers of the United Nations ExCom agencies on the review of Financial Regulations and Rules, with a view to harmonization among United Nations agencies working together at the country level.
32. WFP has been involved in other United Nations system activities, including the development of financial accountability and audit mechanisms for delivering as “One UN” pilots, in common funding mechanisms such as the Central Emergency Response Fund (CERF) and the Multi-Donor Trust Fund (MDTF), and in other financial harmonization issues under the United Nations Development Group (UNDG).

Adoption of International Public-Sector Accounting Standards

33. Pursuant to the External Auditor’s recommendation in 2005 and approval by HLCM for United Nations system organizations to adopt IPSAS by 2010, the Board approved the adoption of IPSAS at WFP effective from 1 January 2008.
34. The full report on the progress of IPSAS adoption is the document “Sixth Progress Report on the Implementation of IPSAS” (WFP/EB.A/2008/6-F/1).

FINANCIAL HIGHLIGHTS

Income, Expenditure and Fund Balances

⇒ *Summary of Income and Expenditure*

35. During the 2006–2007 biennium, total income realized by WFP amounted to US\$6 billion, reflecting a US\$0.3 billion (5.5 percent) reduction compared with the previous biennium. Total expenditures of US\$5.8 billion during the biennium reflected a reduction of US\$0.2 billion (3.8 percent) when compared with the previous



biennium's expenditures. Expenditures in 2006–2007 accounted for 98 percent of income, the same level as 2004–2005.

36. Table 1 summarizes total income and expenditures of the WFP fund.

TABLE 1: SUMMARY OF TOTAL INCOME AND EXPENDITURE OF THE WFP FUND			
<i>(US\$ million)</i>			
	2006–2007	2004–2005 (adjusted)	% increase (decrease)
INCOME			
Cash contributions	4 736.4	5 155.3	(8.1)
Commodity and services-in-kind contributions	848.2	1 039.3	(18.4)
Other income (interest, currency gain, etc.)	376.8	115.5	226.1
TOTAL INCOME	5 961.4	6 310.1	(5.5)
EXPENDITURE			
Commodities purchased and in-kind	2 240.6	2 764.2	(18.9)
Direct operational costs	2 360.1	2 262.4	4.3
Direct support costs	817.6	654.5	24.9
Indirect support costs	423.6	393.0	7.8
TOTAL EXPENDITURE	5 841.9	6 074.1	(3.8)
EXCESS OF INCOME OVER EXPENDITURE	119.5	236.0	(49.4)

⇒ *Expenditure by Programme Category*

37. The total expenditures of US\$5.9 billion before eliminations, categorized as Programme Category Funds and Other Funds, are presented in Table 2.

TABLE 2: TOTAL EXPENDITURE				
<i>(US\$ million)</i>				
	2006–2007		2004–2005 (adjusted)	
	Amount	%	Amount	%
Programme Category Funds				
Development	577.5	9.8	502.6	8.2
Emergency	1 445.4	24.5	2 113.2	34.3
Protracted relief and recovery	2 522.5	42.7	1 789.3	29.1
Special operations	402.6	6.8	222.7	3.6
Subtotal	4 948.0	83.8	4 627.8	75.2
Other Funds				
General Fund and special accounts	709.5	12.0	586.2	9.5
Bilateral operations and trust funds	248.3	4.2	941.2	15.3
TOTAL*	5 905.8	100.0	6 155.2	100.0

*Before eliminations of US\$63.9 million in 2006–2007 and US\$81.1 million in 2004–2005 representing internal income of the special accounts and special operations.



38. The details of income and expenditure by programme category are shown in the Annex.
39. Expenditures on protracted relief and recovery operations (PRROs) showed a 13.6 percent increase (US\$733.2 million) in 2006–2007 from 2004–2005; whereas expenditures on emergency operations (EMOPs) decreased by 9.9 percent (US\$667.8 million), indicating a shift from emergency to protracted relief projects. Development expenditures showed an increase of 1.6 percent (US\$74.9 million) in 2006–2007 over the 2004–2005 expenditure level.
40. Although there is a lower level of expenditures under bilateral operations and trust funds in 2006–2007 compared with 2004–2005, it should be noted that the latter included a project for technical support for Iraq's public distribution system with expenditures of US\$762 million.
41. The General Fund and special account expenditure increases in 2006–2007 were affected by various WFP initiatives, increased activity of the aviation and other special accounts and the decline in value of the United States dollar against many local currencies.

⇒ *Support Costs*

42. The increase in DSC expenditures resulted largely from (i) the increase in SO expenditures, most of which are elements of DSC, (ii) the shift from EMOP to PRRO projects, which have greater staffing needs, (iii) significant investment in security in complex, insecure and costly operating environments to ensure compliance with minimum operating security standards (MOSS), (iv) payment of hardship allowances, rest and recuperation, hazard pay and the special operations living allowance to staff in difficult duty stations, (v) the upgrade of the WFP Information Network and Global System (WINGS), (vi) increased activity in special accounts such as the aviation account and the global vehicle leasing pool (GVLP) and (vii) the weakening of United States dollar against many local currencies, which negatively affected staffing and other costs.
43. The increase in PSA resulted from (i) mainstreaming activities into PSA that were previously funded by capacity-building funds, (ii) salary increases of general service staff at Headquarters and (iii) the weakening of the United States dollar against the Euro.
44. Support costs in 2006–2007 were 21.3 percent of total expenditures, an increase of 4 percent compared with 17.3 percent in the previous biennium.
45. Table 3 shows support costs as percentage of expenditure.

TABLE 3: SUPPORT COSTS AS PERCENTAGE OF EXPENDITURE

	<i>(US\$ million)</i>			
	2006–2007		2004–2005 (adjusted)	
	Amount	%	Amount	%
Total expenditures	5 841.9	100.0	6 074.1	100.0
Support costs:				
DSC	817.6	14.0	654.5	10.8
PSA	423.6	7.3	393.0	6.5
Total support costs	1 241.2	21.3	1 047.5	17.3



⇒ *Fund Balances*

46. Table 4 shows the composition of WFP fund balances.

TABLE 4: TOTAL FUND BALANCES BY PROGRAMME CATEGORY				
<i>(US\$ million)</i>				
	2006–2007		2004–2005 (adjusted)	
	Amount	%	Amount	%
Programme Category Funds				
Development	209.4	11.1	296.0	14.4
Emergency	640.3	34.0	457.0	22.1
Protracted relief and recovery	548.1	29.1	744.2	36.1
Special operations	155.3	8.3	169.4	7.7
Subtotal	1 553.1	82.5	1 656.6	80.3
General Fund and special accounts	115.6	6.2	182.9	8.9
Bilateral operations and trust funds	212.4	11.3	223.3	10.8
TOTAL	1 881.1	100.0	2 062.8	100.0

47. Balances at 31 December 2007 under Programme Category Funds totalled US\$1,553.1 million; the details are shown in the Annex. Of this amount, US\$641.5 million is in the form of cash and short-term investments; the remaining US\$911.7 million comprises contributions and other receivables of US\$1,308.6 million, which was offset by total liabilities of US\$396.8 million, as shown in Statement II of the Financial Statements.
48. The US\$4.5 million of the General Fund was utilized in 2006–2007 for writing off cash losses, unfunded expenditures and contributions and accounts receivable, in accordance with Financial Regulation 12.4. Following analysis of these accounts and unsuccessful recovery actions, it was determined that further action to recover or clear these amounts would not bring positive results.
49. The General Fund was also utilized to cover (i) WFP's US\$20.6 million share of security costs charged by the United Nations Department of Safety and Security, (ii) US\$33.6 million for implementation of WINGS II, (iii) US\$2.6 million for funding of the 2006 Walk the World and (iv) a negative staff cost variance of US\$37.7 million relating to staff costs not funded by PSA.

Assets, Liabilities and Reserves

⇒ *Cash and Investments*

50. Cash held in banks and short-term investments at 31 December 2007 amounted to US\$1.2 billion.



51. The breakdown of cash and short term-term investments is shown in Table 5.

TABLE 5: CASH AND SHORT-TERM INVESTMENTS		
<i>(US\$ million)</i>		
	2007	2005
Bank and cash holdings:		
At Headquarters	275.6	194.2
At country offices	52.3	40.9
Short-term investments	893.3	895.1
TOTAL	1 221.2	1 130.2

52. All cash and short-term investments are either earmarked for ongoing activities or retained as reserve or fund balances and utilized for funding or financing approved activities in accordance with policies or under the direction of the Board.

53. Of the US\$1.2 billion in cash and short-term investments, US\$641 million is fully committed in programme category funds' representing 94 days of cash expenditures, which is almost at the same level compared to the previous biennium. US\$229 million is held under bilateral and trust fund arrangements; US\$351 million is related to the General Fund and special accounts, including approved reserves that are used to support operations.

54. The long-term investment, which had a balance of US\$53.6 million at 31 December 2007 (US\$56.8 million at 31 December 2005), consists of United States Treasury STRIPS (separate trading of registered interest and principal securities) that are sufficient to pay off the principal and interest of the US\$106 million long-term loan.

55. Eligible WFP staff members are entitled to certain benefits on separation: WFP has set aside funds called staff benefit funds (SBFs) to meet these future obligations.

56. Table 6 shows the long-term investments held to fund SBF liabilities: the After-Service Medical Coverage Plan (ASMCP), the Compensation Plan Reserve Fund (CPRF) and the Separation Payment Scheme (SPS).

TABLE 6: LONG-TERM INVESTMENTS – STAFF BENEFIT FUNDS		
<i>(US\$ million)</i>		
	2007	2005
Bonds	53.5	42.5
Equities	47.1	33.1
TOTAL	100.6	75.6



⇒ *Contributions Receivable*

57. The balance of contributions receivable was US\$1.33 billion at 31 December 2007, of which US\$1.26 billion is current – pledges confirmed in 2006–2007 – and US\$69.2 million is more than two years old.

TABLE 7: CONTRIBUTIONS RECEIVABLE

(US\$ million)

Year of confirmation	2006–2007		2004–2005	
	Amount	%	Amount	%
2007	1 122.1	84.4		
2006	138.8	10.4		
2005	53.3	4.0	945.7	71.7
2004	2.8	0.2	142.4	10.8
2003 and prior	13.1	1.0	230.7	17.5
TOTAL	1 330.1	100.0	1 318.8	100.0

58. There has been significant improvement in the management of contributions receivable during 2006–2007. Of the US\$1.33 billion in contributions receivable, 94.8 percent related to the 2006–2007 biennium, compared with 82.5 percent in 2004–2005. During 2006–2007, contributions receivable relating to prior biennia accounted for only 5.2 percent of total contributions receivable, compared with 17.5 percent during 2004–2005.

⇒ *Accounts Receivable*

59. Accounts receivable consist of pre-paid expenses and amounts due to WFP other than contributions receivable. Total accounts receivable at 31 December 2007 amounted to US\$213 million, a decrease of 2.8 percent compared with the balance at the end of 2005, mainly as a result of decreased levels of advances to vendors and insurance claim receivables.

⇒ *Current and Accrued Liabilities*

60. With the change in accounting policy to recognize expenditures on the basis of delivery, the total liabilities reported at the end of 2005 were adjusted downward by US\$588.1 million to account for outstanding obligations. Total current liabilities at the end of 2007 were US\$540.2 million, consisting of accrued expenditures of US\$222.6 million and accounts payable of US\$317.6 million that included a portion of unfunded staff liabilities.
61. Of the total unfunded staff liabilities of US\$108.4 million, US\$82.7 million was reflected as current liabilities; US\$25.7 million was presented under accrued expenditures.

⇒ *Deferred Contributions*

62. During 2006–2007, WFP received US\$150.6 million in multi-year contributions from some donors, who stipulated that their contributions were to be utilized in future years.



⇒ *Staff Liabilities*

63. WFP after-service liabilities are determined by actuaries using economic and demographic assumptions specific to WFP. The last actuarial valuation of these liabilities was in December 2007.
64. After-service liabilities at 31 December 2007 were calculated at US\$173.2 million, an increase of US\$62 million over the 2004–2005 figure, on the basis of factors such as (i) the increase in service costs as a result of active staff accruing additional years of service towards after-service benefits, (ii) the increased age grading of medical claims costs, (iii) higher-than-expected medical claims costs, (iv) a change in mortality assumptions, (v) decreased attribution periods and (vi) changes in claims cost methods. The increase was partially offset by an increase in the discount rate.
65. In addition to staff liabilities calculated by actuaries, other staff liabilities were also calculated by WFP on the basis of personnel data and past payment experience. Other staff liabilities consist of separation-related liabilities and other liabilities that can be availed of while in service. Total staff liabilities at 31 December 2007 calculated by the actuaries and WFP amounted to US\$219.2 million.

⇒ *Reserves*

66. Reserve balances at 31 December 2007 are shown in Table 8.

TABLE 8: RESERVES		
<i>(In US\$ million)</i>		
	2007	2005
Operational Reserve	51.1	57.0
Immediate Response Account	41.4	30.8
DSC Advance Facility	39.0	49.5
PSA Equalization Account	8.6	122.1
TOTAL	140.1	259.4

67. The use of the Operational Reserve, IRA and DSCAF are discussed under the Financing Modalities Section, above. A total of US\$113.5 million from the PSA Equalization Account was utilized as follows, as approved by the Board:
- i. US\$44.3 million for the WINGS II project (US\$15 million), the Other Capital Asset Fund (US\$4 million), Results-Based Management (US\$3.5 million), Strengthening Financial Management (US\$2 million) and transfer of negative PSA fund balance (US\$19.8 million);
 - ii. US\$23.7 million for IPSAS implementation (US\$3.7 million) and transfer to IRA (US\$20 million); and
 - iii. US\$45.5 million to cover the negative staff cost variance for PSA-funded staff costs.
68. The balance of the PSA Equalization Account at the end of 2007 is US\$8.6 million.



⇒ *Self-Insurance Account*

69. The Self-Insurance Account (SIA) is a special account used to record transactions of WFP's self-insurance scheme, which covers pre-delivery and transit commodity losses involving international cargo. In 2007, the Board authorized WFP to utilize up to US\$15 million of the balance of the SIA for termination payments provided for under staff regulations and International Civil Service Commission (ICSC) rules. At 31 December 2007, the SIA had a surplus of US\$20.2 million arising from low loss rates and adequate recoveries from transporters.

⇒ *External Audit*

70. After reviewing the 2006–2007 biennial accounts, the External Auditor rendered an unqualified opinion on the financial statements that they present fairly, in all material respects, the financial position of WFP and the results of its operations at 31 December 2007. The External Auditor also submitted a long-form report that sets out the main audit findings and recommendations.

71. A response to the External Auditor's report and recommendations is provided in a separate document submitted to the current session of the Board.

RECOMMENDATIONS

72. The Executive Director recommends that the Board:

- i. approve the 2006–2007 Biennial Financial Statements of WFP, together with the report of the External Auditor, pursuant to General Regulation XIV.6 (b);
- ii. approve, in accordance with Financial Regulation 10.6, the replenishment of the Operational Reserve from the General Fund in the amount of US\$5.9 million, relating to a drawdown from the Operational Reserve based on a forecast contribution that did not materialize; and
- iii. note the funding from the General Fund of US\$4.5 million during the biennium for the write-off of cash losses, unfunded expenditures and contributions and accounts receivable.



**PROGRAMME CATEGORY FUNDS STATEMENT OF INCOME AND EXPENDITURE AND FUND BALANCES
FOR THE BIENNIUM ENDED 31 DECEMBER 2007 (US\$ thousand)**

	Development	Emergency relief	Protracted relief and recovery	Special operations	Total 2006–2007	Prior period 2004–2005 (adjusted)
INCOME						
Cash and other contributions	436 043	1 559 611	2 040 144	372 456	4 408 254	4 016 283
Commodity in-kind contributions	86 995	308 325	430 862	-	826 182	955 605
Services-in-kind contributions	3 716	4 124	4 125	9 065	21 030	35 421
Currency exchange adjustments	11 397	20 716	29 558	2 131	63 802	(29 890)
Miscellaneous income	904	15 087	7 194	50 600	73 785	8 387
Transfer of indirect support cost contributions to General Fund	(32 968)	(113 054)	(150 222)	(22 795)	(319 039)	(321 081)
TOTAL INCOME INCLUDING TRANSFER	506 087	1 794 809	2 361 661	411 457	5 074 014	4 664 725
EXPENDITURE						
Commodities purchased	238 810	213 016	802 872	-	1 254 698	1 150 142
Commodities in kind	127 145	248 360	486 332	-	861 837	976 817
Ocean transport and related costs	52 569	117 104	290 217	(14)	459 876	528 713
Landside transport storage and handling	78 826	639 947	601 728	-	1 320 501	1 195 278
Other direct operational costs	23 007	16 873	71 620	353 576	465 076	313 430
Direct support costs	57 171	210 137	269 758	49 018	586 084	463 397
TOTAL EXPENDITURE	577 528	1 445 437	2 522 527	402 580	4 948 072	4 627 776
Excess/(shortfall) of income over expenditure	(71 441)	349 372	(160 866)	8 877	125 942	36 949
Fund balances, beginning of period	296 042	457 552	743 627	159 370	1 656 591	2 099 228
Contribution adjustments	(12 889)	(130 875)	(84 132)	(14 351)	(242 247)	(402 738)
Prior period adjustments	(2 001)	3 219	3 296	722	5 236	(79 428)
Transfers between funds and accounts	52	(37 318)	40 485	175	3 394	(7 941)
Transfers to reserves	(314)	(1 634)	5 698	500	4 250	10 521
FUND BALANCES, END OF PERIOD	209 449	640 316	548 108	155 293	1 553 166	1 656 591



ACRONYMS USED IN THE DOCUMENT

ASMCP	After-Service Medical Coverage Plan
CEB	United Nations System Chief Executives' Board
CERF	Central Emergency Response Fund
CPRF	Compensation Plan Reserve Fund
DSC	direct support cost
DSCAF	Direct Support Cost Advance Facility
EMOP	emergency operation
FAO	Food and Agriculture Organization of the United Nations
GVLV	Global Vehicle Leasing Pool
HLCM	High-Level Committee on Management
ICSC	International Civil Service Commission
IPSAS	International Public-Sector Accounting Standards
IRA	Immediate Response Account
MDTF	multi-donor trust fund
MMC	minimum monthly closure
MOSS	minimum operating security standards
PRRO	protracted relief and recovery operation
PSA	Programme Support and Administrative
SBF	Staff Benefit Fund
SIA	Self-Insurance Account
SPS	Separation Payment Scheme
STRIPS	separate trading of registered interest and principal securities
UNDG	United Nations Development Group
WCF	working-capital financing
WINGS	WFP Information Network and Global System