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Food and Agriculture  
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Alimentación y la Agricultura

منظمة  
الغذية والزراعة  
للأمم المتحدة

**E**

# FINANCE COMMITTEE

**Hundred and Sixty-second Session**

**Rome, 23 - 25 May 2016**

**Audited Annual Accounts, 2015**

Queries on the substantive content of this document may be addressed to:

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### EXECUTIVE SUMMARY

- The WFP Secretariat is pleased to submit the Audited 2015 Financial Statements together with the Audit Opinion and the Report by the External Auditor. The financial statements have been prepared using International Public Sector Accounting Standards (IPSAS). 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 Executive Board in accordance with General Regulation XIV.6 (b) and Financial Regulations 13.1 and 14.8, which provide for the submission to the Executive 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.
- In addition, for the fifth consecutive year, the Statement on Internal Control (SIC) has been issued with the annual financial statements. The SIC provides specific assurance on the effectiveness of internal control in WFP.
- Since 2008, the WFP Secretariat has presented its responses to the External Auditor's recommendations included in the annual accounts documents at the same session at which the External Auditor's report is presented. These responses are contained in the "Report on the Implementation of the External Auditor Recommendations" (FC162/9).

### GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to endorse WFP's "Audited Annual Accounts, 2015" for approval by the Executive Board.

#### Draft Advice

- **In accordance with Article XIV of the General Regulations of WFP, the FAO Finance Committee advises the WFP Executive Board to approve the "Audited Annual Accounts, 2015".**

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Distribution: General

Date: 10 May 2016

Original: English

Agenda Item 6

WFP/EB.A/2016/6-A/1

Resource, Financial and Budgetary Matters

**For approval**

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

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## **Audited Annual Accounts, 2015**

The Secretariat is pleased to submit the Audited 2015 Financial Statements together with the Audit Opinion and the Report by the External Auditor. The financial statements have been prepared under International Public Sector Accounting Standards. The External Auditor has completed the audit in accordance with the International Standards of Auditing, and has provided an unqualified audit opinion.

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

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

The Secretariat's responses to the External Auditor's recommendations are contained in "Report on the Implementation of the External Auditor Recommendations" (WFP/EB.A/2016/6-H/1).

### **Draft decision\***

The Board:

- i) approves the 2015 Annual Financial Statements of WFP, together with the Report of the External Auditor, pursuant to General Regulation XIV.6 (b);
- ii) notes the funding from the General Fund of USD 3,914,774.27 during 2015 for the write-off of receivables; and
- iii) notes post-delivery losses of commodities during 2015 forming part of the operating expenses for the same period.

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\* 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.

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#### **Focal points:**

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# Section I

## Executive Director's Statement

### Introduction

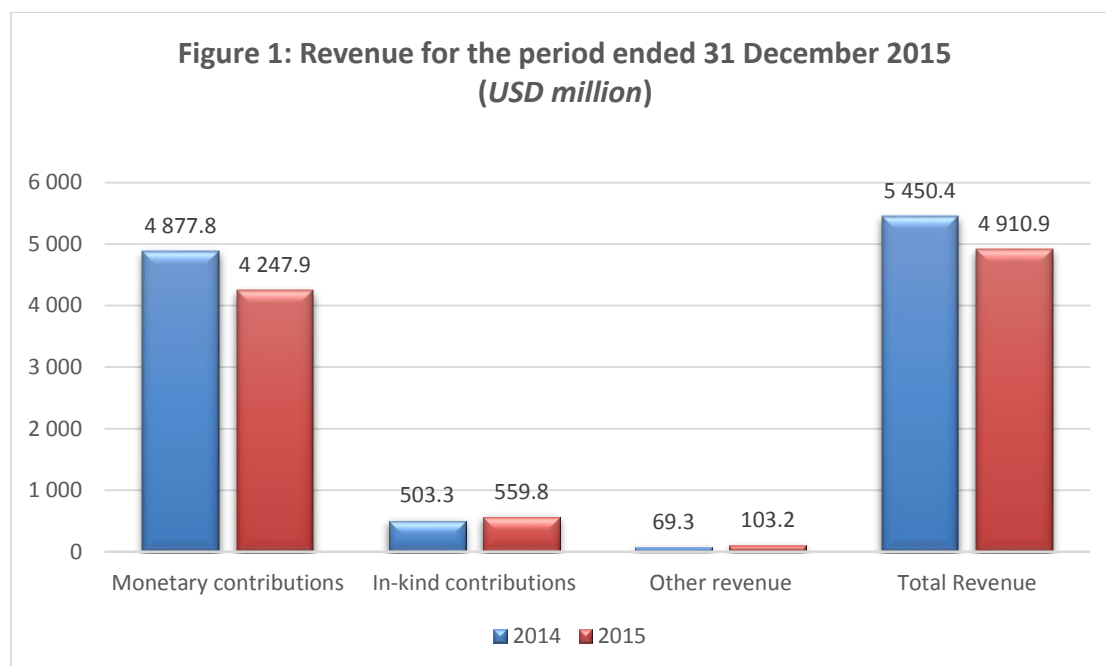
1. In accordance with Article XIV.6 (b) of the General Regulations and Financial Regulation 13.1, I have the honour to submit for the approval of the Executive Board (the Board) the financial statements of the World Food Programme (WFP), prepared in accordance with the International Public Sector Accounting Standards (IPSAS), for the year ended 31 December 2015. The External Auditor has given his opinion and report on the 2015 financial statements, both of which are also submitted to the Board as required by Financial Regulation 14.8 and the Annex to the Financial Regulations.
2. WFP carries out its mandate in line with the Strategic Plan (2014–2017), which reflects WFP's work within the overall goal of achieving a world with zero hunger. Implementation of all WFP programmes is supported by a Strategic Results Framework, outlining the desired results and metrics that enable the organization to monitor and report on the effectiveness of its programmes in an accountable and transparent manner. Showcasing operational results is supplemented by management information as well as financial reporting, both key enablers allowing WFP to deliver its mandate. While the current Strategic Plan continued to drive WFP's work in 2015, the year was also marked by preparatory work on the next Strategic Plan (2017-2021), expected to steer WFP in a direction that will enable full alignment with the Sustainable Development Goals (SDGs).
3. Events during 2015 suggested that concurrent large-scale emergencies are now the norm for WFP. For much of the year, WFP was focused on responding to emergencies (six Level 3 and six Level 2). This included the catastrophic impact of the earthquake in Nepal and the results of the dramatic escalation of conflict in Yemen. The global community recognized the challenge – WFP received contributions of USD 4.8 billion for its activities in 2015, the second highest level of contributions in its history. WFP was also the top recipient of aid to humanitarian appeals in 2015, receiving one third of overall contributions. Close to half of directed contributions were channelled to the six Level 3 emergencies.
4. WFP, as a fully voluntarily funded organization, is committed to maintaining the highest standards of financial and budgetary management and financial reporting. WFP has continued to strengthen transparency and accountability, financial risk management and internal control during 2015.

### Financial and Budget Analysis

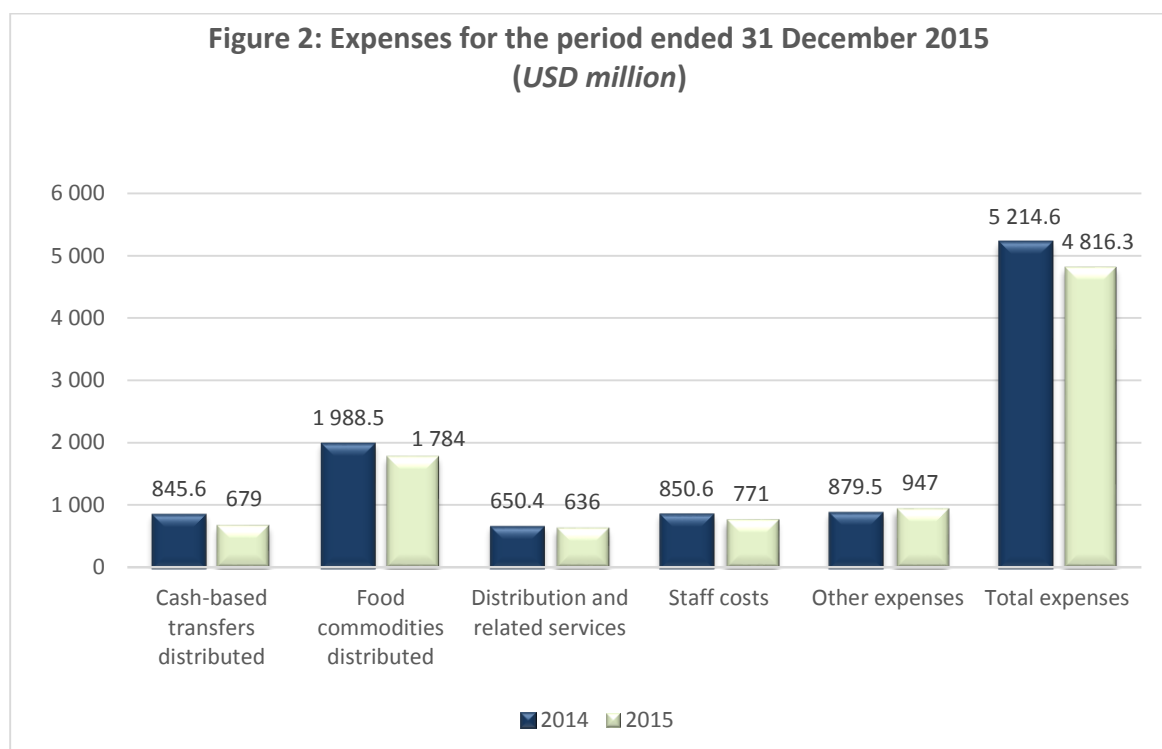
#### Summary

5. The financial and budget analysis highlights the decreased levels of revenue and expenses and increased level of budget in 2015. The analysis indicates the financial strength of WFP in terms of net assets (fund balances and reserves) which show an increase over 2014. The analysis reflects the increasing demand for WFP services to meet the critical needs of beneficiaries.
6. WFP's financial reporting in line with IPSAS recognizes contribution revenue when confirmed in writing and recognizes expenses when food commodities or cash-based transfers are delivered. There is an inherent time-lag between the recognition of revenue and the recognition of expense. Resources available for use in 2015 therefore consisted of the fund balances at the end of 2014 and new contributions confirmed by donors during 2015. Consequently, expenses in any one year may be higher or lower than the revenue in that year as WFP utilizes or replenishes its fund balances.

## 2015 Financial Performance



7. Total revenue in 2015 was USD 4,910.9 million, a decrease of USD 539.5 million or 10 percent from the revenue of USD 5,450.4 million in 2014.
8. The decrease is mainly due to the decrease in monetary contributions of USD 629.9 million or 13 percent as compared to the year 2014.
9. The elements of other revenue amounting to USD 103.2 million in 2015 comprised:
  - currency exchange differences – USD (34.1) million loss;
  - return on investments – USD 3.7 million; and
  - other revenue, generated from provision of goods and services and proceeds from sale of damaged commodities and other unserviceable properties – USD 133.6 million.



10. In 2015, WFP expenses amounted to USD 4,816.3 million, a decrease of USD 398.3 million or 8 percent from 2014.
11. Cash-based transfers distributed expense decreased to USD 679.1 million from USD 845.6 million in 2014. The decrease of USD 166.5 million or 20 percent is largely due to the decrease of the cash-based transfers distributed in the response to the Syrian crisis due to funding shortfalls in respect of this emergency.
12. Food commodities distributed in 2015 decreased to 3.1 million mt from the 2014 level of 3.2 million mt while the value of commodities distributed of USD 1,784.1 million was 10 percent lower. Fifty-eight percent of the food commodities distributed in tonnage and 50 percent in value are attributable to WFP's large-scale operations in Syrian Arab Republic emergency-related projects, Ethiopia, Pakistan, Yemen, South Sudan, the Sudan and Kenya.
13. Staff costs decreased to USD 770.6 million from USD 850.6 million in 2014. The decrease of USD 80.0 million or 9 percent is mainly due to an incremental expense in 2014 to account for the employee benefit liabilities pertaining to locally recruited staff as determined by actuarial valuation.
14. Contracted and other services increased to USD 645.0 million from USD 572.8 million in 2014, mainly due to the increase in the aviation costs in the South Sudan and Nepal operations.
15. Other expenses category in Figure 2 above is composed of :
  - a) Supplies, consumables and other running costs – USD 167.3 million;
  - b) Contracted and other services – USD 645.0 million;
  - c) Finance costs – USD 2.2 million;
  - d) Depreciation and amortization costs – USD 52.4 million;
  - e) Other expenses – USD 79.7 million.

## Surplus

16. In 2015 the surplus of revenue over expenses was USD 94.6 million compared to USD 235.8 million in 2014. The decrease of USD 141.2 million reflects the timing of revenue and expense recognition (mentioned in paragraph 6) and:
- a) the decrease in contributions of USD 573.4 million from USD 5,381.1 million in 2014 to USD 4,807.7 million in 2015;
  - b) the decrease in spending of USD 398.3 million from USD 5,214.6 million in 2014 to USD 4,816.3 million in 2015. This decrease mainly reflects decreased distribution to WFP beneficiaries (a decrease in both cash-based transfers distributed and commodities distributed).

## Financial Position at the End of 2015

### Summary of Financial Position at 31 December 2015 (USD million)

	2015	2014
Current assets	4 582.3	4 476.6
Non-current assets	648.5	676.1
<b>TOTAL ASSETS</b>	<b>5 230.8</b>	<b>5 152.7</b>
Current liabilities	(535.9)	(585.3)
Non-current liabilities	(685.7)	(644.7)
<b>TOTAL LIABILITIES</b>	<b>(1 221.6)</b>	<b>(1 230.0)</b>
<b>TOTAL NET ASSETS</b>	<b>4 009.2</b>	<b>3 922.7</b>
Fund Balances	3 710.7	3 591.3
Reserves	298.5	331.4
<b>TOTAL FUND BALANCES AND RESERVES</b>	<b>4 009.2</b>	<b>3 922.7</b>

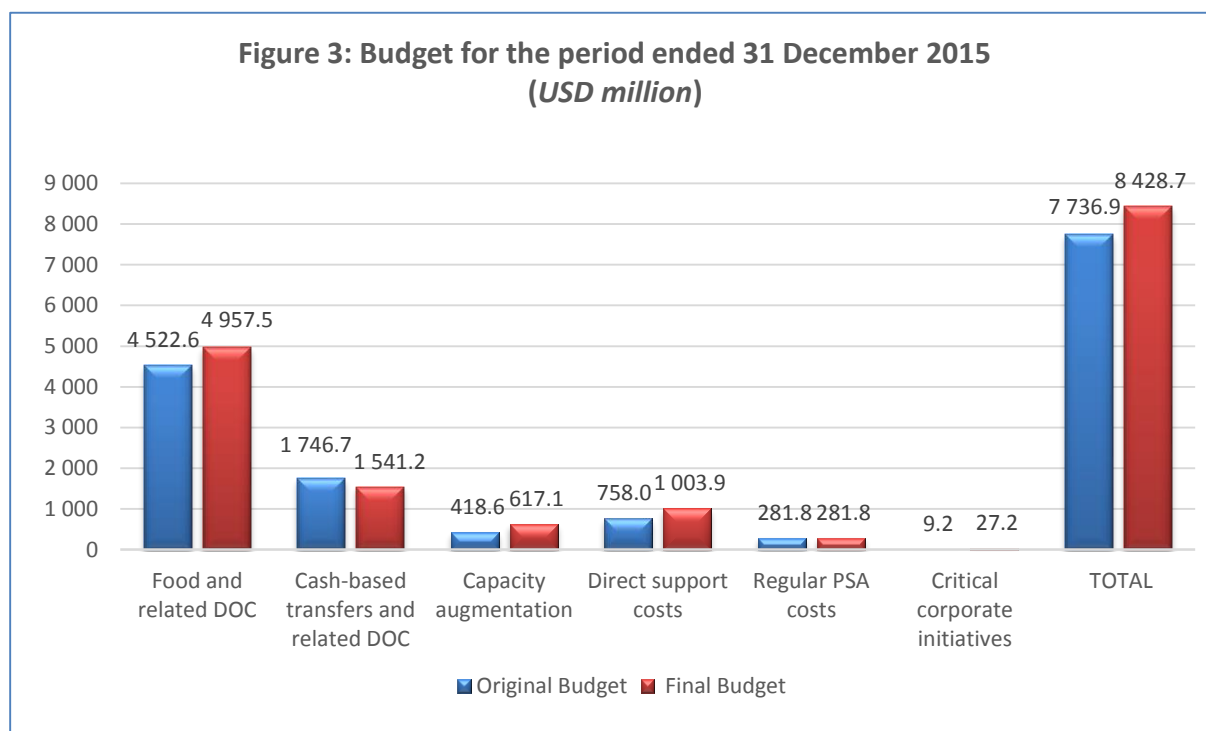
17. At 31 December 2015 WFP's net assets totalled USD 4,009.2 million, confirming a healthy overall financial position. Of these net assets (Fund Balances and Reserves), USD 3,375.6 million relate to the Programme's projects, representing approximately five months of operational activity (six months in 2014). The balance 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 and cash-based transfers are delivered. The decrease in Reserves in 2015 was due to a USD 51.5 million decrease in the PSA Equalization Account, partly offset by an increase in the Immediate Response Account.
18. Total cash, cash equivalents and short-term investments decreased by USD 86.6 million or 5 percent from USD 1,676.0 million in 2014 to USD 1,589.4 million in 2015. The decrease is mainly due to lower contribution revenue in 2015. WFP's cash, cash equivalents and short-term investments included in the Programme Category Funds segment of USD 996.9 million cover three months of operational activity (three months in 2014).
19. Contributions receivable increased by USD 77.0 million or 4 percent from USD 2,192.9 million in 2014 to USD 2,269.9 million in 2015. The increase is mainly due to the longer collection period compared to 2014.



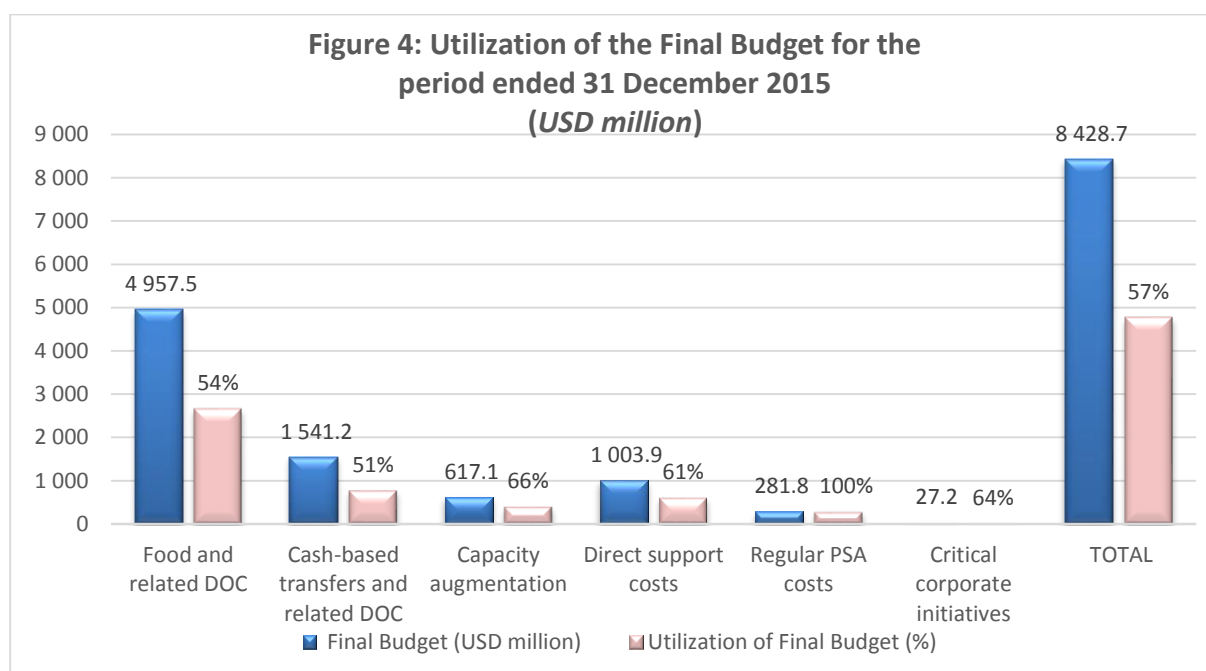
20. The value of WFP's food commodity inventory at the end of 2015 increased by USD 68.5 million or 12 percent from the 2014 value mainly due to an increase in stocks held of 0.2 million mt or 22 percent from the 2014 stocks (0.9 million mt in 2014 compared to 1.1 million mt in 2015). Using the historical average of commodities distributed, the 1.1 million mt of food commodity in inventory represents four months of operational activity.

## Budgetary Analysis

### *Basis of the budget*

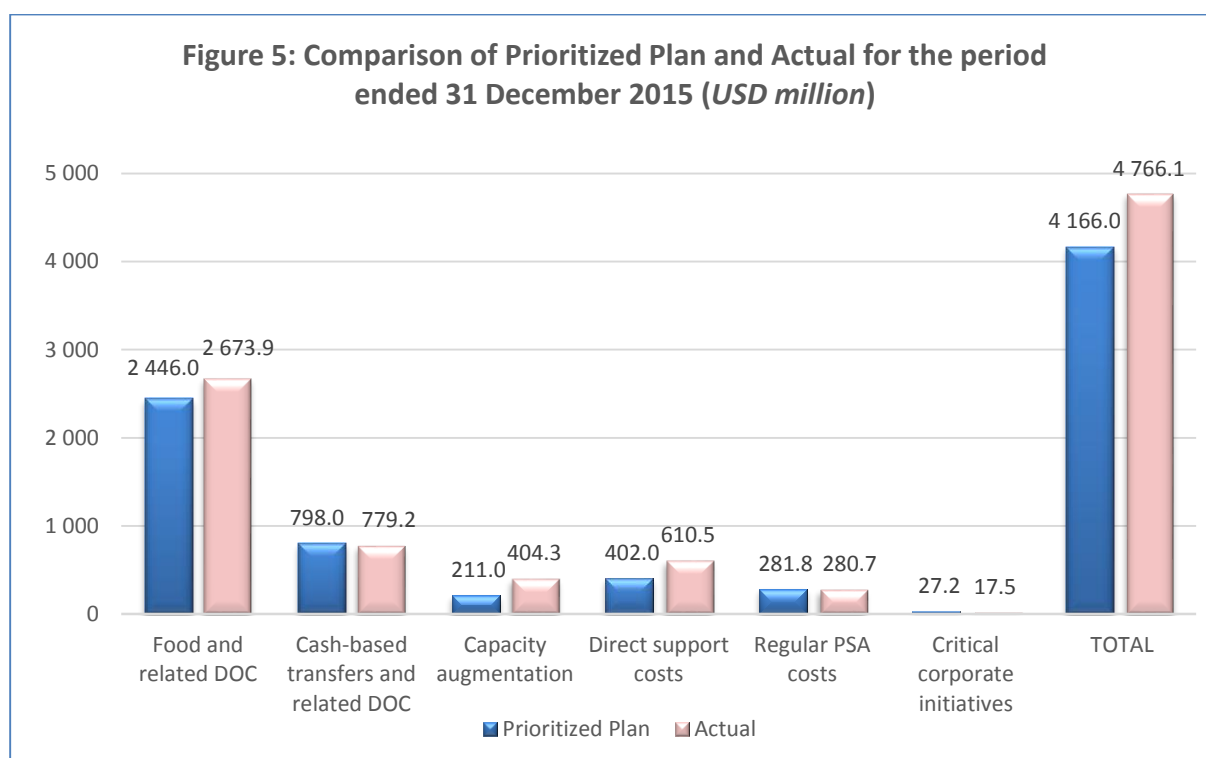


21. The budget figures for direct project costs and indirect costs (PSA budget) which are disclosed in *Financial Statement V – Statement of Comparison of Budget and Actual Amounts* are derived from the Programme of Work in the Management Plan (2015–2017). The Management Plan reflects the total of direct and indirect cost budgets approved by the Board or through authority it has delegated, and broadly is needs-based. Resources are made available for direct project costs when contributions are confirmed by donors for approved projects and through advances from the advance financing facilities. Resources are made available to meet indirect costs through the approval of the Management Plan.
22. In the Management Plan (2015–2017), presented to the Board in November 2014, the projected 2015 Programme of Work was USD 7,736.9 million. This is disclosed in *Financial Statement V* as “Original Budget”. By the end of 2015 the Programme of Work had expanded to reflect changes in project needs. Requirements to respond to the Ebola outbreak (not foreseen within the original Management Plan) were USD 274.1 million, amounting to some 40 percent of the total increase. Iraq and Central African Republic regional operation (also not included in originally planned needs) accounted for 30 percent of the increase in needs. Other notable increases were for Yemen and Nepal. The final 2015 Programme of Work was 9 percent higher at USD 8,428.7 million, an increase of USD 691.8 million. This is disclosed in *Financial Statement V* as “Final Budget”.

*Utilization of the budget*

23. WFP can use resources when contributions are confirmed to approved projects, or funds are provided through advance financing facilities. Purchases of commodities from the Global Commodity Management Facility can be made by projects using both sources. Budgetary utilization within the year is constrained by the amount, timing and predictability of contributions, as well as inherent operational constraints. In 2015, WFP's final direct project cost budget was USD 8,119.7 million. Utilization of the final direct project cost budget in 2015 was 55 percent, reflecting these constraints.
24. This utilization rate was reflected across the various cost components utilization rates as outlined below.
- food and related direct operational costs (DOC) at 54 percent;
  - cash-based transfers and related DOC at 51 percent;
  - capacity augmentation at 66 percent;
  - direct support costs (DSC) at 61 percent.
25. Cash-based transfers represented 23 percent of the original budget (compared with 18 percent in 2014), and 18 percent of the Final Budget (same in 2014). The largest cash-based transfers budget is attributable to the programmatic response for Syrian refugees in Egypt, Iraq, Jordan, Lebanon, and Turkey.
26. The final PSA budget consisted of USD 281.8 million for regular expenditure and USD 27.2 million for critical corporate initiatives. Of the final approved regular PSA budget 99.6 percent was utilized by 31 December 2015. Of the final approved critical corporate initiatives, 64 percent was utilized at 31 December 2015.

### Prioritized Plan and Actual utilization of Final Budget



27. The Actual costs are greater than the Prioritized Plan due to higher than expected contribution revenue, driven by the increase in operational requirements to cope with unforeseen needs such as Ebola response operations and Central African Republic regional operations that resulted primarily in an increase in the food transfers and capacity augmentation activity.

### Enhancing Transparency and Accountability

28. WFP has prepared IPSAS-based financial statements since 2008. Adherence to these internationally recognized accounting standards has ensured that WFP produces more timely, relevant and useful financial reporting, thereby improving transparency and accountability in the management of resources.
29. WFP continues to work closely with other United Nations system organizations, through the High-Level Committee on Management (HLCM) 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.
30. The Executive Management Group (EMG) meet regularly to discuss policy and strategic issues, including review of selected IPSAS-based financial statements which cover WFP's financial performance, financial position and cash flows, with supporting qualitative analysis.
31. A Statement on Internal Control is issued with the annual financial statements and provides specific assurance on the effectiveness of internal control. WFP remains one of the few United Nations organizations to provide this level of assurance to its governing body.
32. Enterprise risk management (ERM) is integrated with the organizational performance management and is one of the key components of our internal control framework. In 2015 the new ERM policy was approved by the Executive Board, acknowledging the significant steps that have been taken in ensuring that risk analysis is mainstreamed throughout the organization and is incorporated into overall project design, implementation and reporting. WFP has continued to advocate for a common approach on ERM within the broader humanitarian and development community and has provided support to partners in strengthening their frameworks. Corporate risks continue to reflect the challenges that WFP encounters in achieving its mandate. WFP's Risk Appetite Statement was updated during the year to ensure it fully reflects the

landscape in which the organization operates. All WFP offices continue to manage their respective risk registers, escalating risks as required in line with existing managerial structures. Oversight of the corporate risks is mandated to the EMG.

33. The Assistant Executive Director, Resource Management Department and Chief Financial Officer ensures that a) the concepts of strong managerial control are firmly embedded in the organization's culture; and b) a clear action plan exists for addressing internal control issues raised in the annual Statement on Internal Control.
34. As an important component of internal control, the Secretariat ensures effective follow-up of the recommendations of the internal and external oversight bodies and reports regularly to the WFP Audit Committee on outstanding recommendations and actions taken or proposed to address high-risk recommendations.
35. WFP has adopted clear policies related to the public disclosure of key oversight information. Since late 2012, internal audit and inspection reports are posted on WFP's external website within thirty days of their publication.

### **Financial Framework Review**

36. The Financial Framework Review is a key component of an integrated package which also includes the Strategic Plan, the Corporate Results Framework and the country strategic planning approach. Taken together, the four inter-related processes will enable managers to approach strategy, programming, planning and budgeting in a holistic manner and better communicate impact and measure efficiency and effectiveness by linking resources to results. The integrated package will be presented for Executive Board approval at the 2016 Second Regular Session.
37. In 2015, WFP examined the current planning and budgeting structure within the purview of the financial framework review's budgeting for operational effectiveness work stream. Emerging from the review is a proposed country portfolio budget structure that would cover a single planning period, encompass all funds and be activity-based with each activity linked to one Sustainable Development Goal target. In 2016, multiple country offices will prototype the proposed structure to refine the model and assess the impact and cost-benefit for operations.
38. A second area of work is resource-based planning which will create a secondary operational planning layer to complement the needs-based plan. Resource-based plans will be a tool for managers to improve visibility and enable better comparison between original plans and operational results. In 2016, country offices are piloting the resource-based plan templates to inform the final standardized platform to be rolled out in 2017.
39. The final work stream of the Financial Framework Review is macro-advance financing which aims to provide aggregated budget authority for country offices based on historical funding trends and resource predictions to reduce the impact of fragmented funding streams, increase predictability of resources and enhance efficiency and effectiveness. In 2016, a limited number of country offices will pilot the macro-advances utilizing the Internal Project Lending facility and efficiency and effectiveness gains will be quantified.

### **Financial Risk Management**

40. WFP's activities expose it to a variety of financial risks including the effects of changes in debt and equity market prices, foreign currency exchange rates, interest rates and defaults by debtors in meeting its obligations. WFP's financial risk management policies focus on the unpredictability of financial markets and seek to minimize potential adverse effects on the financial performance of WFP.

41. Financial risk management is carried out by a central treasury function using guidelines set out by the Executive Director who is advised by the WFP Investment Committee and the Investment Advisory Panel, which consists of external investment experts. Policies cover foreign exchange, interest rate and credit risk, the use of derivative financial instruments, and investing of excess liquidity.
42. WFP's employee benefit liabilities were USD 612.5 million at 31 December 2015. Of this USD 399.9 million has been funded to date through charging relevant funds and projects. The unfunded balance of USD 212.6 million is accounted for in the General Fund. WFP sets aside assets for the long-term employee benefit liabilities to the extent of the amounts charged against relevant funds and projects. The assets are set aside 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 fully funded status of the long-term employee benefit liabilities. Starting from July 2015 the long-term employee benefit liabilities of locally recruited staff members are charged to relevant funds and projects and funded in line with the existing approved funding plan. WFP determines the funding level based on the gross long-term employee benefit liabilities. As at 31 December 2015, the level of assets set aside (USD 404.2 million) for the funding of the gross long-term employee benefit liabilities (USD 578.4 million) represents a 70 percent funding level. This is an increase from the 64 percent funding level in 2014 and is primarily due to a decrease in the gross long-term employee benefit liabilities given the current higher discount rates used to value the liabilities. WFP expects to achieve the fully funded status at the end of the approved funding plan period in 2025.
43. At the United Nations system level the issue of the significant level of after-service liabilities and the need to ensure an adequate funding of these liabilities was recognized, and a number of recommendations were proposed for General Assembly approval. In 2015, WFP contributed to the HLCM After-Service Health Insurance (ASHI) study on system-wide opportunities to improve efficiency and cost-effectiveness of the management of ASHI operations. A report on the outcome of the ASHI study was submitted to the 70th session of the General Assembly, providing a comprehensive overview of the current situation of health insurance plans across the United Nations system and the funding of the ASHI liabilities. Although the overall funding gap at the United Nations system level remains significantly high, WFP's funding policy performance is one of the most effective in the United Nations system.

## **Sustainability**

44. WFP's financial statements are prepared on a going-concern basis. In making this determination, WFP has considered the consequences of any potential significant reduction in contributions 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.
45. My statement on sustainability is supported by: i) the requirements I put forward in the WFP Management Plan (2016–2018); ii) the Strategic Plan (2014–2017) approved by the Executive Board in 2013; iii) the net assets held at the end of the period and contributions received in 2015; iv) the projected contributions levels for the year 2016; and v) the trend in donor support that has been sustaining WFP's mandate since its inception in 1963.

## **Administrative Matters**

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

## Responsibility

47. As required under Financial Regulation 13.1, I am pleased to submit the following financial statements which have been prepared under IPSAS. I certify that to the best of my knowledge and information, all transactions during the period have been properly entered in the accounting records and that these transactions together with the following financial statements and notes, details of which form part of this document, fairly present the financial position of WFP at 31 December 2015.

Statement I	Statement of Financial Position at 31 December 2015
Statement II	Statement of Financial Performance for the Year Ended 31 December 2015
Statement III	Statement of Changes in Net Assets for the Year Ended 31 December 2015
Statement IV	Statement of Cash Flow for the Year Ended 31 December 2015
Statement V	Statement of Comparison of Budget and Actual Amounts for the Year Ended 31 December 2015

Notes to the Financial Statements

Signed on original  
Ertharin Cousin  
Executive Director

Rome, 30 March 2016

# Statement on Internal Control

## Scope of Responsibility and Purpose of Internal Control

1. The Executive Director of the World Food Programme is accountable to the Executive Board for the administration of WFP and for the implementation of WFP programmes, projects and other activities. Under Financial Regulation 12.1, the Executive Director is required to establish internal controls, including internal audit and investigation, to ensure the effective and efficient use of the resources of WFP and the safeguarding of its assets.
2. The system of internal control is designed to reduce and manage – rather than eliminate – the risk of failure to achieve WFP’s aims and objectives. It can provide reasonable but not absolute assurance that WFP’s objectives will be achieved. It is based on a continuous process designed to identify the principal risks to the achievement of objectives, to evaluate the nature and extent of those risks and to manage them effectively, efficiently and economically.

## WFP’s Operating Environment

3. The humanitarian imperative obliges WFP to respond when needed. This operating environment exposes WFP to situations where there is a high level of inherent risk, including in terms of the security of its employees and its ability to maintain high standards of internal control.
4. Internal control is a key role of management and an integral part of the overall process of managing operations. As such, it is the responsibility of management of WFP at all levels to:
  - establish a control environment and culture that promotes effective internal control;
  - identify and assess risks that may affect the achievement of objectives, including the risk of fraud and corruption;
  - specify and propose policies, plans, operating standards, procedures, systems and other control activities to minimize, mitigate and/or limit the risks associated with exposures identified;
  - ensure an effective flow of information and communication so that all WFP personnel have the information they need to fulfil their responsibilities; and
  - monitor the effectiveness of internal control.

## **The Internal Control Framework and Enterprise Risk Management**

5. In 2015, WFP revised its internal control framework to reflect new guidance on internal control issued by COSO<sup>1</sup> in 2013. Considering the organizational-wide impact of this initiative, the Executive Director issued a circular on the internal control framework, which is available in four languages. The revised framework is supported by guidance and tools to help managers assess the effectiveness of internal control in their offices. The revision was informed by two advisory assignments completed by the Inspector General in 2015 concerning: i) the effectiveness of the assurance process; and ii) an assurance mapping exercise to identify key management oversight activities using the three lines of defence model.
6. In December 2015, the Executive Director presented an update of WFP's risk appetite statement for consideration by the Executive Board. The statement forms part of the WFP's enterprise risk management framework. It incorporates themes and issues that have emerged from quarterly EMG consideration of corporate risks and engagement with the Executive Board since the original risk appetite statement was issued in November 2012. The statement allows the organization to communicate with its partners and stakeholders about how much risk WFP is prepared to accept and to engage in decisions about risk-sharing. It guides WFP staff and managers in decision-making and promotes accountability. The Executive Board is briefed on significant risks through periodic operational updates.
7. WFP has continued to develop and enhance its risk management processes in line with its policy on enterprise risk management, which was updated and approved by the Executive Board in May 2015. WFP seeks to identify and manage risks at two broad levels: risks that affect individual business units (country offices, regional bureaux, Rome Headquarters divisions); and risks that affect WFP as a whole, in particular in emergencies.
8. WFP, and the United Nations in general, monitors the security situation in each country in which it operates, taking strategic decisions where necessary to adapt WFP's operations and limit the risk exposure of its personnel. All risks at an office entity level are captured in a formal risk register, subject to regular review by line managers and escalated to more senior levels for attention as required.
9. Every WFP office is required to maintain an up-to-date risk register. Risks identified as adversely affecting the achievement of corporate objectives are included in the Corporate Risk Register, which is a repository of major risks faced by WFP and provides a means of ascertaining the level of risk exposure across WFP. The EMG is mandated to oversee corporate risks, and regularly reviews and updates the Corporate Risk Register. The Corporate Risk Register is shared with all offices periodically as well as with the WFP Audit Committee and is used as a basis for briefings to the Executive Board. Consequently, the Audit Committee, which is mandated to advise the Executive Director and the Executive Board on the effectiveness of internal control and risk management in WFP, has received a systematic update of WFP's risk profile throughout 2015.

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<sup>1</sup> The Committee of Sponsoring Organizations of the Treadway Commission



## Review of the Effectiveness of Internal Control

10. The review of the effectiveness of WFP's internal controls is informed by managers within WFP who have the responsibility for the identification and maintenance of the internal controls in their areas of responsibility. Explicit assurance is derived from:
  - I) **Statements of assurance on the effectiveness of internal control** signed by 136 senior WFP managers including the Deputy Executive Director; Assistant Executive Directors; Regional Directors; Country Directors; Directors of WFP Offices; and Directors of divisions in Headquarters. This figure represents 100 percent compliance with the process. Submissions were subject to at least one higher level of review. As in 2014, managers were required to provide comments in support of "yes" as well as "no" answers to facilitate a more refined global analysis of responses. The 2015 assurance statement included new questions on assessing fraud and change risks, related to the revised internal control framework.
  - II) **An Assurance Opinion from the Inspector General**, based on the results of internal audit, inspections, investigations and assurance services by the Inspector General and Oversight Office. These results did not disclose any significant material weaknesses in the internal control, governance and risk management processes in place across WFP that would have a pervasive effect on achievement of WFP's objectives.
11. The Audit Committee further advises on the effectiveness of WFP's internal control systems, including risk management and internal governance practices.

## Significant Risk and Internal Control Matters

### Issues arising in 2015

12. No new significant risk or internal control issue arose during 2015.

### Issues Reported in the 2014 Statement on Internal Control

13. The 2014 Statement on Internal Control drew attention to three areas where there was need for improvement. Significant progress has been made in all three areas but further work is needed in two of them.
  - a) *Areas needing further improvement*
    - i) **Improving operational monitoring and review systems.** The 2014 statement reported on progress to establish and roll out a comprehensive normative framework – the Strategic Results Framework, business rules, standard operating procedures and minimum monitoring requirements; as well as direct support for reporting on the outcomes of programmes. The use, application and further development of the country office tool for managing effectively (COMET) continued during 2015.

COMET consists of three modules: Design, Implementation and Monitoring. The Design module was fully operational in 2014. The Implementation module was piloted in the Southern Africa region during 2014 and rolled out to East and Central Africa, the Middle East, North Africa, Eastern Europe and Central Asia in 2015. It will be rolled out to Asia and the Pacific, West Africa, and the Latin America and Caribbean regions in 2016. The Monitoring Module will be launched in 2016. When fully implemented, COMET should transform how WFP manages its programmes. A new directive on the use of COMET for programme design, implementation, and monitoring and performance management will be issued during 2016.

The Inspector General has reported in his 2015 Assurance Opinion that: (a) programme monitoring, particularly field-level monitoring activities, remains a key risk area for WFP, notwithstanding improvements noted in this area; and (b) challenges associated with WFP's changing operating landscape, among them WFP's continued move from relief to resilience, increase the complexity of monitoring and review and other business processes.

WFP will continue to give priority to this matter during 2016.

- ii) The impact of an unusually high number of Level 3 and Level 2 emergencies on internal control in WFP.** During 2015, WFP continued to respond to multiple, prolonged and simultaneous emergencies classified as either Level 3 or Level 2. 2015 saw the activation and/or extension of Level 3 and 2 emergency responses in Iraq; Central African Republic; Syrian Arab Republic and surrounding countries; Ebola-affected countries in West Africa; South Sudan; Nepal; Ukraine; Yemen; and Libya. This emergency workload has reached levels that are both unprecedented and significantly higher than those for which the organization has actively prepared. Some senior managers have drawn attention to the risk of a reduction in the level of internal controls (for example, to ensure adequate segregation of duties) caused by the absence of key personnel temporarily assigned to serve on Level 3 emergency operations.

While managers have acted to plug known gaps in internal control, the risk of the ability of WFP to cope with such a high level of emergencies continues to feature on the Corporate Risk Register. Corporate analysis also suggests that the organization as a whole is taking a longer time on average to respond to the findings and recommendations of oversight bodies; and that timeframes for the completion of some key policy actions have of necessity slipped because of staffing shortfalls.

The Inspector General has also reported in his 2015 assurance opinion that: (a) the organizational stretch in dealing with multiple, concurrent, long-term emergencies is among the increasingly complex set of challenges faced by WFP; and (b) multiple Level 3 emergencies have been stretching availability of staff, resulting in challenges in deployment.

During 2016, WFP will continue to monitor the impact of the unprecedented high level of prolonged emergency activities across WFP on the effectiveness of internal control and will take necessary remedial actions to ensure that appropriate levels of internal control are maintained.

- b) Area previously reported where WFP has implemented the necessary improvement actions:*

- i) Ensuring staff performance is appraised in a timely manner.** WFP's Performance and Competency Enhancement (PACE) process, launched in 2004, is the main tool for assessing the performance and competence of staff and a key driver in many career decisions. In the Statement on Internal Control for 2011, WFP reported that only 50 percent of all staff had finalized the annual PACE process for 2011 by the due date. Over the past four years, WFP has taken action to improve the timeliness and quality of the performance assessments undertaken.

During 2014, the Executive Board approved a new People Strategy, which raised the bar in terms of the importance of PACE and requires not just timely completion but high quality performance assessments that can be used to address the imperatives of the People Strategy. Under its People Strategy, WFP is committed to managing its employees better. Engaging people with the right skills in the right roles is fundamental for WFP to fulfil its humanitarian response role and build capabilities to work towards a world with zero hunger. The strategy is built around four imperatives, one of which is to reinforce a performance mindset. To that end, WFP took action in 2015 to increase the quality, timeliness and completeness of its performance management processes.

Key enhancements during 2015 included: aligning performance assessment with outcomes by expanding the rating scale and improving rating guidance; strengthening the link between performance and other HR-related processes, such as mobility, promotion/recruitment and career development; and consolidating performance standards for different contract modalities, by extending PACE to consultants, short-term staff and United Nations volunteers.

As recently reported in the Update on WFP's People Strategy,<sup>2</sup> results of the 2015 Global Staff Survey indicate an improvement in WFP's performance management culture, relative to the 2012 Global Staff Survey results and global benchmarks. Specifically, 76 percent and 83 percent of staff understand how performance is evaluated and believe that clear performance standards are set in their units, respectively.

14. Apart from the issues noted above, the assurance statements received from WFP directors and the managerial oversight process provided assurance on the effectiveness and strength of WFP's internal controls during 2015. During 2016, WFP management will place increased emphasis on oversight for the key themes raised by the Inspector General in his 2015 Assurance Opinion including: a) systemic changes resulting from the new Strategic Plan and Corporate Result Framework, Country Strategic Planning process and Financial Framework Review scheduled to be tabled at the Second Session of the Executive Board in November 2016; b) cash-based transfer control and business processes; c) the oversight role of the regional bureaux; and d) information and communication technology as related to changing technology and business models.
15. Board-approved allocations in support of critical corporate initiatives, including some of the areas highlighted by the Inspector General, will enable WFP management to address and improve on these and other areas in 2016.

## Statement

16. All internal controls have inherent limitations – including the possibility of circumvention – and therefore can provide only reasonable assurance. Further, because of changing conditions, the effectiveness of internal controls may vary over time.
17. 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 2015 in line with COSO's Internal Control – Integrated Framework (2013).
18. WFP is committed to addressing the internal control and risk issues identified in paragraph 13 a) above as part of the continuous improvement of its internal controls.

Signed on original  
Ertharin Cousin  
Executive Director

Rome, 30 March 2016

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<sup>2</sup> WFP/EB.1/2016/4-E

**WORLD FOOD PROGRAMME**  
**STATEMENT I**  
**STATEMENT OF FINANCIAL POSITION**  
**AT 31 DECEMBER 2015**  
*(USD million)*

	Note	2015	2014
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	2.1	772.2	822.0
Short-term investments	2.2	817.2	854.0
Contributions receivable	2.3	2 233.4	2 099.8
Inventories	2.4	650.1	578.6
Other receivables	2.5	109.4	122.2
		<b>4 582.3</b>	<b>4 476.6</b>
<b>Non-current assets</b>			
Contributions receivable	2.3	36.5	93.1
Long-term investments	2.6	462.3	448.9
Property, plant and equipment	2.7	144.5	125.2
Intangible assets	2.8	5.2	8.9
		<b>648.5</b>	<b>676.1</b>
<b>TOTAL ASSETS</b>		<b>5 230.8</b>	<b>5 152.7</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables and accruals	2.9	513.8	535.9
Provisions	2.10	5.7	6.2
Employee benefits	2.11	10.6	10.4
Loans	2.12	5.8	32.8
		<b>535.9</b>	<b>585.3</b>
<b>Non-current liabilities</b>			
Employee benefits	2.11	601.9	555.1
Long-term loan	2.13	83.8	89.6
		<b>685.7</b>	<b>644.7</b>
<b>TOTAL LIABILITIES</b>		<b>1 221.6</b>	<b>1 230.0</b>
<b>NET ASSETS</b>		<b>4 009.2</b>	<b>3 922.7</b>
<b>FUND BALANCES AND RESERVES</b>			
Fund balances	7.1	3 710.7	3 591.3
Reserves	2.15	298.5	331.4
<b>TOTAL FUND BALANCES AND RESERVES</b>		<b>4 009.2</b>	<b>3 922.7</b>

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

Signed on original  
Ertharin Cousin  
Executive Director

Rome, 30 March 2016

Manoj Juneja  
Assistant Executive Director  
Resource Management Department and Chief Financial Officer

**WORLD FOOD PROGRAMME**  
**STATEMENT II**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**  
*(USD million)*

		<b>2015</b>	<b>2014</b>
<b>REVENUE</b>			
Monetary contributions	<b>3.1</b>	4 247.9	4 877.8
In-kind contributions	<b>3.2</b>	559.8	503.3
Currency exchange differences	<b>3.3</b>	(34.1)	(64.7)
Return on investments	<b>3.4</b>	3.7	1.1
Other revenue	<b>3.5</b>	133.6	132.9
<b>TOTAL REVENUE</b>		<b>4 910.9</b>	<b>5 450.4</b>
<b>EXPENSES</b>			
Cash-based transfers distributed	<b>4.1</b>	679.1	845.6
Food commodities distributed	<b>4.2</b>	1 784.1	1 988.5
Distribution and related services	<b>4.3</b>	635.9	650.4
Wages, salaries, employee benefits and other staff costs	<b>4.4</b>	770.6	850.6
Supplies, consumables and other running costs	<b>4.5</b>	167.3	183.5
Contracted and other services	<b>4.6</b>	645.0	572.8
Finance costs	<b>4.7</b>	2.2	2.4
Depreciation and amortization	<b>4.8</b>	52.4	50.3
Other expenses	<b>4.9</b>	79.7	70.5
<b>TOTAL EXPENSES</b>		<b>4 816.3</b>	<b>5 214.6</b>
<b>SURPLUS FOR THE YEAR</b>		<b>94.6</b>	<b>235.8</b>

*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 2015**  
*(USD million)*

	Note	Accumulated surpluses/fund balances	Surplus	Reserves	Total net assets
<b>TOTAL NET ASSETS at 31 December 2014</b>		3 355.5	235.8	331.4	3 922.7
Allocation of the surplus for 2014		235.8	(235.8)	-	-
<b>Movements in fund balances and reserves in 2015</b>					
Transfer from/to reserves	2.15	32.9	-	(32.9)	-
Net unrealized losses on long-term investments recognized directly within fund balance	2.6/2.15	(8.1)	-	-	(8.1)
Surplus for the year	7.2	-	94.6	-	94.6
<b>Total movements during the year</b>		<b>24.8</b>	<b>94.6</b>	<b>(32.9)</b>	<b>86.5</b>
<b>TOTAL NET ASSETS at 31 December 2015</b>		<b>3 616.1</b>	<b>94.6</b>	<b>298.5</b>	<b>4 009.2</b>

*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 2015**  
*(USD million)*

	Note	2015	2014
<b>Cash flows from operating activities:</b>			
Surplus for the year		94.6	235.8
Adjustments to reconcile surplus to net cash flows from operating activities			
Depreciation and amortization	2.7/2.8	52.4	50.3
Unrealized (gain) loss on short-term investments	2.2	2.1	(1.2)
Unrealized (gain) loss on long-term investments	2.6	(8.3)	13.6
(Increase) in amortized value of long-term investments	2.2/2.6	(4.1)	(4.3)
(Decrease) in amortized value of long-term loan	2.13	(0.5)	(0.5)
Interest expense on long-term loan	2.13	2.7	2.9
(Increase) decrease in inventories	2.4	(71.5)	86.3
(Increase) in contributions receivable	2.3	(77.0)	(253.1)
Decrease in other receivables	2.5	12.7	15.2
(Increase) in property, plant and equipment (donated in-kind)	2.7	(20.3)	(0.7)
(Decrease) increase in payables and accruals	2.9	(22.1)	36.9
(Decrease) in provisions	2.10	(0.5)	(4.5)
Increase in employee benefits	2.11	47.0	143.7
<b>Net cash flows from operating activities</b>		<b>7.2</b>	<b>320.4</b>
<b>Cash flows from investing activities:</b>			
(Increase) decrease in short-term investments	2.2	42.5	(61.3)
Decrease in accrued interest receivable	2.5	0.1	-
(Increase) in long-term investments	2.6	(16.9)	(24.5)
(Increase) in property, plant and equipment	2.7	(46.4)	(54.9)
(Increase) in intangible assets	2.8	(1.3)	(2.2)
<b>Net cash flows from investing activities</b>		<b>(22.0)</b>	<b>(142.9)</b>
<b>Cash flows from financing activities:</b>			
Interest paid on long-term loan	2.13	(2.7)	(2.9)
Repayment of annual principal on long-term loan	2.13	(5.3)	(5.3)
Repayment of loan	2.12	(27.0)	-
<b>Net cash flows from financing activities</b>		<b>(35.0)</b>	<b>(8.2)</b>
<b>Net increase in cash and cash equivalents</b>		<b>(49.8)</b>	<b>169.3</b>
<b>Cash and cash equivalents at beginning of the year</b>	2.1	<b>822.0</b>	<b>652.7</b>
<b>Cash and cash equivalents at end of the year</b>	2.1	<b>772.2</b>	<b>822.0</b>

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

**WORLD FOOD PROGRAMME**  
**STATEMENT V**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS\***  
**FOR THE YEAR ENDED 31 DECEMBER 2015**  
*(USD million)*

Notes	Budget Amount		Actual on Comparable basis	Difference: Final Budget and actual	Prioritized Plan
	Original Budget	Final Budget			
6					
Food and related DOC	4 522.6	4 957.5	2 673.9	2 283.6	2 446.0
Cash-based transfers and related DOC	1 746.7	1 541.2	779.2	762.0	798.0
Capacity augmentation	418.6	617.1	404.3	212.8	211.0
Direct support costs	758.0	1 003.9	610.5	393.4	402.0
<b>Subtotal direct project costs</b>	<b>7 445.9</b>	<b>8 119.7</b>	<b>4 467.9</b>	<b>3 651.8</b>	<b>3 857.0</b>
Regular programme support and administrative costs	281.8	281.8	280.7	1.1	281.8
Critical corporate initiatives	9.2	27.2	17.5	9.7	27.2
<b>Subtotal indirect costs</b>	<b>291.0</b>	<b>309.0</b>	<b>298.2</b>	<b>10.8</b>	<b>309.0</b>
<b>TOTAL</b>	<b>7 736.9</b>	<b>8 428.7</b>	<b>4 766.1</b>	<b>3 662.6</b>	<b>4 166.0</b>

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

\* Prepared on a commitment basis



# Notes to the Financial Statements at 31 December 2015

## Note 1: Accounting Policies

### Basis of Preparation

1. The financial statements of WFP have been prepared on the accrual basis of accounting in accordance with IPSAS using the historic cost convention, modified by the inclusion of investments at fair value. Where an IPSAS does not address a particular issue, the appropriate International Financial Reporting Standard has been applied.
2. In accordance with IPSAS requirements, and reflecting the nature of WFP's business, revenue from contributions confirmed in writing is recognized as non-exchange transactions as per IPSAS 23, Revenue from Non-Exchange Transactions. WFP considers that while there are restrictions on the use of contributions, these restrictions do not meet the definition of a condition as described under IPSAS 23.
3. Food commodities and cash-based transfers are expensed when distributed directly by WFP or once they are handed over to Cooperating Partners or Service Providers for distribution.
4. The Cash Flow Statement (Statement IV) is prepared using the indirect method.
5. The functional and reporting currency of WFP is the United States dollar. Transactions in currencies other than 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.

### Cash and Cash Equivalents

6. Cash and cash equivalents comprise cash on hand, cash at banks, money market and short-term deposits, including those managed by investment managers.
7. Investment revenue is recognized as it accrues, taking into account the effective yield.

### Financial Instruments

8. 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.
9. 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. 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.
10. 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.
11. 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.

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

#### **Inventories**

14. 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.
15. The cost of food commodities includes purchase cost or fair value<sup>1</sup> if donated in-kind and all other costs incurred in bringing the food commodities into WFP's custody at their point of first entry into a recipient country where they become distributable. In addition, any significant costs of conversion such as milling or bagging are included. Cost is determined on the weighted average basis.

#### **Contributions and Contributions Receivable**

16. Contributions are recognized as revenue when confirmed in writing by donors.
17. Contributions receivable are presented net of allowances for estimated reductions in contribution revenue and doubtful accounts.
18. In-kind contributions of services that directly support approved operations and activities, which have budgetary impact, and can be reliably measured, are recognized and valued at fair value. These contributions include use of premises, utilities, transport and personnel.
19. 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 contribution revenue.

#### **Property, Plant and Equipment**

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

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<sup>1</sup> 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.

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

21. Leasehold improvements are recognized as assets and valued at cost, and depreciated over the lesser of remaining useful life of the improvements or the lease term.
22. Impairment reviews are undertaken for all assets at least annually.

### Intangible Assets

23. Intangible assets are measured initially at cost. Subsequently, intangible assets are carried at historical cost less accumulated amortization and any impairment losses. Donated intangible assets are valued at fair market value and recognized as intangible asset and contribution revenue.
24. Amortization is provided over the estimated useful life using the straight line method. The estimated useful life for intangible asset classes are as follows:

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

### Employee Benefits

25. WFP recognizes the following categories of employee benefits:
  - short-term employee benefits due to be settled within 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.
26. WFP is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified by Article 3 (b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.
27. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the plan. WFP and the UNJSPF, in line with the other participating organizations in the Fund, are not in a position to identify WFP's respective proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence WFP has treated this plan as if it were a

defined contribution plan in line with the requirements of IPSAS 25, Employee Benefits. WFP's contributions to the plan during the financial period are recognized as expenses in the Statement of Financial Performance.

### **Provisions and Contingent Liabilities**

28. Provisions are made for future liabilities and charges where WFP has a present legal or constructive obligation as a result of past events and it is probable that WFP will be required to settle the obligation.
29. Other material commitments, which do not meet the recognition criteria for liabilities, are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of WFP.

### **Fund Accounting and Segment Reporting**

30. A fund is a self-balancing accounting entity established to account for the transactions of a specified purpose or objective. Funds are segregated for the purpose of conducting specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The financial statements are prepared on a fund accounting basis, showing at the end of the period the consolidated position of all WFP funds. Fund balances represent the accumulated residual of revenue and expenses.
31. A segment is a distinguishable activity or group of activities for which financial information is reported separately in order to evaluate an entity's past performance in achieving its objectives and for making decisions about the future allocation of resources. WFP classifies all projects, operations and fund activities into three segments: i) Programme Category Funds; ii) General Fund and Special Accounts; and iii) Bilateral Operations and Trust Funds. WFP reports on the transactions of each segment during the financial period, and the balances held at the end of the period.
32. The Programme Category Funds is an accounting entity established by the Board for the purposes of accounting for contributions, revenue and expenses for all programme categories. Programme categories include development, emergency relief, protracted relief and special operations.
33. The General Fund is the accounting entity established for recording, under separate accounts, indirect support cost (ISC) recoveries, miscellaneous income, operational reserve and contributions received that are not designated to a specific programme category, project or a bilateral project. Special Accounts are established by the Executive Director under Financial Regulation 5.1 for special contributions or monies earmarked for specific activities, the balances of which may be brought forward to the succeeding financial period.
34. Bilateral Operations and Trust Funds are also identifiable subdivisions of the WFP Fund. These are established by the Executive Director under Financial Regulation 5.1 in order to account for contributions, the purpose, scope and reporting procedures of which have been agreed upon with the donor under specific trust fund agreements.
35. Reserves are maintained within the General Fund for the purpose of operational support. An operational reserve is maintained within the General Fund as required under Financial Regulation 10.5 to ensure continuity of operations in the event of temporary shortfalls of resources. In addition to the Operational Reserve, other reserves have been established by the Board.
36. WFP may enter into third-party agreements (TPAs) to undertake activities which, while consistent with the objectives of WFP, are outside WFP's normal activities. TPAs are not reported as WFP revenue and expenses. At the year end, the net balance owing to or from third parties is reported as a payable or receivable in the Statement of Financial Position under the General Fund. Service fees charged on TPAs are included within other revenue.

## Budget Comparison

37. WFP'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 based on the nature of expenses, whereas in the Statement of Comparison of Budget and Actual Amounts, expenditures are classified by functional classifications into WFP cost categories.
38. 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.
39. 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.
40. The budget in Statement V represents WFP's operational requirements. Commencing in 2015, Statement V includes a new column – Prioritized 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 is detailed in the Management Plan and includes Provisional Prioritized Plan 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**

	2015	2014
	<i>USD million</i>	
<b>Cash and cash equivalents</b>		
Bank and cash at Headquarters	153.1	111.1
Bank and cash at regional bureaux and country offices	81.8	122.6
Money market and deposit accounts at Headquarters	398.7	388.1
Cash and cash equivalents held by investment managers	138.6	200.2
<b>Total cash and cash equivalents</b>	<b>772.2</b>	<b>822.0</b>

41. 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**

	2015	2014
	<i>USD million</i>	
<b>Short-term investments</b>		
Short-term investments	809.5	846.1
Current portion of long-term investments (Note 2.6)	7.7	7.9
<b>Total short-term investments</b>	<b>817.2</b>	<b>854.0</b>

42. 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 2015 and remained at very low levels in the context of a market environment of low absolute yields.
43. Short-term investments were valued at USD 809.5 million at 31 December 2015 (USD 846.1 million at 31 December 2014). Of this amount, USD 367.7 million pertains to bonds issued or guaranteed by governments or government agencies (USD 371.6 million at 31 December 2014); USD 299.0 million pertains to corporate bonds (USD 312.8 million at 31 December 2014) and USD 142.8 million pertains to asset-backed securities (USD 161.7 million at 31 December 2014). 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.
44. At 31 December 2015, 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 11.7 million (USD 21.6 million at 31 December 2014).

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

	2014	Net additions/ (deductions)	Interest received/ amortized	Net realized gains/ (losses)	Net unrealized gains/(losses)	2015
	<i>USD million</i>					
Short-term investments	846.1	(41.7)	10.9	(3.7)	(2.1)	809.5
Current portion of long-term investments	7.9	(0.6)	0.4	-	-	7.7
<b>Total short-term Investments</b>	<b>854.0</b>	<b>(42.3)</b>	<b>11.3</b>	<b>(3.7)</b>	<b>(2.1)</b>	<b>817.2</b>

46. During 2015, short-term investments decreased by USD 36.8 million. This decrease includes net unrealized losses of USD 2.1 million presented in the reconciliation of surplus to operating cash flows in the Statement of Cash Flow and amortized interest on the current portion of the long-term investment of USD 0.4 million, also presented in the reconciliation as part of the increase in amortized value of the long-term investment of USD 4.1 million. The remaining balance, net of reclassification from long-term to short-term of USD 7.4 million, amounting to USD 42.5 million is presented in the Statement of Cash Flow under investing activities.

### Note 2.3: Contributions Receivable

	2015	2014
	<i>USD million</i>	
<b>Composition:</b>		
Current	2 233.4	2 099.8
Non-current	36.5	93.1
<b>Total net contributions receivable</b>	<b>2 269.9</b>	<b>2 192.9</b>
Monetary contributions receivable	2 178.3	2 166.5
In-kind contributions receivable	205.2	123.9
<b>Total contributions receivable before allowance</b>	<b>2 383.5</b>	<b>2 290.4</b>
Allowance for reductions in contribution revenue	(92.2)	(75.9)
Allowance for doubtful accounts	(21.4)	(21.6)
<b>Total net contributions receivable</b>	<b>2 269.9</b>	<b>2 192.9</b>

47. Current contributions receivable are for confirmed contributions that are due within 12 months while non-current contributions receivable are those that are due after 12 months from 31 December 2015.

48. 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.

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

	2015		2014	
	<i>USD million</i>	%	<i>USD million</i>	%
<b>Year of confirmation</b>				
2015	1 879.2	77		
2014	469.5	19	2 061.1	88
2013 and earlier	108.5	4	296.1	12
<b>Subtotal</b>	<b>2 457.2</b>	<b>100</b>	<b>2 357.2</b>	<b>100</b>
Revaluation adjustments (non-USD contributions receivable)	(73.7)	-	(66.8)	-
<b>Total contributions receivable before allowance</b>	<b>2 383.5</b>	<b>100</b>	<b>2 290.4</b>	<b>100</b>

50. Contributions receivable are shown net of allowances related to reductions in contribution revenue and doubtful accounts.
51. The allowance for reductions in contribution revenue is an amount estimated for any reductions of contributions receivable and corresponding revenue when the funding is no longer needed by the project to which the contributions were related. The allowance is based on historical experience.
52. The change in the allowance for reductions in contribution revenue during 2015 is as follows:

	2014	Utilization	Increase/ (decrease)	2015
	<i>USD million</i>			
<b>Total allowance for reductions in contribution revenue</b>	<b>75.9</b>	<b>(50.9)</b>	<b>67.2</b>	<b>92.2</b>

53. During 2015, the reductions in contributions receivable amounted to USD 50.9 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 2015, the estimated final allowance required is USD 92.2 million. Accordingly, an increase of USD 67.2 million was recorded as an adjustment to monetary contribution revenue for the period and is reported in the Statement of Financial Performance.
54. The allowance for doubtful accounts is for the expected write-offs of contributions receivable where expenses have already been incurred but donors are not expected to provide funding. Actual write-offs require a transfer from the General Fund and approval by the Executive Director for amounts in excess of USD 10,000.
55. The allowance for doubtful accounts is estimated at the following percentages of outstanding contributions receivable.

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



56. The change in the allowance for doubtful accounts during 2015 is as follows:

	2014	Utilization	Increase/ (decrease)	2015
<i>USD million</i>				
<b>Total allowance for doubtful accounts</b>	<b>21.6</b>	<b>(3.9)</b>	<b>3.7</b>	<b>21.4</b>

57. During 2015, write-offs of contributions receivable amounted to USD 3.9 million. These write-offs are recorded as a utilization of the allowance for doubtful accounts and reported in the Statement of Financial Position. At 31 December 2015, the estimated final allowance for doubtful accounts required is USD 21.4 million. Accordingly, an increase of USD 3.7 million was recorded as an adjustment for the period and is reported in the Statement of Financial Performance.

## Note 2.4: Inventories

58. 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.

	2015	2014
<i>USD million</i>		
Food on hand	506.2	442.3
Food in transit	128.5	123.5
<b>Subtotal food</b>	<b>634.7</b>	<b>565.8</b>
Less allowance for impairment – food	(3.2)	(2.8)
<b>Total food</b>	<b>631.5</b>	<b>563.0</b>
Non-food items	18.8	15.8
Less allowance for impairment – non-food	(0.2)	(0.2)
<b>Total non-food items</b>	<b>18.6</b>	<b>15.6</b>
<b>Total inventories</b>	<b>650.1</b>	<b>578.6</b>

<b>Food reconciliation</b>	2015	2014
<i>USD million</i>		
Opening inventory	563.0	648.8
Add back: impairment allowance	2.8	3.0
Food purchased	1 131.6	1 185.8
In-kind commodities received	448.9	444.6
Transport and related costs	264.7	271.2
<b>Total inventory available for distribution</b>	<b>2 411.0</b>	<b>2 553.4</b>
Less: Food distributed	(1 776.3)	(1 987.6)
Allowance for impairment – food	(3.2)	(2.8)
<b>Total food</b>	<b>631.5</b>	<b>563.0</b>

59. For 2015, food and non-food items distributed totalled USD 1,784.1 million (USD 1,988.5 million in 2014), as reported in the Statement of Financial Performance. Of this amount, USD 1,776.3 million relates to food commodities and USD 7.8 million relates to non-food items (USD 1,987.6 million and USD 0.9 million, respectively, in 2014).

60. 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.
61. Food quantities, derived from WFP's food tracking systems, are validated by physical stock counts and valued on a weighted average basis.
62. 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.
63. 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.
64. Food commodity stocks at 31 December 2015 were 1.1 million mt, valued at USD 634.7 million. At 31 December 2014, stocks were 0.9 million mt valued at USD 565.8 million.
65. An allowance for impairment has been made for possible loss or damage to inventories. The allowance is based on past experience and has been set at 0.51 percent of total food and 1.05 percent for non-food items. In 2014, the allowance for food was 0.49 percent and the allowance for non-food items was 1.04 percent. Inventories are valued net of any impairments or obsolescence. During 2015, USD 4.3 million representing the total value of food impaired and USD 0.3 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 2015, the estimated final allowance for impairment required is USD 3.4 million. Accordingly, an increase in the allowance for impairment of USD 5.0 million is reported in the Statement of Financial Performance.
66. The change in the allowances for impairment during 2015 is as follows:

	2014	Utilization	Increase/(decrease)	2015
	<i>USD million</i>			
Allowance for impairment – food	2.8	(4.3)	4.7	3.2
Allowance for impairment – non-food	0.2	(0.3)	0.3	0.2
<b>Total allowance</b>	<b>3.0</b>	<b>(4.6)</b>	<b>5.0</b>	<b>3.4</b>

## Note 2.5: Other Receivables

	2015	2014
	<i>USD million</i>	
Advances to vendors	31.5	35.5
Advances to staff	25.3	29.9
TPA receivables (Note 11)	0.3	6.8
Miscellaneous receivables	90.7	81.6
<b>Total other receivables before allowance</b>	<b>147.8</b>	<b>153.8</b>
<b>Allowance for doubtful accounts</b>	<b>(38.4)</b>	<b>(31.6)</b>
<b>Total net other receivables</b>	<b>109.4</b>	<b>122.2</b>

67. Advances to vendors are for payments in advance of goods and service delivery.
68. Advances to staff are for education grants, rental subsidies, travel and other staff entitlements. These advances are non-interest bearing in accordance with staff rules and regulations.
69. 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.

70. Other receivables are reviewed to determine whether any allowance for doubtful accounts is required. As at 31 December 2015, the estimated allowance required is USD 38.4 million, of which USD 37.8 million is for value-added tax receivable and USD 0.6 million is for other receivables (USD 30.6 million for value-added tax receivable and USD 1.0 million for other receivables in 2014).

71. The change in the allowance for doubtful accounts during 2015 is as follows:

	2014	Utilization	Increase/ (decrease)	Revaluation adjustment	2015
	<i>USD million</i>				
<b>Total allowance for doubtful accounts</b>	<b>31.6</b>	-	<b>7.7</b>	<b>(0.9)</b>	<b>38.4</b>

72. During 2015, there were no write-offs of other receivables.

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

74. As at 31 December 2015, the estimated allowance required is USD 38.4 million. Accordingly, an increase of USD 7.7 million was recorded as an expense for the period and is reported in the Statement of Financial Performance.

## Note 2.6: Long-Term Investments

	2015	2014
	<i>USD million</i>	
US Treasury STRIPS	73.1	77.0
Current portion (Note 2.2)	(7.7)	(7.9)
<b>Long-term portion, US Treasury STRIPS</b>	<b>65.4</b>	<b>69.1</b>
Bonds	200.5	187.8
Equities	196.4	192.0
<b>Total bonds and equities</b>	<b>396.9</b>	<b>379.8</b>
<b>Total long-term investments</b>	<b>462.3</b>	<b>448.9</b>

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

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

77. Changes in market value of the investment in STRIPS are not recognized. At 31 December 2015, the market value of this investment was USD 90.2 million (USD 96.9 million at 31 December 2014).

78. 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 25, Employee Benefits.

79. Investments in equities are made through six regional funds which track the composition and performance of the Morgan Stanley Capital International (MSCI) All Country World Index, a recognized index of stocks to all world markets. This investment structure provides exposure to global equities markets on a passive basis with risks and returns that mirror the MSCI All Country World Index.
80. The increase in the value of the long-term bond and equity investments of USD 17.1 million resulted from the decreased value of invested assets and from the investment of cash into bonds and equities of amounts charged to funds and projects in relation to the employee benefit liabilities. The cash transfer of USD 31.6 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.
81. The movement of long-term investments accounts during 2015 is as follows:

	<b>2014</b>	<b>Additions/ (deductions)</b>	<b>Interest received/ amortized</b>	<b>Net realized gains/ (losses)</b>	<b>Net unrealized gains/ (losses)</b>	<b>2015</b>
<i>USD million</i>						
Bonds and equities	<b>379.8</b>	31.5	5.5	(20.1)	0.2	<b>396.9</b>
Investment in STRIPS	<b>69.1</b>	(7.4)	3.7	-	-	<b>65.4</b>
<b>Total long-term investment</b>	<b>448.9</b>	<b>24.2</b>	<b>9.2</b>	<b>(20.1)</b>	<b>0.2</b>	<b>462.3</b>

82. During 2015, long-term investments increased by USD 13.4 million. Long-term bonds and equities are treated as available-for-sale financial assets except the investment in derivative financial instruments (USD 19.5 million) which are treated as held for trading financial assets. Accordingly, under IPSAS, the net unrealized losses of USD 8.1 million related to those financial assets treated as available-for-sale are transferred to net assets and presented in the Statement of Changes in Net Assets. The net unrealized gains of USD 3.6 million related to derivative financial instruments and the net unrealized gains of USD 4.6 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 3.7 million is presented in the reconciliation of surplus to operating cash flows in the Statement of Cash Flow as part of the increase in amortized value of the long-term investment of USD 4.1 million. The remaining balance, net of a reclassification from long-term to short-term of USD 7.4 million, amounting to USD 16.9 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 2014	Additions	Disposal/transfers	At 31 Dec 2015	At 31 Dec 2014	Depreciation expense	Disposal/transfers	At 31 Dec 2015	At 31 Dec 2015
<i>USD million</i>									
Buildings									
Permanent	22.4	0.6	-	23.0	(2.1)	(0.6)	-	(2.7)	20.3
Temporary	66.5	19.3	(0.5)	85.3	(36.0)	(13.3)	0.2	(49.1)	36.2
Computer equipment	9.9	1.0	-	10.9	(8.3)	(1.0)	-	(9.3)	1.6
Office equipment	23.3	2.8	(0.2)	25.9	(17.3)	(3.4)	0.2	(20.5)	5.4
Office fixtures and fittings	0.4	-	-	0.4	(0.2)	-	-	(0.2)	0.2
Security and safety equipment	5.2	0.4	(0.1)	5.5	(3.6)	(1.0)	0.1	(4.5)	1.0
Telecommunication equipment	7.5	1.7	-	9.2	(5.2)	(1.5)	-	(6.7)	2.5
Motor vehicles	129.9	35.2	(4.1)	161.0	(75.4)	(22.4)	3.8	(94.0)	67.0
Workshop equipment	4.6	2.2	-	6.8	(3.1)	(1.2)	-	(4.3)	2.5
Leasehold improvements	18.5	1.8	(0.6)	19.7	(12.2)	(2.9)	0.3	(14.8)	4.9
Fixed assets under construction	0.4	2.5	-	2.9	-	-	-	-	2.9
<b>Total</b>	<b>288.6</b>	<b>67.5</b>	<b>(5.5)</b>	<b>350.6</b>	<b>(163.4)</b>	<b>(47.3)</b>	<b>4.6</b>	<b>(206.1)</b>	<b>144.5</b>

	Cost			Accumulated depreciation				Net carrying amount	
	At 31 Dec 2013	Additions	Disposal/transfers	At 31 Dec 2014	At 31 Dec 2013	Depreciation expense	Disposal/transfers	At 31 Dec 2014	At 31 Dec 2014
<i>USD million</i>									
Buildings									
Permanent	16.1	6.4	(0.1)	22.4	(1.6)	(0.5)	-	(2.1)	20.3
Temporary	54.0	14.1	(1.6)	66.5	(26.1)	(11.1)	1.2	(36.0)	30.5
Computer equipment	9.1	0.9	(0.1)	9.9	(7.0)	(1.3)	-	(8.3)	1.6
Office equipment	19.1	5.2	(1.0)	23.3	(15.0)	(3.0)	0.7	(17.3)	6.0
Office fixtures and fittings	0.4	-	-	0.4	(0.2)	-	-	(0.2)	0.2
Security and safety equipment	4.2	1.1	(0.1)	5.2	(2.8)	(0.9)	0.1	(3.6)	1.6
Telecommunication equipment	5.7	1.9	(0.1)	7.5	(4.1)	(1.2)	0.1	(5.2)	2.3
Motor vehicles	107.0	26.7	(3.8)	129.9	(59.3)	(19.3)	3.2	(75.4)	54.5
Workshop equipment	3.6	1.1	(0.1)	4.6	(2.1)	(1.0)	-	(3.1)	1.5
Leasehold improvements	17.1	2.0	(0.6)	18.5	(9.8)	(2.8)	0.4	(12.2)	6.3
Fixed assets under construction	2.4	0.3	(2.3)	0.4	-	-	-	-	0.4
<b>Total</b>	<b>238.7</b>	<b>59.7</b>	<b>(9.8)</b>	<b>288.6</b>	<b>(128.0)</b>	<b>(41.1)</b>	<b>5.7</b>	<b>(163.4)</b>	<b>125.2</b>

83. In 2015 and 2014, major additions to PP&E were for temporary buildings and motor vehicles. Net acquisitions (after disposals) for the period ended 31 December 2015 totalled USD 62.0 million (USD 49.9 million at 31 December 2014) of which USD 20.3 million relate to donated in-kind property, plant and equipment. Additions or disposals in PP&E are reported in the Statement of Financial Position and the depreciation expense for the year of USD 47.3 million is reported in the Statement of Financial Performance (USD 41.1 million in 2014).
84. 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.
85. Assets are reviewed annually to determine if there is any impairment in their value. The review that was undertaken in 2015 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 2014	Additions	Disposal/transfers	At 31 Dec 2015	At 31 Dec 2014	Amortization expense	Disposal/transfers	At 31 Dec 2015	At 31 Dec 2015
<i>USD million</i>									
Internally generated software	51.0	3.0	-	54.0	(44.3)	(4.8)	-	(49.1)	4.9
Externally acquired software	2.7	0.1	-	2.8	(2.5)	(0.2)	-	(2.7)	0.1
Licenses and rights	0.6	0.1	-	0.7	(0.5)	(0.1)	-	(0.6)	0.1
Intangible asset under construction	1.9	0.1	(1.9)	0.1	-	-	-	-	0.1
<b>Total Intangible Assets</b>	<b>56.2</b>	<b>3.3</b>	<b>(1.9)</b>	<b>57.6</b>	<b>(47.3)</b>	<b>(5.1)</b>	<b>-</b>	<b>(52.4)</b>	<b>5.2</b>
	Cost				Accumulated depreciation				Net carrying amount
	At 31 Dec 2013	Additions	Disposal/transfers	At 31 Dec 2014	At 31 Dec 2013	Amortization expense	Disposal/transfers	At 31 Dec 2014	At 31 Dec 2014
<i>USD million</i>									
Internally generated software	50.0	1.1	(0.1)	51.0	(35.9)	(8.4)	-	(44.3)	6.7
Externally acquired software	2.7	-	-	2.7	(1.8)	(0.7)	-	(2.5)	0.2
Licenses and rights	0.6	-	-	0.6	(0.4)	(0.1)	-	(0.5)	0.1
Intangible asset under construction	0.7	1.2	-	1.9	-	-	-	-	1.9
<b>Total Intangible Assets</b>	<b>54.0</b>	<b>2.3</b>	<b>(0.1)</b>	<b>56.2</b>	<b>(38.1)</b>	<b>(9.2)</b>	<b>-</b>	<b>(47.3)</b>	<b>8.9</b>

86. 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.

87. The internally generated software mainly relates to the WINGS project – the customization and implementation of an integrated enterprise resource planning application. At 31 December 2015, total capitalized costs of the WINGS project amounting to USD 47.5 million have been fully amortized (USD 43.5 million in 2014). These capitalized costs comprise the system design and realization phase of the WINGS project. Additions or disposals in intangible assets are reported in the Statement of Financial Position while the amortization expense for the year of USD 5.1 million is reported in the Statement of Financial Performance.

## Note 2.9: Payables and Accruals

	2015	2014
	<i>USD million</i>	
Vendor payables	107.0	114.7
Donor payables	5.4	23.7
Miscellaneous	48.8	57.8
<b>Subtotal payables</b>	<b>161.2</b>	<b>196.2</b>
Accruals	352.6	339.7
<b>Total payables and accruals</b>	<b>513.8</b>	<b>535.9</b>

88. Payables to vendors relate to amounts due for goods and services for which invoices have been received.
89. Payables to donors represent balance of unspent contributions for closed projects pending refund or reprogramming.
90. 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.
91. 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: Provisions

	2015	2014
	<i>USD million</i>	
Provision for refunds to donors	5.7	6.2

92. 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.
93. The change in the provision for refunds to donors during 2015 is as follows:

	2014	Utilization	Increase/ (decrease)	2015
	<i>USD million</i>			
<b>Provision for refunds to donors</b>	<b>6.2</b>	<b>(6.3)</b>	<b>5.8</b>	<b>5.7</b>

94. During 2015, refunds made to donors totalled USD 6.3 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 2015, the estimated final provision required is

USD 5.7 million. Accordingly, an increase of USD 5.8 million was recorded as an adjustment to monetary contribution revenue for the period and is reported in the Statement of Financial Performance.

## Note 2.11: Employee Benefits

	2015	2014
	<i>USD million</i>	
<b>Composition:</b>		
Current	10.6	10.4
Non-current	601.9	555.1
<b>Total employee benefits liabilities</b>	<b>612.5</b>	<b>565.5</b>

	2015			2014
	Actuarial valuation	WFP valuation	Total	
	<i>USD million</i>			
Short-term employee benefits	-	10.6	10.6	10.4
Post-employment benefits	506.0	1.5	507.5	458.8
Other long-term employee benefits	88.5	5.9	94.4	96.3
<b>Total employee benefit liabilities</b>	<b>594.5</b>	<b>18.0</b>	<b>612.5</b>	<b>565.5</b>

### 2.11.1 Valuation of Employee Benefit Liabilities

95. Employee benefit liabilities are determined by professional actuaries or calculated by WFP based on personnel data and past payment experience. At 31 December 2015, total employee benefits liabilities amounted to USD 612.5 million, of which USD 594.5 million were calculated by the actuaries and USD 18.0 million were calculated by WFP (USD 547.8 million and USD 17.7 million, respectively, at 31 December 2014).
96. Of the total employee benefits liabilities of USD 612.5 million, the amount of USD 399.9 million has been charged against relevant funds and projects (USD 350.9 million at 31 December 2014). The balance of liabilities in the amount of USD 212.6 million has been allocated against the General Fund (USD 214.6 million at 31 December 2014). During the 2010 Annual Session, the Board approved a funding plan to provide for the unfunded employee benefit liabilities currently allocated to the General Fund. The funding plan includes an incremental annual funding of USD 7.5 million in the standard staff cost over a 15-year period starting in 2011 with a view to achieving fully funded status at the end of the 15-year period.

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

97. Liabilities arising from post-employment benefits and other separation-related benefits are determined by consulting professional actuaries. These employee benefits are established for two groups of staff: a) staff members who are in the professional and general service categories in Headquarters; and b) commencing in 2014, 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 Food and Agriculture Organization of the United Nations (FAO) Staff Rules and the United Nations Staff Rules.



98. Post-employment benefits and other separation-related benefits liabilities which are calculated by actuaries totalled USD 594.5 million at 31 December 2015 net of actuarial gains and losses (USD 547.8 million in 2014) of which USD 465.4 million pertains to staff members who are in the professional and general service categories in Headquarters (USD 435.0 million in 2014) and USD 129.1 million pertains to the benefits for locally recruited staff members (USD 112.8 million in 2014).
99. In the 2015 valuation, WFP's gross defined benefit obligations totalled USD 571.0 million (USD 601.0 million in 2014), of which USD 482.5 million represents post-employment benefits (USD 510.5 million in 2014) and USD 88.5 million represents other separation-related benefits (USD 90.5 million in 2014).
100. Under IPSAS 25, actuarial gains and losses for post-employment benefits can be recognized over time using the corridor approach. Under this approach, amounts up to 10 percent of the defined benefit obligations are not recognized as revenue or expense so as to allow the reasonable possibility of offsetting gains and losses over time. Gains and losses over 10 percent of the defined benefit obligation are amortized over the average remaining service of active staff for each benefit. For other separation-related benefits, actuarial gains and losses are recognized immediately and no corridor approach is applied.
101. In the 2015 valuation of employee benefits liabilities, the actuaries have determined actuarial gains under post-employment benefits of USD 23.5 million (actuarial losses of USD 53.2 million in 2014) and actuarial gains under other separation-related benefits of USD 2.7 million (actuarial losses of USD 12.4 million in 2014).
102. Of the total actuarial gains of USD 23.5 million, actuarial gains of USD 22.2 million relate to the After-Service Medical Plans, actuarial gains of USD 4.8 million relate to the Separation Payments Scheme and actuarial losses of USD 3.5 million pertain to the Compensation Plan Reserve Fund (Note 2.11.5.4). Actuarial gains and losses for all post-employment plans exceeded 10 percent of the defined benefit obligation. Under the corridor method, gains and losses over 10 percent will be amortized over the average remaining service of active staff for each benefit. The average remaining service of active staff for the post-employment plans is as follows: 13.01 and 15.16 years for Basic Medical Insurance Plan (BMIP) and Medical Insurance Coverage Scheme (MICS) After-Service Medical Plans, respectively, 13.07 years for Separation Payment Scheme, 9.53 and 10.58 years for Compensation Plan Reserve Fund of professional and general service staff categories in Headquarters and locally recruited staff members, respectively.
103. The annual expense for employee benefits liabilities as determined by the actuaries includes amortization of actuarial gains/(losses).
104. The movements of employee benefit liabilities as determined by the actuaries during 2015 are as follows:

	2014	Utilization	Increase/ (decrease)	2015
	<i>USD million</i>			
After-Service Medical Plans	425.2	(2.9)	50.4	472.7
Separation Payments Scheme	23.9	(1.6)	2.4	24.7
Compensation Plan Reserve Fund	8.2	(0.6)	1.0	8.6
Other separation-related benefits	90.5	(5.9)	3.9	88.5
<b>Total employee benefits liabilities</b>	<b>547.8</b>	<b>(11.0)</b>	<b>57.7</b>	<b>594.5</b>

### **2.11.3 Short-Term Employee Benefits**

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

### **2.11.4 Post-Employment Benefits**

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

107. The After-Service Medical Plans allow eligible retirees and their eligible family members to participate in the BMIP or the MICS depending on which staff group they belong to. BMIP is provided to staff members in the professional category and general service category at Headquarters. MICS is provided to locally recruited staff members in country offices and regional bureaux

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

109. 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.

110. The liabilities include the service costs for 2015 less benefit payments made.

### **2.11.5 Other Long-Term Employee Benefits**

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

#### ***2.11.5.1 Actuarial Assumptions and Methods***

112. 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 2015 valuation, the assumptions and methods used are described in the following table, which also indicates the assumptions and methods used for the 2014 valuation.

113. The assumptions and methods adopted for the 2015 actuarial valuation resulted in an increase in the post-employment and other separation-related benefits net liabilities in the total amount of USD 46.7 million (USD 157.5 million in 2014).

114. Actuarial assumptions are required to be disclosed in the financial statements in accordance with IPSAS 25. In addition, each actuarial assumption is required to be disclosed in absolute terms.

115. 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 2015. Assumptions relating only to certain employee benefits are specifically identified:

Discount rate	3.5 percent for accounting and funding based on yield curve approach for plans provided to staff members in professional and general service categories in Headquarters (3.1 percent in 2014 valuation) 4.9 percent based on yield curve approach for plans provided to locally recruited staff members (4.5 percent in 2014 valuation)
Medical cost increases (ASM* only)	BMIP – 4.5 percent per year from 2016 through 2020, decreasing 0.1 percent per year for subsequent five-year periods, until 4.0 percent is reached in 2041 and remains each year thereafter (5.0 percent per year during 2014 through 2024, 4.5 percent per year during 2025 through 2044, and 4 percent per year in 2045 and beyond in 2014 valuation) MICS – 8.0 percent from 2016, decreasing by 0.2 percent each year to 6.0 percent in 2026 and then decreasing by 0.1 percent each year until it reaches 4.0 percent in 2046 and remains each year thereafter (6.0 percent for 2015, decreasing by 0.2 percent each year to 4.6 percent in 2022 and 4.5 percent in 2023 and beyond in 2014 valuation)
Expected return on assets	Funding – 5.6 percent (same in 2014 valuation); Accounting – Not applicable as plans are treated as unfunded
Annual salary scale	3.0 percent plus merit component
Annual cost of living increases	2.5 percent (minimum death grant benefit for the Staff Compensation Plan remains unchanged)
Future exchange rates	United Nations rates at 31 December 2015
Medical claims cost (ASM only)	BMIP – Average claims for 2016 in 2015 valuation are USD 5,186 for each adult participant (USD 5,334 for 2015 in 2014 valuation) MICS – Average claims for 2016 in 2015 valuation are USD 1,081 for each adult participant (USD 987 for 2015 in 2014 valuation)
Annual administrative costs (ASM only)	BMIP – 3.0 percent of the 2016 claims cost excluding the insurer's retention, increasing at the general inflation rate thereafter (USD 142.08 for dollar plan and EUR 135.00 for Euro plan in 2014 valuation) MICS – included in claims cost shown above
Insurer's retention (ASM only)	2.3 percent of the 2016 claims (same in 2014 valuation)
Future participant contributions (ASM only)	BMIP – Accounting and Funding 29 percent (same in 2014 valuation) MICS – medical costs increase with inflation, while participant contributions increase with pay/pension amounts.
Mortality rates	Mortality rates match the 31 December 2013 valuations of the UNJSPF
Disability rates	Disability rates match the 31 December 2013 valuation of the UNJSPF
Withdrawal rates	Based on a study of WFP's withdrawal rates from 2009 to 2013
Retirement rates	Based on a study of WFP's withdrawal rates from 2009 to 2013
Participation (ASM only)	BMIP – 95 percent of future retirees will elect coverage in the BMIP (same in 2014 valuation). Based on a study of experience for the Rome-based United Nations organizations, 0.2 percent of people covered by the BMIP will withdraw from coverage each year after retirement (same in 2014 valuation) MICS – same as BMIP
Medical plan of future retirees (ASM only)	Currently receiving pay in Euro currency – Euro plan Currently receiving pay in currency other than Euro – dollar plan
Coverage of spouses (ASM only)	85 percent of male and 55 percent of female retirees have a spouse who elects coverage in the BMIP (same in 2014 valuation). Spouses are assumed to be four years younger than the corresponding male retirees, and four years older than corresponding female retirees
Proportion of future deaths and disablements attributable to performance of official duties (CPRF** only)	10 percent of deaths and 4 percent of disablements (same in 2014 valuation)
Nature of disablements (CPRF only)	All disablements are assumed to be total and permanent
Eligibility of benefits offsets (CPRF only)	Deaths or disablements under CPRF are assumed to receive UNJSPF benefits
Benefits excluded due to lack of materiality (CPRF only)	Preparation of remains and funeral expenses; children's benefit for future deaths and disablements, etc.
Benefits excluded due to inclusion in other valuations (CPRF only)	Medical and hospital expenses Return transportation of the deceased and family members
Members receiving repatriation benefits (OSRB*** only)	Repatriation benefits were assumed to be payable to 80 percent of those staff members who retire or withdraw from service (same in 2014 valuation). 80 percent of eligible males were assumed to be married and 50 percent of female staff members were assumed to be married (same in 2014 valuation)
Repatriation travel and removal costs (OSRB only)	USD 8,600 for unmarried staff and USD 12,200 for married staff in 2015, growing with inflation thereafter (same as in 2014 valuation)
Accrued leave payable at separation (OSRB only)	Average accrued leave benefit was assumed to be 37 days' pay (same in 2014 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 all liability attributed to past service. 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
Value of assets	Funding – Market value Accounting – Plans treated as unfunded

\* After-Service Medical Plan    \*\* Compensation Plan Reserve Fund    \*\*\* other separation-related benefits

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

### 2.11.5.2 Reconciliation of Defined Benefit Obligation

	After-Service Medical Plans	Other separation- related benefits	Separation payments scheme	Compensation Plan Reserve Fund	Total
<i>USD million</i>					
<b>Net defined benefit obligation at 31 December 2014</b>	<b>477.9</b>	<b>90.5</b>	<b>21.8</b>	<b>10.8</b>	<b>601.0</b>
Service cost for 2015	33.1	3.8	1.7	0.5	39.1
Interest cost for 2015	16.2	2.8	0.7	0.3	20.0
Actual gross benefit payments for 2015	(4.5)	(5.8)	(1.6)	(0.6)	(12.5)
Participant contributions	1.5	-	-	-	1.5
Exchange rate movements	(30.0)	(0.6)	(2.4)	-	(33.0)
Other actuarial (gain)/loss	(43.7)	(2.2)	(0.3)	1.1	(45.1)
<b>Defined benefit obligation at 31 December 2015</b>	<b>450.5</b>	<b>88.5</b>	<b>19.9</b>	<b>12.1</b>	<b>571.0</b>

### 2.11.5.3 Annual Expense for Calendar Year 2015

	After-Service Medical Plan	Other separation- related benefits	Separation payments scheme	Compensation Plan Reserve Fund	Total
<i>USD million</i>					
Service cost	33.1	3.8	1.7	0.5	39.1
Interest cost	16.2	2.8	0.7	0.3	20.0
(Gain)/Loss amortization	1.1	(2.7)	-	0.2	(1.4)
<b>Subtotal expense</b>	<b>50.4</b>	<b>3.9</b>	<b>2.4</b>	<b>1.0</b>	<b>57.7</b>

**2.11.5.4 Reconciliation of Present Value of Defined Benefit Obligation**

	After-Service Medical Plans	Other separation- related benefits	Separation payments scheme	Compensation Plan Reserve Fund	Total
	<i>USD million</i>				
<b>Defined benefit obligation</b>					
Inactive	127.9	-	-	9.6	137.5
Active	322.6	88.5	19.9	2.5	433.5
<b>Total</b>	<b>450.5</b>	<b>88.5</b>	<b>19.9</b>	<b>12.1</b>	<b>571.0</b>
(Surplus)/deficit	450.5	88.5	19.9	12.1	571.0
Unrecognized (loss)/gain	22.2	-	4.8	(3.5)	23.5
<b>Net balance sheet liability</b>	<b>472.7</b>	<b>88.5</b>	<b>24.7</b>	<b>8.6</b>	<b>594.5</b>

**2.11.5.5 After-Service Medical Plans – Sensitivity Analysis**

117. Three of the 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 US 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.
118. In the 2015 valuation, it was assumed that for the BMIP, medical costs will increase at 4.5 percent per year from 2016 through 2020, decreasing 0.1 percent per year for subsequent five year periods until 4.0 percent is reached in 2041 and remains each year thereafter. For the MICS, it was assumed that medical costs will increase at 8 percent from 2016, decreasing by 0.2 percent each year to 6 percent in 2026 and then decreasing by 0.1 percent each year until it reaches 4.0 percent in 2046 and remains each year thereafter.
119. It was also assumed that for the BMIP, the future exchange rates between the Euro and US dollar will average about USD 1.094 per Euro, which was the United Nations operational rate of exchange at 31 December 2015. For the MICS, it is assumed that all claims are incurred in US dollars or other currencies that are correlated with the US dollar.
120. Further assumed was a discount rate of 3.5 percent for the BMIP, based on yield curve approach at 31 December 2015 (3.1 percent in 2014 valuation) and a discount rate of 4.9 percent for the MICS (4.5 percent in 2014 valuation).
121. A sensitivity analysis was undertaken to determine the impact of the above assumptions on the liability and service cost under IPSAS 25. The results indicate that claims costs and premium rates would increase by the same percentage as the medical inflation, but that all other assumptions would be unaffected. For the exchange rate, the sensitivity analysis reflects the impact of a 10-cent increase in the value of the Euro in US dollars. For medical inflation and the discount rates, the sensitivity analysis reflects the impact of 1 percent changes.
122. Using the current assumptions, the defined benefit obligation is USD 450.5 million. For the liability sensitivity analysis, a change in medical inflation rate of 1 percent per year, would, other assumptions being equal, result in a defined benefit obligation of USD 573.1 million. An exchange rate of USD 1.194 per Euro would, other assumptions being equal, result in a defined benefit obligation of USD 468.8 million. A change in a discount rate of 1 percent would, other assumptions being equal, result in a defined benefit obligation of USD 577.4 million.
123. Using the current assumptions, the 2016 service cost is USD 31.3 million. For the service cost sensitivity analysis, a change in a medical inflation rate of 1 percent per year would, other assumptions being equal, result in a service cost equal to USD 43.0 million. An exchange rate of USD 1.194 per Euro would, other assumptions being equal, result in a service cost equal to USD 32.3 million. A change in a discount rate of 1 percent would, other assumptions being equal, result in a service cost of USD 42.8 million.

### **2.11.5.6 Expected Costs during 2016**

124. The expected contribution of WFP in 2016 to the defined benefits plans is USD 12.7 million which is determined based on expected benefit payments for that year.

### **2.11.6 United Nations Joint Staff Pension Fund**

125. The Pension Fund's Regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the Open Group Aggregate Method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.
126. WFP's financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9 percent for participants and 15.8 percent for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.
127. The actuarial valuation performed as of 31 December 2013 revealed an actuarial deficit of 0.72 percent (1.87 percent in the 2011 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve a balance as of 31 December 2013 was 24.42 percent of pensionable remuneration, compared to the actual contribution rate of 23.7 percent. The next actuarial valuation will be conducted as of 31 December 2015.
128. At 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.5 percent (130.0 percent in the 2011 valuation). The funded ratio was 91.2 percent (86.2 percent in the 2011 valuation) when the current system of pension adjustments was taken into account.
129. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2013, 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.
130. In December 2012 and April 2013, the General Assembly authorized an increase to age 65 in the normal retirement age and in the mandatory age of separation respectively for new participants of the Fund, with effect not later than from 1 January 2014. The related change to the Pension Fund's Regulations was approved by the General Assembly in December 2013. The increase in the normal retirement age is reflected in the actuarial valuation of the Fund as of 31 December 2013.
131. During 2015, contributions paid to the UNJSPF amounted to USD 63.7 million (USD 63.4 million in 2014). Expected contributions due in 2016 are USD 63.8 million.
132. 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, which can be viewed by visiting the UNJSPF at [www.unjspf.org](http://www.unjspf.org).

### **2.11.7 Social Security Arrangements for Employees under Service Contracts**

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

service contract. Service contract holders are not WFP staff members and are not covered by FAO and United Nations Staff Rules and Regulations.

### Note 2.12: Loans

	2015	2014
	<i>USD million</i>	
Central Emergency Response Fund (CERF) loan	-	27.0
Current portion of long-term loan – see Note 2.13	5.8	5.8
<b>Total loans</b>	<b>5.8</b>	<b>32.8</b>

134. In 2015, the CERF loan of USD 27.0 million was repaid. WFP had originally borrowed the funds in 2013 in order to establish a contingency fund for the emergency operations in the Syrian Arab Republic and the surrounding region (Egypt, Iraq, Jordan, Lebanon and Turkey). The CERF is a cash-flow mechanism of the United Nations which is designed to bridge the gap between needs and available funding. The CERF is funded by donors and loan proceeds are released to United Nations operational agencies interest-free. The mechanism requires that agencies borrowing from the fund pay back the loan within one year. WFP paid in 2015 as the loan repayment date of 2014 had been extended to 2015.

### Note 2.13: Long-Term Loan

	2015	2014
	<i>USD million</i>	
Long-term loan	89.6	95.4
Less: Current portion of long-term loan – See Note 2.12	(5.8)	(5.8)
<b>Long-term loan</b>	<b>83.8</b>	<b>89.6</b>

135. In December 2000, an agreement was reached between a major donor and WFP regarding a scheme to facilitate the provision of food assistance to two country projects. Under the scheme, the donor gave a contribution in cash of USD 164.1 million, of which USD 106.0 million was used to purchase food commodities against a long-term loan contract with a government agency of the donor country.
136. The loan is payable over 30 years and interest on the loan is at the rate of 2 percent per year for the first ten years and 3 percent per year on the declining balance each year thereafter. The current portion of the long-term loan includes an annual principal amount of USD 5.3 million and an amortization cost of USD 0.5 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.
137. The loan is reflected at amortized cost using the effective interest rate of 2.44 percent. At 31 December 2015, total amortized cost was USD 89.6 million (USD 95.4 million at 31 December 2014) with an amount due within one year of USD 5.8 million and a long-term portion of USD 83.8 million (USD 5.8 million and USD 89.6 million, respectively in 2014).

138. Interest expense during 2015 totalled USD 2.2 million (USD 2.4 million at 31 December 2014) as reflected in the Statement of Financial Performance, of which USD 2.7 million represents the annual interest paid in May 2015 and USD (0.5) million represents the amortized cost resulting from the recognition of the long-term loan to its net present value.
139. In the Statement of Cash Flow, interest paid during the year in the amount of USD 2.7 million is presented under financing activities, while amortized interest of USD (0.5) million is presented under reconciliation to net cash flows from operating activities.

## Note 2.14: Financial Instruments

### 2.14.1 Nature of Financial Instruments

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

	2015	2014
	<i>USD million</i>	
Financial assets at fair value through surplus or deficit	811.5	844.5
Held-to-maturity investments	73.1	77.0
Loans and receivables	2 953.6	3 015.5
Available-for-sale financial assets	394.9	381.4
<b>Subtotal</b>	<b>4 233.1</b>	<b>4 318.4</b>
Non-financial assets	998.9	834.3
<b>Total</b>	<b>5 232.0</b>	<b>5 152.7</b>

142. Financial assets at fair value through surplus or deficit are categorized as held-for-trading.
143. All material financial liabilities are stated at amortized cost.
144. The following table presents the WFP assets that are measured at fair value at 31 December 2015 and 2014, respectively.

	2015				2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	<i>USD million</i>				<i>USD million</i>			
Financial assets at fair value through surplus or deficit	-	802.1	9.4	811.5	-	835.3	9.2	844.5
Available-for-sale financial assets	196.3	198.6	-	394.9	195.0	185.7	0.7	381.4
<b>Total</b>	<b>196.3</b>	<b>1 000.7</b>	<b>9.4</b>	<b>1 206.4</b>	<b>195.0</b>	<b>1 021.0</b>	<b>9.9</b>	<b>1 225.9</b>

145. 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).
146. 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 counterparties is independent from the fair value level category.

147. The following table presents the changes in Level 3 financial instruments for the years ended 31 December 2015 and 2014, respectively.

	2015			2014		
	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
	<i>USD million</i>			<i>USD million</i>		
<b>Opening balance</b>	9.2	0.7	9.9	53.7	26.7	80.4
Gains/(losses) recognized in Statement of Financial Performance	-	-	-	0.1	(1.6)	(1.5)
Gains/(losses) recognized in Statement of Net Assets	-	-	-	-	1.7	1.7
Purchases	4.4	-	4.4	7.2	0.7	7.9
Sales	(4.2)	-	(4.2)	(31.3)	(9.8)	(41.1)
Settlements	-	-	-	-	-	-
Capital change	-	-	-	(10.0)	(0.4)	(10.4)
Transfer	-	(0.7)	(0.7)	(10.5)	(16.6)	(27.1)
<b>Closing balance</b>	<b>9.4</b>	<b>-</b>	<b>9.4</b>	<b>9.2</b>	<b>0.7</b>	<b>9.9</b>

148. There were no transfers out of Level 1 into Level 2 and out of Level 2 into Level 1 during 2015 and 2014.

### 2.14.2 Credit Risk

149. WFP's credit risk associated with investments is spread widely and WFP's risk management policies limit the amount of credit exposure to any one counterparty and include minimum credit quality guidelines. The short-term investments have credit quality at year end of AA+ and the long-term investments have credit quality at year end of AA.
150. 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.
151. 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

152. WFP is exposed to interest rate risk through short-term investments and long-term bonds. At 31 December 2015, the effective interest rates of these two investment portfolios were 1.11 percent and 1.85 percent, respectively (0.66 percent and 1.72 percent, respectively, in 2014).

A measurement of interest rate sensitivity indicates that the effective duration is 0.80 years for the short-term investments and 6.26 years for the long-term bonds (0.75 years and 6.41 years, respectively, in December 2014). Fixed income derivatives are used by external investment managers to manage interest rate risk under strict investment guidelines.

#### **2.14.4 Foreign Currency Risk**

153. At 31 December 2015, 87 percent of cash, cash equivalent and investments are denominated in the US dollar base currency and 10 percent are denominated in Euros and the remaining 3 percent in other currencies (85 percent in the US dollar base currency and 12 percent in Euros and remaining 3 percent in other currencies at 31 December 2014). Non-US dollar holdings have the primary objective of supporting operating activities. In addition, 79 percent of contributions receivable is denominated in the US dollar base currency, 13 percent is denominated in Euros, 3 percent in Canadian dollars and 5 percent is denominated in other currencies (72 percent in the US dollar base currency, 15 percent in Euros, 4 percent in Canadian dollars and 9 percent in other currencies at 31 December 2014).
154. 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 2015, 12 contracts were settled at a realized loss of USD 17.4 million (12 contracts were settled during the year ended 31 December 2014 at a realized gain of USD 0.2 million). In addition, a new hedging strategy was implemented for 2016, in which WFP entered into 12 foreign exchange forward contracts to purchase Euro 6.3 million on a monthly basis at a fixed exchange rate. At 31 December 2015, the 12 contracts have a notional value of USD 83.8 million and an unrealized loss of USD 1.2 million using the forward rate at 31 December 2015. Both the realized loss and unrealized loss are included in currency exchange differences presented in the Statement of Financial Performance.

#### **2.14.5 Market Risk**

155. WFP is subject to market risk in both the short-term and long-term investments. The market value of its fixed income, equity, financial derivatives and foreign exchange forwards 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.
156. 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 7.6 million unrealized loss (gain). For the long-term bond portfolio, if interest rates were to rise (fall) by 1 percent, the impact to the Statement of Changes in Net Assets is a USD 12.6 million unrealized loss (gain).
157. 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 the long-term bond portfolio, if futures prices were to rise (fall) by 1 percent, the impact to the Statement of Changes in Net Assets is a USD 0.1 million unrealized gain (loss).
158. 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 2.0 million unrealized gain (loss).
159. 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 0.9 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 0.2 million unrealized loss (gain).

**Note 2.15: Fund Balances and Reserves**

160. 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.

	2015				Total	2014
	Programme category funds (fund balance)	Bilateral operations and trust funds (fund balance)	General Fund and Special Accounts			
			(fund balance)	Reserves		
<i>USD million</i>						
<b>Opening balance at 1 January, 2015</b>	<b>3 167.1</b>	<b>321.7</b>	<b>102.5</b>	<b>331.4</b>	<b>3 922.7</b>	<b>3 672.7</b>
<b>Surplus (deficit) for the year</b>	<b>(168.3)</b>	<b>(11.2)</b>	<b>274.1</b>	<b>-</b>	<b>94.6</b>	<b>235.8</b>
<b>Subtotal</b>	<b>2 998.8</b>	<b>310.5</b>	<b>376.6</b>	<b>331.4</b>	<b>4 017.3</b>	<b>3 908.5</b>
<b>Movements during the year:</b>						
Advances to projects	165.8	-	-	(165.8)	-	-
Repayments by projects	(98.5)	-	-	98.5	-	-
Approved Board allocations	-	-	87.2	(87.2)	-	-
Repayments of unspent Board allocations	-	-	(2.3)	2.3	-	-
Replenishments	-	-	(85.9)	85.9	-	-
Surplus of ISC revenue over PSA expenses	-	-	(33.4)	33.4	-	-
Transfers between funds	309.4	5.2	(314.6)	-	-	-
Net unrealized gains (losses) on long-term investments	-	-	(8.1)	-	(8.1)	14.2
<b>Total movements during the year</b>	<b>376.7</b>	<b>5.2</b>	<b>(357.1)</b>	<b>(32.9)</b>	<b>(8.1)</b>	<b>14.2</b>
<b>Closing balance at 31 December 2015</b>	<b>3 375.5</b>	<b>315.7</b>	<b>19.5</b>	<b>298.5</b>	<b>4 009.2</b>	<b>3 922.7</b>

161. 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.

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

163. Reserves are established by the Board as facilities for funding and/or financing specific activities under specific circumstances. During 2015, WFP had four active reserves: i) Operational Reserve; ii) Global Commodity Management Facility (GCMF) reserve; iii) IRA; and the iv) PSA Equalization Account. The following table presents WFP's reserves.

	2015				Total	2014
	2.15.1 Operational Reserve (OR)	2.15.2 GCMF reserve	2.15.3 IRA	2.15.4 PSA Equalization Account (PSAEA)		
	<i>USD million</i>					
<b>Opening balance at 1 January, 2015</b>	<b>95.2</b>	<b>6.0</b>	<b>40.4</b>	<b>189.8</b>	<b>331.4</b>	<b>272.5</b>
Advances to projects	-	-	(165.8)	-	(165.8)	(182.4)
Repayments by projects	-	-	98.5	-	98.5	132.6
Approved Board allocations	-	-	-	(87.2)	(87.2)	(9.2)
Repayments of unspent Board allocations	-	-	-	2.3	2.3	1.7
Replenishments	-	-	85.9	-	85.9	40.2
Surplus of ISC revenue over PSA expenses	-	-	-	33.4	33.4	76.0
<b>Closing balance at 31 December 2015</b>	<b>95.2</b>	<b>6.0</b>	<b>59.0</b>	<b>138.3</b>	<b>298.5</b>	<b>331.4</b>

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

### 2.15.1 Operational Reserve

165. 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).

166. The balance of the Operational Reserve at 31 December 2015 is USD 95.2 million.

### 2.15.2 Global Commodity Management Facility Reserve

167. The GCMF 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 GCMF (Decision 2014/EB.A/8).

168. The balance of the GCMF reserve at 31 December 2015 is USD 6.0 million.

### 2.15.3 Immediate Response Account

169. 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.

170. In 2015, the IRA received USD 85.9 million in replenishments inclusive of a board-approved transfer from the PSAEA to the IRA of USD 50.0 million (Decision 2015/EB.A/12). This additional injection into the IRA was intended to create a minimum revolving/lending capacity of USD 50.0 million for emergencies.

171. Advances made to projects totalled USD 165.8 million and repayments by projects amounted to USD 98.5 million.

172. The IRA balance at 31 December 2015 is USD 59.0 million, which is below the target level of USD 200.0 million. In 2014, this target level was raised from 70.0 million to 200.0 million with Executive Board Decision 2014/EB.2/4.

173. Outstanding advances to projects made by the IRA at 31 December 2015 totalled USD 96.6 million (USD 211.6 million in 2014).

#### **2.15.4 Programme Support and Administrative Budget Equalization Account**

174. The PSAEA is a reserve set up to record the difference between indirect support costs revenue and PSA expenses for the financial period.
175. Approved Board allocations made in 2015 of USD 87.2 million derive from a) the Second Regular Session of the Board in November 2014 where the Board approved a supplementary appropriation in the WFP Management Plan 2015–2017 for critical corporate initiatives from PSAEA totalling USD 9.2 million (Decision 2014/EB.2/4); and b) the Annual Session of the Board in May 2015 where the Board approved transfers from the PSAEA to the IRA (USD 50.0 million), the wellness programme fund (USD 10.0 million) and critical corporate initiatives (USD 18.0 million) totalling USD 78.0 million (Decision 2015/EB.A/12).
176. Unspent balances totalling USD 2.3 million pertaining to allocations approved by the Board from PSAEA in previous periods were returned back to the PSAEA in 2015 pursuant to Financial Regulation 9.9.
177. The excess of ISC revenue over PSA expenses totalling USD 33.4 million was transferred to the PSAEA in 2015 (USD 76.0 million surplus in 2014).
178. The PSAEA balance at 31 December 2015 is USD 138.3 million.
179. As approved in the WFP Management Plan (2016–2018) (Decision 2015/EB.2/5), this balance is reduced in early 2016 by USD 20.0 million supplementary PSA investments to be used for critical corporate and cost excellence initiatives.

**Note 3: Revenue**

	<b>2015</b>	<b>2014</b>
	<i>USD million</i>	
<b>3.1 Monetary contributions</b>		
Contributions for direct costs	4 005.1	4 601.1
ISC contributions	313.9	354.7
<b>Subtotal</b>	<b>4 319.0</b>	<b>4 955.8</b>
<b>Less:</b>		
Refunds, reprogrammes and reductions in contribution revenue	(71.1)	(78.0)
<b>Total monetary contributions</b>	<b>4 247.9</b>	<b>4 877.8</b>
<b>3.2 In-kind contributions</b>		
Commodities in-kind contributions	535.2	453.5
Services and non-food items in-kind contributions	33.4	53.7
<b>Subtotal</b>	<b>568.6</b>	<b>507.2</b>
<b>Add (deduct):</b>		
Increase (decrease) in contribution revenue	(8.8)	(3.9)
<b>Total in-kind contributions</b>	<b>559.8</b>	<b>503.3</b>
<b>3.3 Currency exchange differences</b>	<b>(34.1)</b>	<b>(64.7)</b>
<b>3.4 Return on investments</b>		
Net realized gains (losses) on investments	(24.1)	(8.0)
Net unrealized gains (losses) on investments	6.0	(12.4)
Interest earned	21.8	21.5
<b>Total return on investments</b>	<b>3.7</b>	<b>1.1</b>
<b>3.5 Other revenue</b>		
Revenue generated from provision of goods and services	102.6	114.1
Miscellaneous revenue	31.0	18.8
<b>Total other revenue</b>	<b>133.6</b>	<b>132.9</b>
<b>Total revenue</b>	<b>4 910.9</b>	<b>5 450.4</b>

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

181. In-kind contributions represent confirmed contributions of food commodities, services or non-food items during the year.
182. Contribution revenues recognized in 2015 representing resources which are to be used in future years (with comparative figures for 2014) are as follows:

	<i>Applicable to Years</i>				<b>Total</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	
	<i>USD million</i>				
<b>Future year contribution revenue recognized in 2015</b>	-	122.9	20.7	1.9	145.5
<b>Future year contribution revenue recognized in 2014</b>	180.2	59.1	11.8	-	251.1

183. During 2015, other revenue amounted to USD 133.6 million of which USD 102.6 million was generated from the provision of goods and services (USD 114.1 million at 31 December 2014) and USD 31.0 million from miscellaneous revenue (USD 18.8 million at 31 December 2014). Revenue generated from the provision of goods and services included mainly air operations, provisions of goods and services by the United Nations Humanitarian Response Depot and the Logistics Services Special Account. Miscellaneous revenue included proceeds from sale of damaged commodities and other unserviceable properties.

**Note 4: Expenses**

	<b>2015</b>	<b>2014</b>
	<i>USD (million)</i>	
<b>4.1 Cash-based transfers distributed</b>	<b>679.1</b>	<b>845.6</b>
<b>4.2 Food commodities distributed</b>	<b>1 784.1</b>	<b>1 988.5</b>
<b>4.3 Distribution and related services</b>	<b>635.9</b>	<b>650.4</b>
<b>4.4 Wages, salaries, employee benefits and other staff costs</b>		
International and national staff	596.3	691.3
Consultants	70.3	58.1
United Nations volunteers	4.9	4.5
Temporary staff	78.3	79.1
Other personnel costs	20.8	17.6
<b>Total wages, salaries, employee benefits and other staff costs</b>	<b>770.6</b>	<b>850.6</b>
<b>4.5 Supplies, consumables and other running costs</b>		
Telecommunications and Information Technology	12.5	10.0
Equipment	87.4	85.1
Office supplies and consumables	40.2	50.3
Utilities	8.1	10.4
Vehicle maintenance and running costs	19.1	27.7
<b>Total supplies, consumables and other running costs</b>	<b>167.3</b>	<b>183.5</b>
<b>4.6 Contracted and other services</b>		
Air operations	312.8	278.0
Other contracted services	216.1	182.9
Telecommunications/IT related services	32.9	35.2
Security and other services	50.0	43.6
Leases	33.2	33.1
<b>Total contracted and other services</b>	<b>645.0</b>	<b>572.8</b>
<b>4.7 Finance Costs</b>	<b>2.2</b>	<b>2.4</b>
<b>4.8 Depreciation and amortization</b>	<b>52.4</b>	<b>50.3</b>
<b>4.9 Other expenses</b>		
Maintenance services	8.0	6.4
Insurance	4.0	6.5
Bank charges/investment manager and custodian fees	2.6	2.4
Doubtful accounts and impairment	24.6	23.4
Trainings and meetings	33.9	25.7
Other	6.6	6.1
<b>Total other expenses</b>	<b>79.7</b>	<b>70.5</b>
<b>Total expenses</b>	<b>4 816.3</b>	<b>5 214.6</b>



184. During 2015, cash-based transfers distributed totalled USD 679.1 million (USD 845.6 million in December 2014).
185. During 2015, food commodities and non-food items distributed totalled USD 1,784.1 million (USD 1,988.5 million in December 2014).
186. Food commodities distributed include cost of commodities as well as transport and related costs between the country in which WFP takes possession and the recipient country. Included in the cost of commodities distributed are post-delivery losses of USD 11.6 million (USD 11.8 million in December 2014) (Note 9).
187. Given WFP's accounting policy to expense when food is handed over to the cooperating partners, at 31 December 2015, USD 70.6 million (98,653 mt) of food held by cooperating partners was yet to be distributed to beneficiaries (USD 84.2 million (122,788 mt) at 31 December 2014).
188. Distribution and related services represent cost of moving commodities in-country up to and including final distribution.
189. Wages, salaries, employee benefits and other staff costs are for WFP staff, consultants and service contract holders. Other personnel costs include employee and consultant travel, training and staff workshops, and incentives.
190. Supplies, consumables and other running costs used are cost of goods and services used for both direct project implementation and administration and support.
191. Other expenses include maintenance of facilities, insurance, meeting related costs, allowances for doubtful accounts and inventory impairment.

#### **Note 5: Statement of Cash Flow**

192. 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**

193. 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.
194. 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.
195. Budget amounts have been presented on a functional classification basis in accordance with the Management Plan (2015–2017), which presents a breakdown of the budget by year.
196. In 2015, Statement V includes a column – Prioritized 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 includes the Provisional Prioritized Programme of Work for the direct costs portion and the Final Budget for the indirect costs portion (Management Plan 2015–2017 approved by the Executive Board in November 2014). The increment in the Final Budget of USD 18.0 million

from USD 9.2 million to USD 27.2 million was approved in the Executive Board paper “Strategic Utilization of WFP’s PSA Equalization Account” (WFP/EB.A/2015/6-D/1).

197. Explanations of material differences between the original budget and Final Budget, Final Budget and the actual amounts and Prioritized Plan and the actual amounts are presented under the Financial and Budget Analysis section of the Executive Director’s Statement.
198. 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.
199. 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.
200. 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.
201. 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.
202. 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 2015 is presented below:

	<b>2015</b>			
	<b>Operating</b>	<b>Investing</b>	<b>Financing</b>	<b>Total</b>
	<i>USD million</i>			
<b>Actual amount on comparable basis (Statement V)</b>	<b>(4 766.1)</b>	<b>-</b>	<b>-</b>	<b>(4 766.1)</b>
Basis differences	(0.4)	(22.1)	(35.0)	(57.5)
Presentation differences	4 932.9	-	-	4 932.9
Entity differences	(159.1)	-	-	(159.1)
<b>Actual amount in the Statement of Cash Flow (Statement IV)</b>	<b>7.3</b>	<b>(22.1)</b>	<b>(35.0)</b>	<b>(49.8)</b>

## Note 7: Segment Reporting

### Note 7.1: Statement of Financial Position by Segment

	2015				2014	
	Programme Category Funds	General Fund and Special Accounts	Bilateral Operations and Trust Funds	Inter-Segment Transactions	Total	
<i>(USD million)</i>						
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash, cash equivalents and short-term investments	996.9	289.5	303.0	-	1 589.4	1 676.0
Contributions receivable	2 088.5	73.5	71.4	-	2 233.4	2 099.8
Inventories	553.6	87.1	9.4	-	650.1	578.6
Other receivables	58.8	460.5	6.8	(416.7)	109.4	122.2
	<b>3 697.8</b>	<b>910.6</b>	<b>390.6</b>	<b>(416.7)</b>	<b>4 582.3</b>	<b>4 476.6</b>
<b>Non-current Assets</b>						
Contributions receivable	13.7	19.1	3.7	-	36.5	93.1
Long-term investments	-	462.3	-	-	462.3	448.9
Property, plant and equipment	100.4	41.1	3.0	-	144.5	125.2
Intangible assets	0.1	5.1	-	-	5.2	8.9
	<b>114.2</b>	<b>527.6</b>	<b>6.7</b>	<b>-</b>	<b>648.5</b>	<b>676.1</b>
<b>TOTAL ASSETS</b>	<b>3 812.0</b>	<b>1 438.2</b>	<b>397.3</b>	<b>(416.7)</b>	<b>5 230.8</b>	<b>5 152.7</b>
<b>LIABILITIES</b>						
<b>Current Liabilities</b>						
Payable and accruals	434.2	418.1	78.2	(416.7)	513.8	535.9
Provisions	2.3	-	3.4	-	5.7	6.2
Employee benefits	-	10.6	-	-	10.6	10.4
Loans	-	5.8	-	-	5.8	32.8
	<b>436.5</b>	<b>434.5</b>	<b>81.6</b>	<b>(416.7)</b>	<b>535.9</b>	<b>585.3</b>
<b>Non-current Liabilities</b>						
Employee benefits	-	601.9	-	-	601.9	555.1
Long-term loan	-	83.8	-	-	83.8	89.6
	<b>-</b>	<b>685.7</b>	<b>-</b>	<b>-</b>	<b>685.7</b>	<b>644.7</b>
<b>TOTAL LIABILITIES</b>	<b>436.5</b>	<b>1 120.2</b>	<b>81.6</b>	<b>(416.7)</b>	<b>1 221.6</b>	<b>1 230.0</b>
<b>NET ASSETS</b>	<b>3 375.5</b>	<b>318.0</b>	<b>315.7</b>	<b>-</b>	<b>4 009.2</b>	<b>3 922.7</b>
<b>FUND BALANCES AND RESERVES</b>						
Fund balances	3 375.5	19.5	315.7	-	3 710.7	3 591.3
Reserves	-	298.5	-	-	298.5	331.4
<b>TOTAL FUND BALANCES AND RESERVES, 31 December 2015</b>	<b>3 375.5</b>	<b>318.0</b>	<b>315.7</b>	<b>-</b>	<b>4 009.2</b>	<b>3 922.7</b>
<b>TOTAL FUND BALANCES AND RESERVES, 31 December 2014</b>	<b>3 167.1</b>	<b>433.9</b>	<b>321.7</b>	<b>-</b>	<b>3 922.7</b>	

**Note 7.2: Statement of Financial Performance by Segment**

	2015				2014	
	Programme Category Funds	General Fund and Special Accounts	Bilateral Operations and Trust Funds	Inter-Segment Transactions	Total	
<i>(USD million)</i>						
<b>REVENUE</b>						
Monetary contributions	3 516.9	580.6	150.4	-	4 247.9	4 877.8
In-kind contributions	546.2	13.0	0.6	-	559.8	503.3
Currency exchange differences	(22.5)	(8.4)	(3.2)	-	(34.1)	(64.7)
Return on investments	-	3.4	0.3	-	3.7	1.1
Other revenue	107.9	630.8	(0.2)	(604.9)	133.6	132.9
<b>TOTAL REVENUE</b>	<b>4 148.5</b>	<b>1 219.4</b>	<b>147.9</b>	<b>(604.9)</b>	<b>4 910.9</b>	<b>5 450.4</b>
<b>EXPENSES</b>						
Cash-based transfers distributed	675.9	-	3.2	-	679.1	845.6
Food commodities distributed	1 765.7	397.3	23.0	(401.9)	1 784.1	1 988.5
Distribution and related services	633.3	11.7	10.3	(19.4)	635.9	650.4
Wages, salaries, employee benefits and other staff costs	432.6	287.5	62.2	(11.7)	770.6	850.6
Supplies, consumables and other running costs	140.1	40.8	19.3	(32.9)	167.3	183.5
Contracted and other services	576.0	144.7	31.1	(106.8)	645.0	572.8
Finance costs	-	2.2	-	-	2.2	2.4
Depreciation and amortization	33.1	18.1	1.2	-	52.4	50.3
Other expenses	60.1	43.0	8.8	(32.2)	79.7	70.5
<b>TOTAL EXPENSES</b>	<b>4 316.8</b>	<b>945.3</b>	<b>159.1</b>	<b>(604.9)</b>	<b>4 816.3</b>	<b>5 214.6</b>
<b>SURPLUS (DEFICIT) FOR THE YEAR, 2015</b>	<b>(168.3)</b>	<b>274.1</b>	<b>(11.2)</b>	<b>-</b>	<b>94.6</b>	<b>235.8</b>
<b>SURPLUS (DEFICIT) FOR THE YEAR, 2014</b>	<b>95.1</b>	<b>179.3</b>	<b>(38.6)</b>	<b>-</b>	<b>235.8</b>	

203. 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.

	2015	2014
	<i>USD million</i>	
Cash and cash equivalents	772.2	822.0
Short-term investments	817.2	854.0
<b>Total cash and cash equivalents and short-term investments</b>	<b>1 589.4</b>	<b>1 676.0</b>

204. 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.
205. Of the total PP&E of USD 144.5 million at 31 December 2015 (USD 125.2 million at 31 December 2014), USD 62.0 million relates to acquisitions, net of disposals in 2015 (USD 49.9 million at 31 December 2014).
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

	2015	2014
	<i>USD million</i>	
Obligations for property leases:		
Within 1 year	36.4	37.0
Later than 1 year and not later than 5 years	30.3	42.6
Beyond 5 years	2.2	5.6
<b>Total property leases obligations</b>	<b>68.9</b>	<b>85.2</b>

207. At 31 December 2015, property lease obligations for the WFP Headquarters building in Rome represent 19 percent of the total obligations under the within 1 year category and 26 percent under the later than 1 year and not later than 5 years category (23 percent and 43 percent, respectively, at 31 December 2014). 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 2015, WFP had commitments for the acquisition of food commodities, transportation, services, non-food items, and capital commitments contracted but not delivered as follows:

	2015	2014
	<i>USD million</i>	
Food commodities	208.8	275.7
Transportation – Food commodities	126.8	116.5
Services	110.3	88.8
Non-food items	58.7	57.5
Capital commitments	7.7	14.5
<b>Total open commitments</b>	<b>512.3</b>	<b>553.0</b>

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

#### Note 8.2: Legal or Contingent Liabilities and Contingent Assets

210. There is one material contingent liability related to a potential refund for the amount of USD 17 million requested by a donor in 2014. The donor's request relates to concerns regarding programme implementation, which WFP is addressing in consultation with this donor government. Pending final resolution of this issue no commitments have been made against the donor contribution.
211. There is one material contingent asset resulting from an arbitration award in 2010 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 2.6 million at 31 December 2015).
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 5.5 million, plus interest and costs. Following the required waiver by the United Nations and 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 October 2013, the court rejected their applications for leave to appeal their conviction and sentence. The employees intend to petition the next higher court for leave to appeal, and in the interim one of them has filed two applications in connection with the criminal proceedings that are pending before the South Africa High Court.
215. Enforcement of the arbitral award can only occur following the conclusion of criminal proceedings including the appeals process. At that juncture, WFP will intervene under the relevant sections of the Prevention of Organized Crime Act to seek recovery.

## Note 9: Losses, Ex-gratia Payments and Write-offs

216. 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.”
217. The following table details the *ex-gratia* payments and losses of cash, food commodities and other assets for 2015.

	2015	2014
	<i>USD million</i>	
<i>Ex-gratia</i> payments	0.1	-
Contributions receivable	3.9	4.4
Food commodity losses	11.6	11.8
Non-food item losses	0.3	0.2
Other assets and cash losses	0.2	0.2
	<i>In mt</i>	
Commodity losses (quantity)	14 277	17 220

218. The *ex-gratia* payments mainly pertain to field emergency claims and other critical issues affecting WFP personnel. Contributions receivable relates to the write-off of receivables from donors. The food commodity losses occurred after the related food arrived at the recipient country. The non-food item losses related mainly to warehouse losses. The other assets and cash losses related mainly to write-offs of other receivables from customers and service providers.
219. Fraud reported in 2015 comprised vendor and partner fraud, and cash involving WFP staff and third parties valued at USD 1,182,152 of which USD 234,174 has been recovered to date (USD 850,436 of which nil recovered to date in 2014).

## 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
	<i>USD million</i>						
Key management personnel, 2015	7	6	1.1	0.6	0.3	2.0	0.2
Key management personnel, 2014	5	5	1.1	0.4	0.2	1.7	0.2

220. 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
<i>USD million</i>							
Other senior management, 2015	40	31	4.7	2.5	1.2	8.4	1.5
Other senior management, 2014	33	27	5.0	2.1	1.1	8.2	1.2

221. 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.
222. The tables above detail the number of positions and the number of staff who held these positions over the course of the year. The Executive Board consists of 36 Member States without personal appointment.
223. 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.
224. 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 2.11. Key management personnel are ordinary members of the UNJSPF.
225. During 2015, compensation provided to close members of the family of other senior management amounted to USD 0.7 million (USD 0.8 million in 2014). There was no compensation provided to close members of the key management personnel in 2015 and 2014.
226. Advances are those made against entitlements in accordance with staff rules and regulations and are widely available to all WFP staff.



## Note 11: Third-Party Agreements

Third-party agreements reconciliation	2015		2014	
	<i>USD million</i>			
<b>Opening balance at 1 January</b>		<b>6.5</b>		<b>21.6</b>
Add-back: allowance for doubtful accounts		0.3		0.3
New TPAs set up in the year	85.4		75.2	
Less: receipts/additions during the year	(57.3)	28.1	(80.7)	(5.5)
TPA payables during the year	(85.4)		(69.9)	
Less: disbursements/deductions during the year	50.8	(34.6)	60.3	(9.6)
Total TPA receivables (Note 2.5)		0.3		6.8
Allowance for doubtful accounts		-		(0.3)
<b>Closing balance at 31 December</b>		<b>0.3</b>		<b>6.5</b>

227. A TPA is a legally binding contract between WFP and another party in which WFP acts as an agent to provide goods or services at an agreed price. Transactions relating to TPA are treated as receivables and payables in the Statement of Financial Position. TPA receivables and payables are offset against each other in order to reflect the net position with the third parties.
228. The above table shows the movement of TPA transactions during 2015 showing a net receivable from third parties of USD 0.3 million (USD 6.5 million at 31 December 2014).

## Note 12: Events After Reporting Date

229. WFP's reporting date is 31 December 2015. 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.



## Section II

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*Shashi Kant Sharma*



भारत के नियंत्रक – महालेखापरीक्षक  
COMPTROLLER & AUDITOR GENERAL OF INDIA

No. 468 /18-IR/2016

Date: 5 May 2016

Dear Executive Director,

**Audit Report of the External Auditor on the Financial Statements of the World Food Programme for the year ended 31 December 2015**

I have the honour to transmit the financial statements of the World Food Programme for the year ended 31 December 2015 which were submitted to me in accordance with Financial Regulation 13.3. I have audited these statements and have expressed my opinion thereon. Please find enclosed the audit report which may be transmitted to the Executive Board.

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

Please accept the assurances of my highest consideration.

Yours sincerely,

**Shashi Kant Sharma**  
Comptroller & Auditor General of India  
External Auditor

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

## INDEPENDENT AUDITOR'S REPORT

To  
**The Executive Board**  
**World Food Programme**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the World Food Programme, which comprise the statement of financial position at 31 December 2015, and the statement of financial performance, statement of changes in net assets, statement of cash flow, statement of comparison of budget and actual amounts for the year ended 31 December 2015 and notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements - whether due to fraud or error. In making

those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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


#### **Opinion**

In our opinion, these financial statements present fairly, in all material respects, the financial position of the World Food Programme as at 31 December 2015 and its financial performance and of its cash flows for the year ended 31 December 2015 in accordance with IPSAS.

#### **Report on Other Legal and Regulatory Requirements**

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

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

  
**Shashi Kant Sharma,**  
**Comptroller and Auditor General of India,**  
**External Auditor**

**New Delhi, India**  
**5 May 2016**

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

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

For further information please contact:

Mr. Stephen Hongray  
Director of External Audit  
World Food Programme  
Via Cesare Giulio Viola, 68/70  
00148 Rome, Italy

Tel: 0039-06-6513-2392  
Email: [stephen.hongray@wfp.org](mailto:stephen.hongray@wfp.org)

**Report of the  
External Auditor on the  
Financial Statements  
of the**

**World Food Programme**

**For the year ended December 2015**



## Results of Audit

1. We have audited the Financial Statements of the World Food Programme (WFP) for the year ended 31 December 2015 in accordance with the Financial Regulations and in conformity with International Standards on Auditing.

2. In our opinion, the Financial Statements present fairly in all material respects the financial position of the WFP as on 31 December 2015 and of its financial performance for the period from 1 January 2015 to 31 December 2015. WFP has followed the provisions of International Public Sector Accounting Standards (IPSAS) in preparation and presentation of the Financial Statements.

## Our Programme of Work

3. Our programme of work 2015-2016 was presented to the November 2015 session of the Executive Board. The reports summarising our performance audit work are on:

- the School Feeding Programme; and
- WFP Aviation

4. The above reports have been prepared for the June 2016 session of the Executive Board as scheduled in the Work Plan.

5. In addition to these performance audit reports, our work programme included field visits to 9 out of a total of 81 country offices (COs) and 3 out of a total of 6 regional bureaux (RBs)<sup>1</sup>. We reviewed the operations in these field offices and also undertook substantive testing of transactions, sampled on the basis of a risk assessment in each of the field audits. At the end of each audit, we issued Management Letters to the Secretariat with our findings and recommendations.

## Current Report

6. The current report is on the results of Financial Audit at WFP Headquarters (HQ). Our report contains an assessment of: (a) performance of WFP on key operational and financial parameters; and (b) comments on the Financial Statements. Based on our audit observations, management revised the Financial Statements leading to decrease in surplus for the year by USD 3.4 million, and modified seven disclosures in the Notes to the Financial Statements. In addition, we have made four recommendations in the report. We also reviewed the progress made in implementation of our recommendations on financial audit of the previous years.

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<sup>1</sup> The country offices audited were Bhutan, Chad, Colombia, Democratic Republic of the Congo, Honduras, Kenya, Somalia, the Niger and the Sudan. The regional bureaux at Johannesburg, Nairobi and Panama, were also covered in our field audit.



## **I. Introduction**

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

2. The main objectives of the audit were to verify whether the annual Financial Statements:

- presented fairly in all material respects the financial position of WFP as on 31 December 2015 and of the financial performance of WFP during the year 2015;
- were prepared in accordance with the Financial Regulations and the accounting policies of WFP; and
- were in conformity with International Public Sector Accounting Standards (IPSAS).

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

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

4. Our audit involved entry and exit meetings with senior management, besides discussions and review meetings with officials of the Resource Management Department of WFP.

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

## **II. Responsibility for the Financial Statements**

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

## **III. Responsibility of the External Auditor**

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

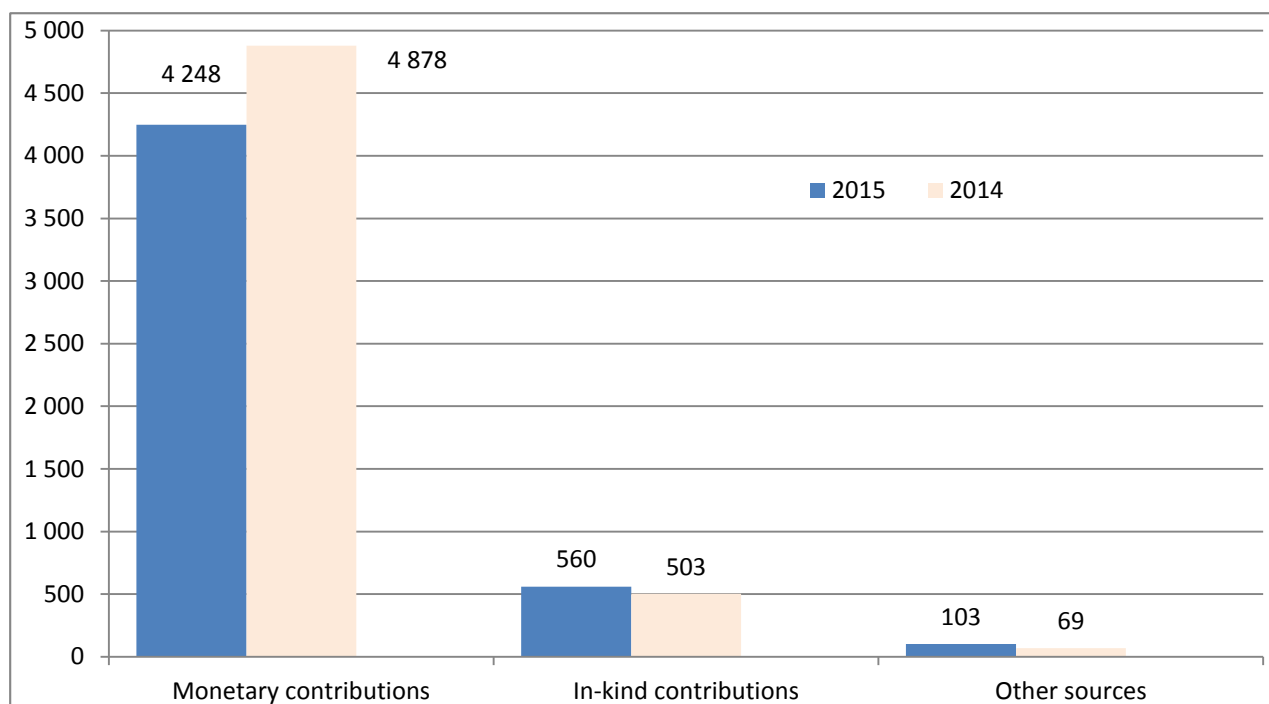
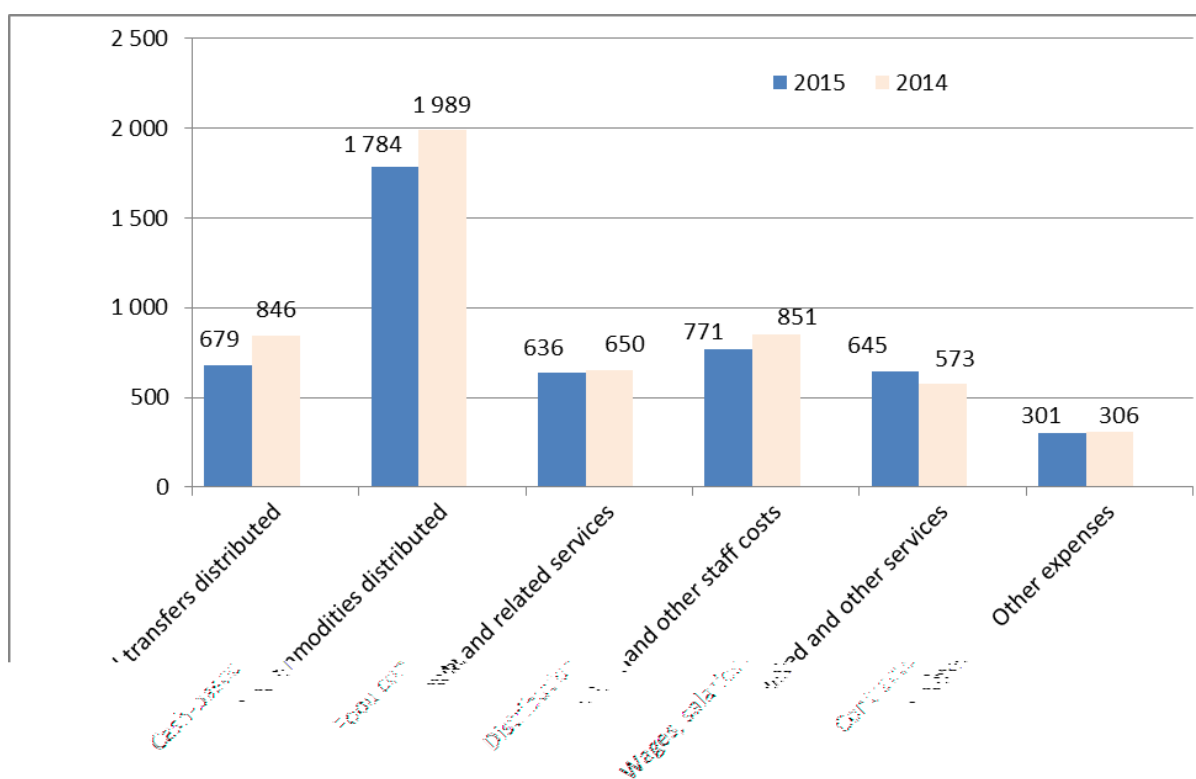
## **IV. Audit Opinion on the 2015 Financial Statements**

8. Audit of the Financial Statements for the financial period 2015 revealed no weakness or errors which I considered material to the accuracy, completeness and validity of the Financial Statements as a whole. Accordingly, I have placed an unqualified audit opinion on the WFP's Financial Statements for the financial period ended 31 December 2015.

## **V. Performance against Key Indicators**

### **Revenue and Expenses**

9. The comparative analysis of revenue and expenses during 2014 and 2015 is shown below in Charts 1 and 2 respectively.

**Chart 1: WFP revenues (USD million)****Chart 2: WFP expenses (USD million)**

**10.** Most of WFP's revenue came from donor contributions, monetary and in-kind, which together constituted 97.9 percent of WFP's total revenue during 2015 (98.7 percent in 2014). The rest came from currency exchange differences, return on investments, revenue generated

from the provision of goods and services and other sources like proceeds from the sale of damaged commodities, etc. The monetary contribution constituted 88.4 percent of the total contributions in 2015 (90.6 percent in 2014).

**11.** The aid component – food commodities as well as cash-based transfers – amounting to USD 2.46 billion accounted for 51.1 percent of WFP’s expenses in 2015 (54.3 percent in 2014), followed by staff costs which represented 16 percent of its expenses during the year 2015 (16.3 percent in 2014). Contracted and other services accounted for 13.4 percent of expenses (11 percent in 2014), while distribution and related services accounted for 13.2 percent of total expenses (12.5 percent in 2014). The rest of expenses (supplies, consumables and other running costs, training and meeting related costs, allowances for doubtful accounts, maintenance of facilities and services, insurance, finance costs, etc.) accounted for 6.3 percent (5.9 percent in 2014).

**12.** Among the expenses, use of cash-based transfers and food commodities distributed decreased by USD 370.9 million (13.1 percent) over 2014. Compared to the previous year, wages, salaries, employee benefits and other staff costs decreased by 9.4 percent in 2015, expenses on supplies, consumables and running costs decreased by 8.8 percent and distribution and related services decreased by 2.2 percent. Expenses on contracted and other services increased by 12.6 percent.

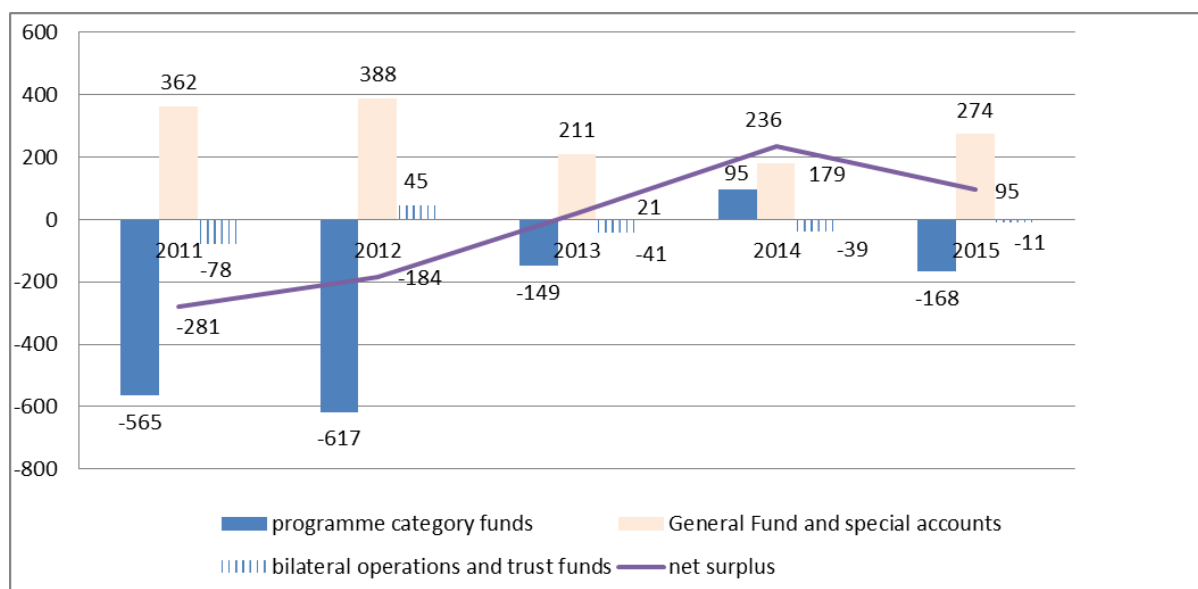
**13.** Total revenue in 2015 was USD 4.91 billion which represented a 9.9 percent decrease compared to 2014 (USD 5.45 billion). While monetary contributions decreased in 2015 by USD 629.9 million (12.9 percent), in-kind contributions increased by USD 56.5 million (11.2 percent). While other revenue and return on investments showed marginal increases of USD 0.7 million and USD 2.6 million in 2015 over the previous year’s levels of USD 132.9 million and USD 1.1 million respectively, the foreign exchange loss element decreased by USD 30.6 million from the last year’s level of USD 64.7 million.

### **Operating Surplus/Deficit**

**14.** Under IPSAS, WFP recognizes contribution as revenue when it is confirmed by donors in writing. Expenses are recognized when goods and services are distributed directly by WFP or once food commodities are handed over to cooperating partners or service providers for distribution.

15. The surplus/deficit is the difference between the revenue and the expenses of WFP during the year. There was an operating net surplus of USD 94.6 million for 2015 against a net surplus of USD 235.8 million in 2014. The surplus /deficit position is shown in Chart 3.

**Chart 3: Overall surplus/deficit position (USD million)**



16. Analysis of the surplus/deficit across different segments is shown in Table 1. While the surplus of USD 95.1 million in 2014 under programme category funds turned into deficit of USD 168.3 million in 2015, it still represented a substantial improvement compared to deficit of USD 617.1 million in 2012.

17. The deficit in programme category funds and bilateral operations and trust funds was offset by a surplus in the General Fund and special accounts to leave a net surplus of USD 94.6 million, as against a surplus of USD 235.8 million in 2014. The decrease in surplus in 2015 was mainly due to the decrease in revenue by USD 539.5 million (9.9 percent) which exceeded the decrease in expenses (USD 398.3 million or 7.6 percent) over 2014. During the two years 2011 and 2012, WFP operations had registered high levels of deficits and restoration of balance between expenses and revenue during 2013 to 2015 is a welcome development.

<b>Table 1: Segment-Wise Financial Performance: 2011–2015 (USD million)</b>					
<b>Segments</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Programme category funds</b>					
Revenue	2 894.1	3 236.1	3 763.5	4 649.0	4 148.5
Expenses	3 458.8	3 853.2	3 912.3	4 553.9	4 316.8
Surplus/deficit	(-) 564.7	(-) 617.1	(-) 148.8	95.1	(-)168.3
<b>Surplus/deficit in other segments</b>					
<b>General Fund and special accounts</b>	361.9	388.0	211.1	179.3	274.1
<b>Bilateral operations and trust funds</b>	(-) 77.9	44.8	(-) 41.3	(-) 38.6	(-) 11.2
<b>Total surplus/deficit</b>	<b>(-) 280.7</b>	<b>(-) 184.3</b>	<b>21.0</b>	<b>235.8</b>	<b>94.6</b>

### Segment-Wise Revenue, Expenses and Surplus/Deficit

18. Among the three segments of WFP activities, viz., programme category funds, General Fund and special accounts and bilateral operations and trust funds, total contributions in 2015 decreased as compared to 2014 in respect of programme category funds and General Fund and special accounts, while contributions in respect of bilateral operations and trust funds increased.

19. In respect of programme category funds, the revenue decreased from USD 4.65 billion in 2014 to USD 4.15 billion in 2015 and expenses decreased from USD 4.55 billion in 2014 to USD 4.32 billion in 2015. As a result, the surplus of USD 95.1 million in 2014 turned to a deficit of USD 168.3 million in 2015.

20. Revenue in respect of the General Fund and special accounts decreased by USD 91 million in 2015 and expenses decreased by USD 185.8 million. The surplus increased from USD 179.3 million in 2014 to USD 274.1 million in 2015 in this segment.

21. Bilateral operations and trust funds showed an increase in total revenues by USD 20.3 million and expenses decreased from USD 166.2 million in 2014 to USD 159.1 million in 2015. The deficit in this segment decreased from USD 38.6 million in 2014 to USD 11.2 million in 2015.

### Assets and Liabilities

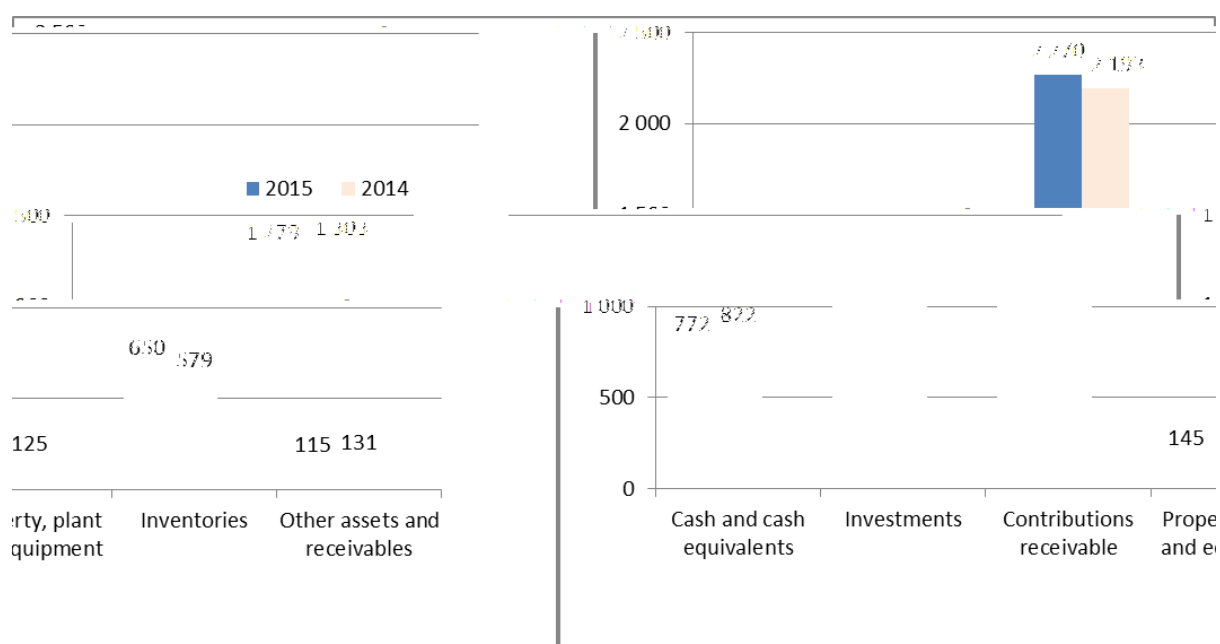
22. The total assets increased by USD 78.1 million during 2015, from USD 5.15 billion in 2014 to USD 5.23 billion in 2015. Major increases were noticed in current portion of contributions receivable (USD 133.6 million), inventories (USD 71.5 million) and property,

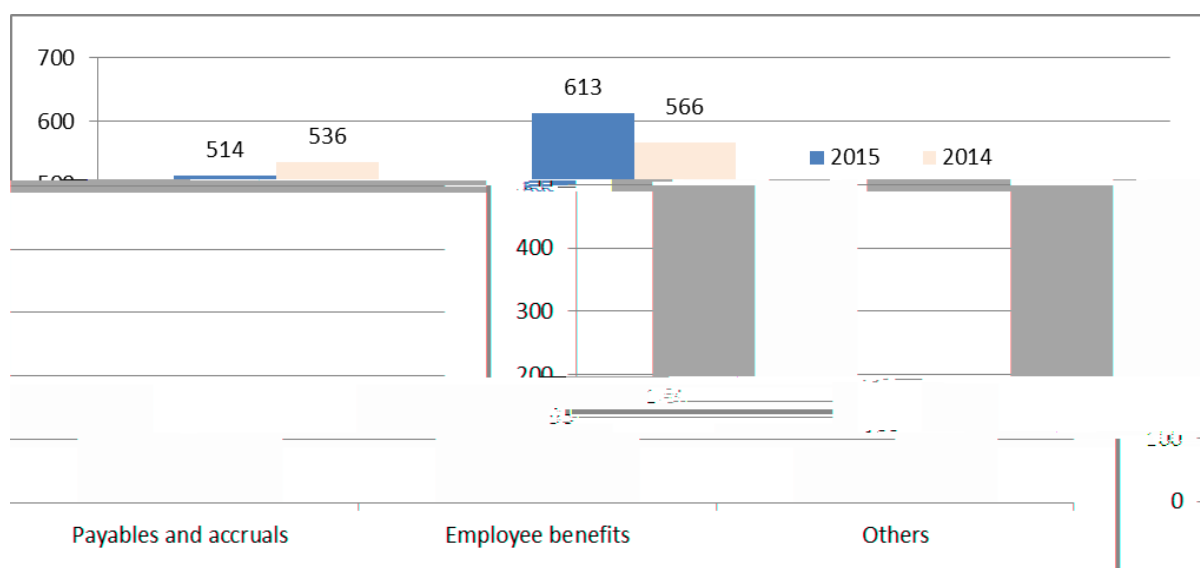
plant and equipment (USD 19.3 million), while a modest decrease was noted in cash and cash equivalents (USD 49.8 million), non-current portion of contribution receivable (USD 56.6 million) and short-term investments (USD 36.8 million). Contributions receivable (current and non-current) constituted 43.4 percent of the total assets, followed by investments (short and long term), constituting 24.5 percent of the total assets.

**23.** Total liabilities decreased by USD 8.4 million from USD 1.23 billion in 2014 to USD 1.22 billion in 2015, mainly on account of decreases in loans (USD 27 million) and in payables and accruals (USD 22.1 million). The non-current portion of employee benefit liabilities increased by USD 46.8 million from USD 555.1 million in 2014 to USD 601.9 million in 2015.

**24.** Of the total employee benefit liabilities of USD 612.5 million, an amount of USD 399.9 million (65.3 percent) was charged against the relevant funds and projects and the balance of USD 212.6 million (34.7 percent) was allocated against the General Fund. Payables and accruals and liabilities on account of employee benefits accounted for 42.1 percent and 50.1 percent respectively of the total liabilities. The net assets of WFP after adjusting liabilities stood at USD 4.01 billion at the end of 2015, registering an increase of USD 86.5 million (2.2 percent) over 2014. Assets and Liabilities of WFP for 2014 and 2015 have been shown in Charts 4 and 5 respectively.

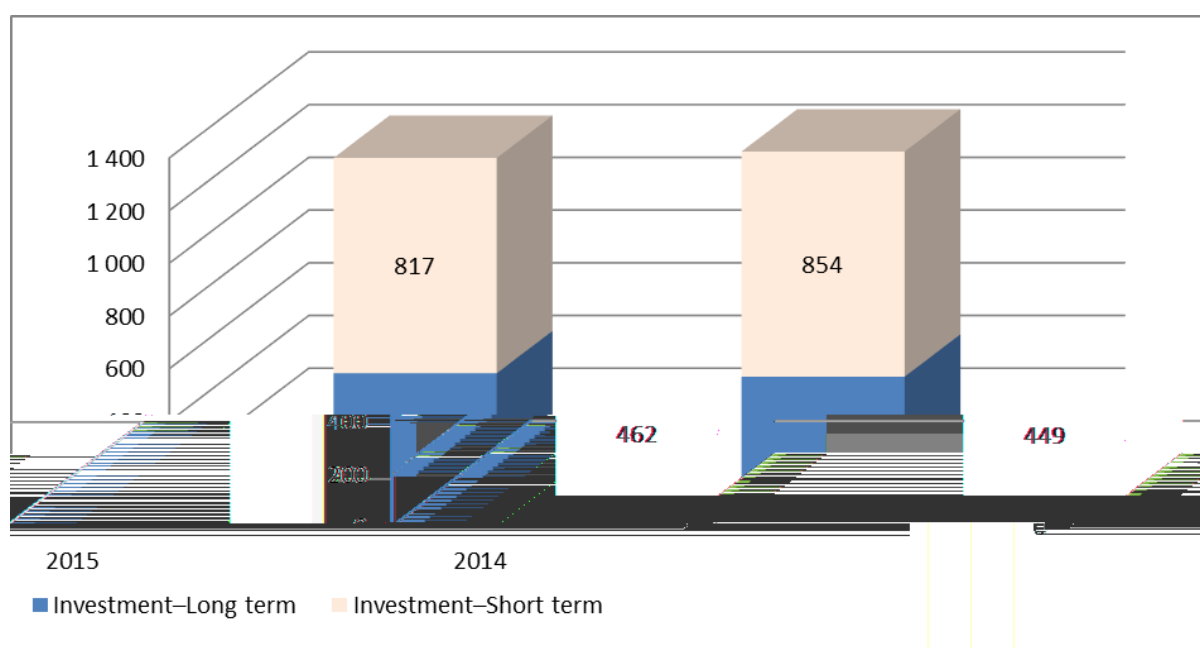
**Chart 4: WFP assets (USD million)**



**Chart 5: WFP liabilities (USD million)**

### Investments and Returns

**25.** Total investments of WFP stood at USD 1.28 billion at the end of 2015 (USD 1.30 billion at the end of 2014), as shown in Chart 6. There was an increase (2.9 percent) in long-term investments, while there was a decrease (4.3 percent) in short-term investments during 2015. Return on investments increased by USD 2.6 million in 2015.

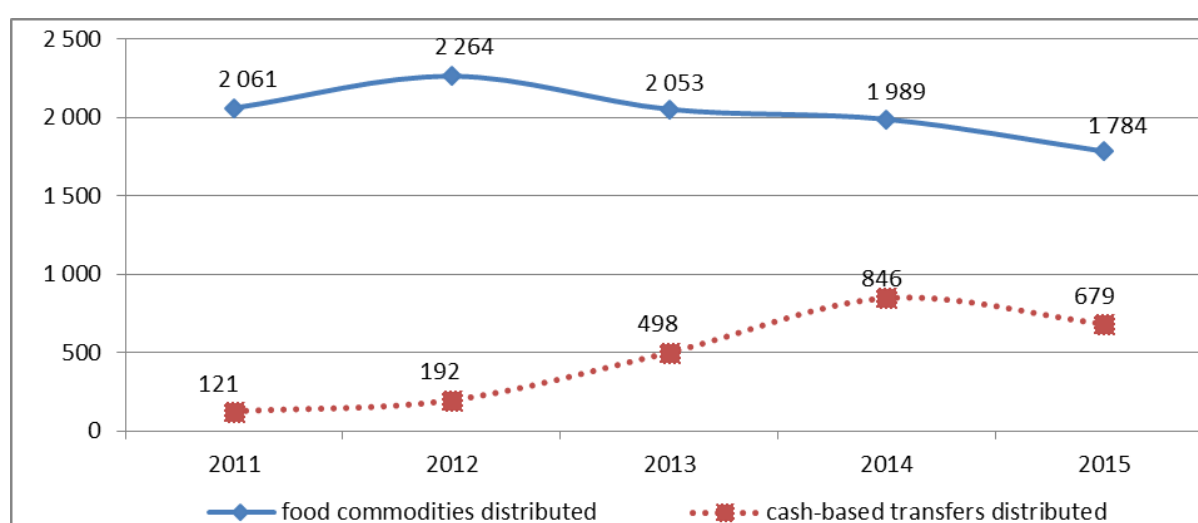
**Chart 6: Investments (USD million)**



## WFP Operations

26. WFP operations concern the distribution of aid either through food or through cash-based transfers. The distribution of aid through these tools – food distribution and cash-based transfers – during the five-year period 2011-2015 is shown in Chart 7, from which it is apparent that WFP has increasingly been using the cash-based transfers tool, with the result that the tonnage of food distributed has been reducing while food aid extended through cash-based transfers has been increasing over recent years. In 2015 both food distribution and cash-based transfers decreased in comparison to 2014.

**Chart 7: WFP operations during 2011 to 2015 (USD million)**



## Fund Balances and Reserves

27. The reserves of WFP stood at USD 298.5 million on 31 December 2015, a decrease of USD 32.9 million compared to 2014 (USD 331.4 million). Fund balances represent the unexpended portion of contributions that are intended to be utilised in future operational requirements of the Programme. These are the residual interest in WFP's assets after deducting all liabilities. Fund balances and reserves increased from USD 3.92 billion in 2014 to USD 4.01 billion as on 31 December 2015.

## Budget Utilisation

28. The budgetary process of WFP has an inherent uncertainty in funding by the contributors. The final budget of WFP for 2015 was USD 8.43 billion. From Table 2 showing utilisation for different components of the budget, it may be seen that except for the Programme Support and Administrative (PSA) budget that covers WFP's indirect support costs that are not linked to any specific operation, the utilisation was low in respect of all other components. For example, in respect of food budget, the utilisation was 53.9 percent, in respect of cash-based

transfers, it was 50.6 percent and in respect of total direct project costs, it was 55 percent. The total final budget utilization in 2015 was 56.5 percent as compared to 58.8 percent in 2014.

<b>Components</b>	<b>Original budget</b>	<b>Final budget</b>	<b>Utilisation –</b>	<b>Utilisation –</b>
	<i>(USD million)</i>		<b>2015 (%)</b>	<b>2014 (%)</b>
<b>Food budget</b>	<b>4 522.6</b>	<b>4 957.5</b>	<b>53.9</b>	<b>56.9</b>
Food transfers	2 568.0	2 871.3	53.3	55.5
External transport	326.3	300.1	43.0	45.6
Landside transport, storage and handling (LTSH)	1 293.6	1 384.3	58.7	60.7
Other direct operational costs (ODOC)	334.7	401.8	49.9	64.1
<b>Cash-based transfers</b>	<b>1 746.7</b>	<b>1 541.2</b>	<b>50.6</b>	<b>54.7</b>
Cash-based transfers	1 591.7	1 386.9	52.2	56.3
Delivery other cash-based transfers	155.0	154.3	23.7	24.5
<b>Capacity development and augmentation</b>	<b>418.6</b>	<b>617.1</b>	<b>65.5</b>	<b>54.7</b>
Direct operational costs	<b>6 687.9</b>	<b>7 115.8</b>	<b>54.2</b>	<b>56.2</b>
Direct support costs	758.0	1 003.9	60.8	65.9
<b>Total direct project costs</b>	<b>7 445.9</b>	<b>8 119.7</b>	<b>55.0</b>	<b>57.3</b>
Regular programme support and administrative costs	281.8	281.8	99.6	99.5
<b>Critical corporate initiatives</b>	<b>9.2</b>	<b>27.2</b>	<b>64.3</b>	<b>95.3</b>
<b>Total indirect costs</b>	<b>291.0</b>	<b>309.0</b>	<b>96.5</b>	<b>99.4</b>
<b>Total</b>	<b>7 736.9</b>	<b>8 428.7</b>	<b>56.5</b>	<b>58.8</b>

29. Management stated that budgetary utilization within the year was constrained by the amount, timing and predictability of contributions, as well as, inherent operational constraints.

## VI. Changes made in the Financial Statements of 2015 at the Instance of Audit

30. During the course of our audit, WFP carried out certain changes/corrections at the instance of audit and their impact on the Financial Statements are given in Table 3 below:

<b>Table 3: Changes and their impact on the Financial Statements at 31 December 2015</b>	
<b>Account heads/notes</b>	<b>Impact increase (+)/decrease (-) (USD million)</b>
Expenses	(+) 3.4
Revenues	0
Surplus for the year	(-) 3.4
Total assets	(-) 1.2
Total liabilities	(+) 2.2

The following notes forming part of the Financial Statements have been modified:

- Note 1: Accounting Policies- paragraph 40
- Note 2.9: Payables and Accruals
- Note 6: Statement of Comparison of Budget and Actual Amounts
- Note 7.1: Statement of Financial Position by Segment
- Note 8.2: Legal or Contingent Liabilities and Contingent Assets
- Note 10: Related Party and Other Senior Management Disclosure
- Note reference added to Statement III

## VII. Audit Observations

### Recognition of undistributed amount of cash-based transfers as receivables

31. As per the accounting policy of WFP on expenses recognition, cash-based transfers handed over to the cooperating partners (CPs) and service providers (SPs) on or before 31 December but which remain to be distributed, are accounted as receivables at the period end.

32. We noted that the undistributed cash held by the CPs or SPs are recognized as a receivable if monthly distribution reports are received and reconciled after year end by the cut-off date, i.e., 15 January. WFP, however, could not confirm that all the undistributed cash held by CPs and SPs was recognised as a receivable at year end with corresponding credit to expense as the final distribution report in all cases was not be available with the country offices within the cut-off date.

33. WFP stated that the CP receivables could be of low amount in a range of USD 1.0 to 3.0 million. It accepted to improve data collection via distribution reports for recording the year-end receivables related to undistributed cash-based transfers held by the CPs.

***Recommendation 1***

WFP may strengthen its systems and procedures for collecting the details of cash-based transfers handed over to the cooperating partners and service providers on or before 31 December but which remain to be distributed at 31 December, and fully account them in the Financial Statements as a receivable at year end with corresponding credit to expense.

34. Management accepted the audit recommendation.

**Reconciliation between WINGS II and the COMPAS/LESS systems and physical stock verification**

35. WINGS II system of WFP records transactions on food commodity stocks until the stage of expensing of inventory while COMPAS/Logistics Execution Support System (LESS) captures the information on the movement of stocks. A physical inventory count on a quarterly basis is undertaken and a reconciliation is performed between WINGS II and the COMPAS/LESS inventory system. Physical inventory counts are also performed at the financial reporting date to identify any discrepancies and a closing adjustment entry is recorded to align the WINGS II system with physical inventory.

36. We observed that as depicted in Table 4, difference in inventory stock between physical counts and as per the inventory system has increased over five years and it was 16,235 mt in 2015.

**Table 4: Differences between physical inventory counts and as per system**

*(In mt)*

<b>Year ended on 31 December</b>	<b>Inventory as per the system</b>	<b>Physical inventory</b>	<b>Difference</b>
2011	1 241 673	1 233 325	8 348
2012	1 130 513	1 122 066	8 447
2013	1 089 601	1 075 619	13 982
2014	930 707	915 322	15 385
2015	1 161 593	1 145 358	16 235

37. WFP stated that it would strengthen the process of reconciliation between WINGS II and the COMPAS/LESS system and physical counts of inventory.

**Recommendation 2**

WFP may strengthen the process of reconciliation between WINGS II and the COMPAS/LESS inventory system and physical counts of inventory.

38. Management accepted the audit recommendation.

**Provision for refund payable and allowances for write-down – projects at financial closure stage**

39. WFP estimates allowance for write-downs and provision for refunds in respect of current year based on the actual write-downs and actual refunds from the past five years. However, write-downs and refunds where the projects are at the financial closure stage as on 31 December are not accounted pending completion of the Standard Project Reports. We noted that the financial closure for 98 projects was completed on or before 31 December 2015, and based on final review completed for 83 such projects, there existed an estimated unspent balance of USD 8,565,509 representing potential refund (USD 1,123,086) and write-down (USD 7,442,423) but the same was not accounted in calculation of allowances.

40. WFP stated that the final amount of the write-down and refund could still be changed based on the fund usage in other existing active projects, but use of an unspent amount from one project to another project may require approval of the concerned donors.

41. We are of the opinion that if estimates as on end date of Financial Statements are further amplified as a result of new information or more experience before the finalisation of annual accounts - like financial closure reports and subsequent completion of the Standard Project Reports in the instant cases - the updated estimates or actual amounts should be considered for accounting allowances for write-down and provision for refunds respectively.

42. WFP stated that these amounts are captured in the estimated allowances which are based on a five year average. WFP agreed to analyse the potential write-down/refund items and evaluate the impact to Financial Statements for the next financial closure.

**Recommendation 3**

WFP may analyse the potential impact of financially closed projects for making allowances for write-down and provision for refunds as on 31 December.

43. Management accepted the audit recommendation.

### **Write-off of food commodities losses**

**44.** Financial Regulation (FR) 12.4 states that the Executive Director may, after full investigation, authorize the writing-off of losses of cash, commodities and other assets. This process had, however, not been followed in the case of write-off of the food commodities losses (USD 11.6 million). We are of the opinion that the write-off of all the amounts should have the approval of the Executive Director who is expected to have a full investigation conducted prior to write-off authorisation.

**45.** WFP stated that processes are in place to review and record post-delivery losses. Its supply chain, support systems and control mechanisms are geared towards achieving zero losses. However, given the volume of metric tons moved annually, losses do occur. Lessons are used to prevent and mitigate future losses. WFP reports to the Executive Board on an annual basis the post-delivery losses through the 'Report on Post-Delivery Losses for the Period'. This report provides information on post-delivery losses in value and quantity, by location and reasons for the loss. It also reports on recoveries thereon. Section 2 of the report looks at WFP's measures and systems for preventing and reducing post-delivery losses and improving loss management.

#### ***Recommendation 4***

WFP may review the Financial Regulation 12.4 to ascertain whether the Executive Director's approval for write-off of the food commodities losses is required.

**46.** Management accepted the audit recommendation.

### **VIII. Fraud and Presumptive Fraud**

**47.** We noted that frauds reported in 2015 to the Office of the Inspector General comprised of vendor and partner fraud, and cash involving WFP staff and third parties valued at USD 1,182,152, of which USD 234,174 had been recovered.

### **IX. Losses, Ex-Gratia Payments and Write-Offs**

**48.** We noted total losses written off amounting to USD 16.1 million in 2015. These included contribution receivable of USD 3.9 million related to write-off of receivables from donors and food commodity losses of USD 11.6 million involving 14,277 mt occurring after the food arrived in the recipient country.

**X. Internal Controls**


49. We draw satisfaction from the process of preparation of Statement on Internal Control initiated in WFP since 2011, whereby assurance from their senior management and Inspector General have been collated to confirm that internal controls were operating effectively in WFP during the year.

**XI. Progress on Implementation of Recommendations of the External Auditor**

50. We reviewed the overall progress made by the Secretariat in responding to audit recommendations presented to the Executive Board on our previous reports on Financial Statements of WFP. All audit recommendations presented in our previous audit reports have been implemented.

**XII. Acknowledgement**

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



**Shashi Kant Sharma**  
**Comptroller and Auditor General of India**  
**External Audit**  
**5 May 2016**





**ANNEX I**

	<b>Name</b>	<b>Address</b>
WFP	World Food Programme	Via Cesare Giulio Viola 68/70 Parco de' Medici 00148 Rome, Italy
General Counsel and Director, Legal Office	Bartolomeo Migone	Via Cesare Giulio Viola 68/70 Parco de' Medici 00148 Rome, Italy
Actuaries	AON Hewitt Associates	45 Glover Avenue, Suite 1 Norwalk CT 06850-1235 United States of America
Principal Bankers	Citibank N.A.	Via dei Mercanti, 12 20121 Milan, Italy
	Standard Chartered Plc	6th Floor, 1 Basinghall Avenue London, EC2V 5DD, U.K.
External Auditor	Comptroller and Auditor General of India	9, Deen Dayal Upadhyaya Marg New Delhi 110124, India

## ACRONYMS USED IN THE DOCUMENT

ASHI	After-Service Health Insurance
ASM	After-Service Medical Plan
BMIP	Basic Medical Insurance Plan
CAG	Comptroller and Auditor General of India
CERF	Central Emergency Response Fund
CO	country office
COMET	country office tool for managing effectively
COMPAS	Commodity Movement Processing and Analysis System
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CP	cooperating partner
CPRF	Compensation Plan Reserve Fund
DOC	direct operational costs
EMG	Executive Management Group
ERM	enterprise risk management
FAO	Food and Agriculture Organization of the United Nations
GCMF	Global Commodity Management Facility
HLCM	High-Level Committee on Management
HQ	Headquarters
IPSAS	International Public Sector Accounting Standard
IRA	Immediate Response Account
ISC	indirect support costs
LESS	Logistics Execution Support System
MICS	Medical Insurance Coverage Scheme
MSCI	Morgan Stanley Capital International
OSRB	other separation-related benefits
PACE	Performance and Competency Enhancement Process
PP&E	property, plant and equipment
PSA	Programme Support and Administrative (budget)
PSAEA	PSA Equalization Account
RB	regional bureau
SP	service provider
STRIPS	United States Treasury Separate Trading of Registered Interest and Principal of Securities
TPA	third-party agreement
UNJSPF	United Nations Joint Staff Pension Fund
UNORE	United Nations Operational Rates of Exchange
WINGS	WFP Information Network and Global System