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Food and Agriculture Organization of the United Nations

Organisation des Nations Unies pour l'alimentation et l'agriculture

Продовольственная и сельскохозяйственная организация Объединенных Наций

Organización de las Naciones Unidas para la Alimentación y la Agricultura

منظمة
الأغذية والزراعة
للأمم المتحدة

FINANCE COMMITTEE

Hundred and Sixty-seventh Session
Rome, 29 - 31 May 2017
Audited Annual Accounts, 2016

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 2016 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 sixth 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” (FC167/9).

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to endorse WFP’s “Audited Annual Accounts, 2016” 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, 2016”.**

WFP
World Food Programme
wfp.org

Executive Board
Annual Session
Rome, 12–16 June 2017

Distribution: General
Date: 12 May 2017
Original: English

Agenda Item 6
WFP/EB.A/2017/6-A/1
Resource, Financial and Budgetary Matters
For approval

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

Audited Annual Accounts, 2016

The Secretariat is pleased to submit the Audited 2016 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/2017/6-I/1).

Draft decision*

The Board:

i) approves the 2016 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 4,387,371.30 during 2016 for the write-off of receivables; and

iii) notes post-delivery losses of commodities during 2016 forming part of the operating expenses for the same period.

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document issued at the end of the session.

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 2016. The External Auditor has given his opinion and report on the 2016 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. In 2016, WFP faced the twin challenges of dealing with a historically high number of complex protracted emergencies (six Level 3 and seven Level 2) and commencing a transformation to contribute to the Sustainable Development Goals (SDGs) and a world without hunger by 2030. The global community recognized WFP's work in such a challenging environment – during the year, WFP received USD 5.8 billion of contribution revenue along with another USD 1.0 billion stipulated for future years and shown as deferred revenue on the Statement of Financial Position – the highest ever for the organization and crucial in pursuing the desired programmatic outcomes.

3. Given the shift to the SDGs and the approval of the Strategic Plan (2017–2021), 2016 was the final year of WFP's work in line with the Strategic Plan (2014–2017). Implementation of all WFP programmes continued to be 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. Performance against strategic and management results during 2016 is covered in the Annual Performance Report.

Financial and Budgetary Analysis

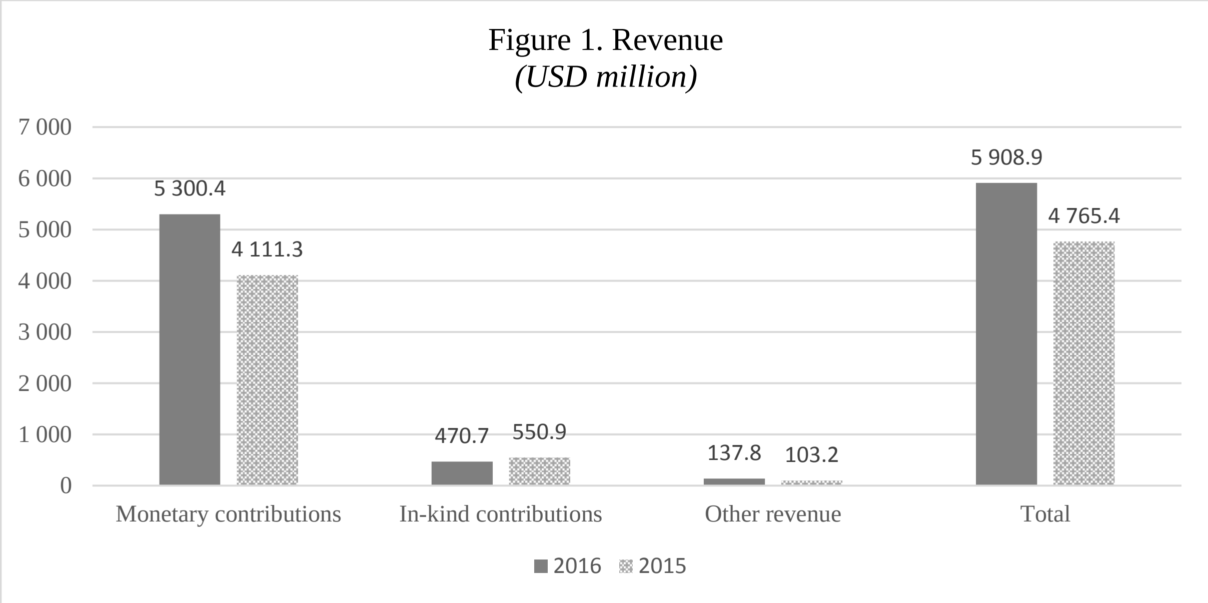
Summary

~~4.~~ Financial and budgetary analysis highlights the increased levels of revenue and expenses and increased level of budget in 2016, reflecting the increasing demand for WFP services to meet the critical needs of beneficiaries. The analysis indicates the financial strength of WFP in terms of net assets (fund balances and reserves) which show an increase over 2015.

5. WFP's financial reporting in line with IPSAS recognizes contribution revenue when confirmed in writing and recognizes expenses when food commodities are delivered or cash-based transfers are distributed. There is an inherent time lag between the recognition of revenue and the recognition of expenses. Resources available for use in 2016 therefore consisted of the fund balances at the end of 2015 and new contributions confirmed by donors during 2016. 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.

Financial Analysis

2016 Financial Performance



6. In 2016, WFP changed its accounting policy for recognition of contributions revenue. When contributions are stipulated for future years, WFP now recognizes cash or receivables and a liability (deferred revenue). Deferred revenue is reduced and revenue is recognized when the contribution year, as stipulated by the donor, starts. Previously, WFP recognized revenue for contributions stipulated for all years including future years and did not recognize deferred revenue. This change in accounting policy has also been applied to the comparative financial statements for 2015, through a restatement of the 2015 comparative figures. Note 1 of the financial statements provides additional detail. For the application in 2016, USD 1.0 billion stipulated for future years is shown as deferred revenue (current and non-current) on the Statement of Financial Position.

7. Total revenue in 2016 was USD 5,908.9 million, an increase of USD 1,143.5 million or 24 percent from the revenue of USD 4,765.4 million in 2015.

8. This significant increase in revenue in 2016 stems primarily from increased monetary contributions received from two major donors for the programmatic response in the Syrian Arab Republic, Egypt, Iraq, Jordan, Lebanon, and Turkey.

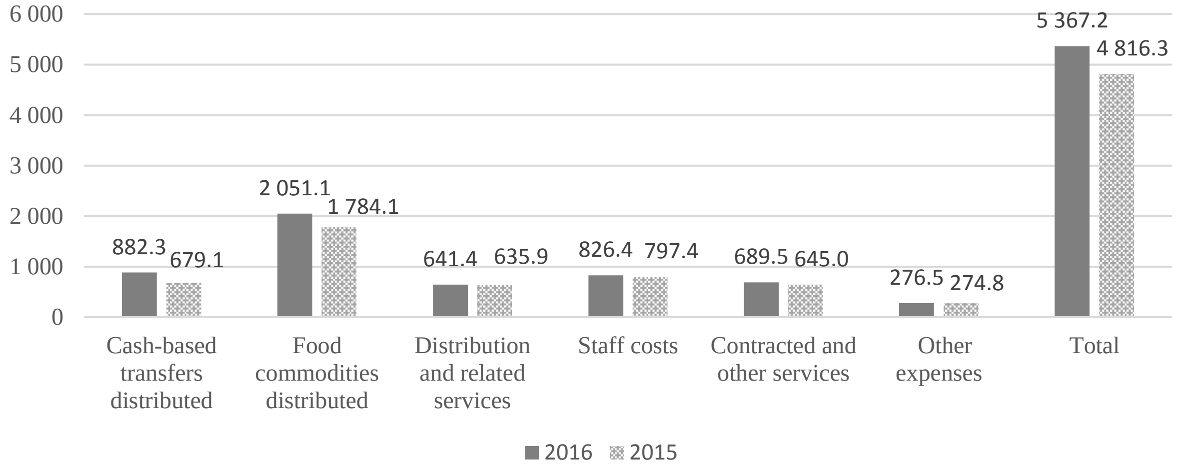
9. The elements of other revenue amounting to USD 137.8 million in 2016 comprised:

   a) currency exchange differences – USD (31.3) million loss;

   b) return on investments – USD 20.3 million gain; and

   c) other revenue, generated from provision of goods and services – USD 148.8 million.

Figure 2. Expenses
(USD million)



10. In 2016, WFP expenses were USD 5,367.2 million, an increase of USD 550.9 million or 11 percent from 2015.

11. Cash-based transfers distributed expense increased to USD 882.3 million from USD 679.1 million in 2015. This 30 percent increase is largely due to the increase of the cash-based transfers distributed in the response to the Syrian and Yemen crises.

12. Food commodities distributed in 2016 increased to 3.7 million mt from the 2015 level of 3.1 million mt with a corresponding value of USD 2,051.1 million, a 15 percent increase from the previous year value of USD 1,784.1 million. Sixty-three percent of the food commodities distributed in tonnage and 56 percent in value are attributable to WFP's large-scale operations in Syrian emergency-related projects, Ethiopia, Yemen, Malawi, South Sudan, the Sudan, and Pakistan.

13. Staff costs increased by 4 percent to USD 826.4 million. The increase in staff costs is mainly due to an increase in the number of international professionals, national staff, and consultants.

14. Contracted and other services increased to USD 689.5 million from USD 645.0 million in 2015, a 7 percent increase mainly due to the increase in expenses related to the services rendered by cooperating partners in South Sudan operations.

15. The "Other expenses" category in Figure 2 above is composed of:

a) Supplies, consumables and other running costs – USD 170.8 million;

b) Finance costs – USD 2.1 million;

c) Depreciation and amortization costs – USD 48.3 million; and

d) Other expenses – USD 55.3 million.

Surplus

16. In 2016, the surplus of revenue over expenses was USD 541.7 million compared to a deficit of USD 50.9 million in 2015. The increase of USD 592.6 million reflects the timing of revenue and expense recognition (mentioned in paragraph 5) and:

a) the significant increase in monetary contributions of USD 1,189.1 million from USD 4,111.3 million in 2015 to USD 5,300.4 million in 2016;

b) the increase in spending of USD 550.9 million from USD 4,816.3 million in 2015 to USD 5,367.2 million in 2016. This increase mainly reflects increased distribution to WFP beneficiaries (an increase in both cash-based transfers and commodities distributed).

2016 Financial Position

Table 1. Summary of Financial Position at 31 December 2016 (*in USD million*)

	2016	2015
Current assets	5 481.3	4 582.3
Non-current assets	1 140.7	648.5
TOTAL ASSETS	**6 622.0**	**5 230.8**
Current liabilities	1 065.2	734.8
Non-current liabilities	1 229.7	725.4
TOTAL LIABILITIES	**2 294.9**	**1 460.2**
NET ASSETS	**4 327.1**	**3 770.6**
Fund balances	3 997.4	3 492.4
Reserves	329.7	278.2
TOTAL FUND BALANCES AND RESERVES	**4 327.1**	**3 770.6**

17. At 31 December 2016, WFP's net assets totalled USD 4,327.1 million, confirming a healthy overall financial position. Of these net assets (Fund Balances and Reserves), USD 3,761 million relate to the Programme's projects, representing approximately five months of operational activity (five months in 2015). 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 are delivered and cash-based transfers are distributed. The increase in Reserves in 2016 was due to a USD 89.0 million increase in the Programme Support and Administrative (PSA) Equalization Account, partly offset by a USD 37.5 million decrease in the Immediate Response Account.

18. Total cash, cash equivalents, and short-term investments increased by USD 364.7 million or 23 percent from USD 1,589.4 million in 2015. The increase is mainly due to a 44 percent increase in short-term investments because of increased donor contributions. WFP's cash, cash equivalents and short-term investments included in the Programme Category Funds segment of USD 1,406.9 million cover four months of operational activity (three months in 2015).

19. Contributions receivable increased by USD 975.4 million or 43 percent from USD 2,269.9 million in 2015. The increase is due to a significant increase in donor contributions in 2016.

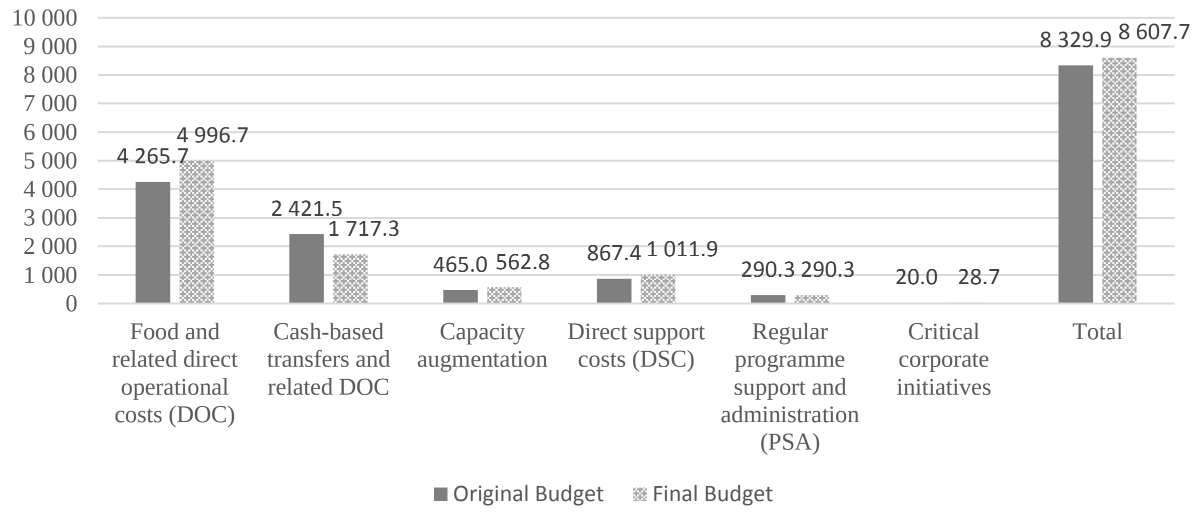
20. The value of WFP's food commodity inventory at the end of 2016 decreased by USD 4.7 million or 0.7 percent from the 2015 value mainly due to a decrease in stocks held of 0.1 million mt or 10 percent from the 2015 stocks (1.1 million mt in 2015 compared to 1.0 million mt in 2016). Using the historical average of commodities distributed, the 1.0 million mt of food commodity in inventory represents three months of operational activity.

21. Total liabilities increased by USD 834.7 million or 57 percent from USD 1,460.2 million in 2015 to USD 2,294.9 million in 2016. This increase is primarily due to the recognition of a deferred revenue liability because of the change in accounting policy on contributions revenue. Deferred revenue reflects contributions revenue stipulated for future years.

Budgetary Analysis

Basis of the budget

Figure 3. Budget for the period ended 31 December 2016
(USD million)



22. The budget figures for direct project costs and indirect costs (PSA budget) disclosed in Financial Statement V – Statement of Comparison of Budget and Actual Amounts are derived from the Programme of Work in the Management Plan (2016–2018). 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.

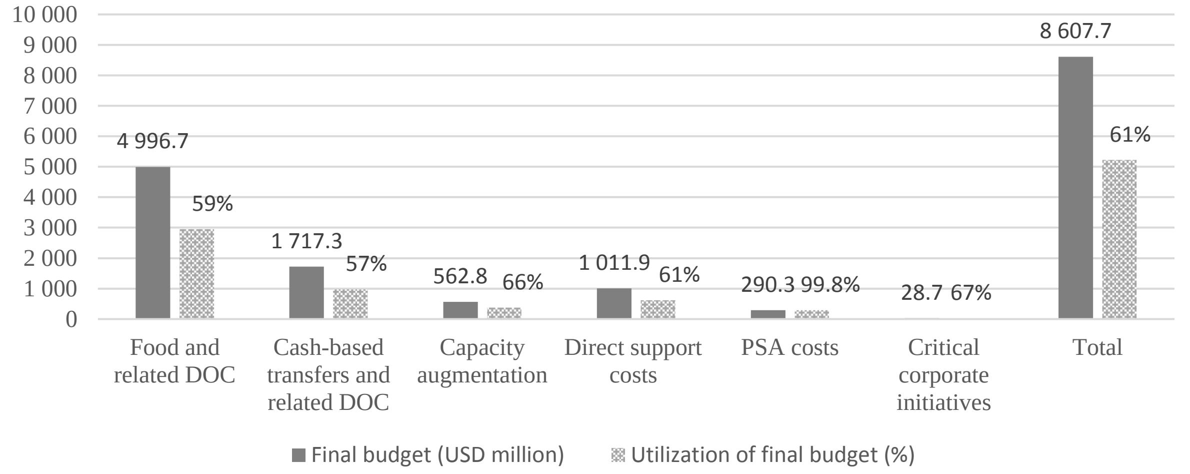
23. In the Management Plan (2016–2018) presented to the Board in November 2015, the projected 2016 Programme of Work was USD 8,329.9 million. This is disclosed in Financial Statement V as “Original Budget”. By the end of 2016, the Programme of Work had expanded to reflect changes in project needs. The final 2016 Programme of Work was 3 percent higher at USD 8,607.7 million, an increase of USD 277.8 million. This is disclosed in Financial Statement V as ‘Final Budget’.

24. Final requirements were impacted by increases and decreases. Significant increases were for Ethiopia (USD 345 million), Haiti (USD 138 million in response to Hurricane Matthew), Nigeria (USD 142 million for the Northeast region emergency), and the Syrian crisis (USD 446 million), representing more than 80 percent of the overall increase in WFP´s programme of work of USD 1.35 billion.

25. Final requirements decreased significantly for Yemen (a 50 percent decrease or USD 610 million less than planned), Iraq (a 38 percent decrease or USD 188 million), and the Niger (a 35 percent decrease or USD 114 million), representing 90 percent of the total decrease of USD 1.07 billion in WFP’s programme of work.

Utilization of the budget

Figure 4. Utilization of the Final Budget for the period ended 31 December 2016
(USD million)



26. 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 2016, WFP's final direct project cost budget was USD 8,288.7 million. Utilization of the final direct project cost budget in 2016 was 59 percent, reflecting these constraints (compared to 55 percent in 2015).

27. This utilization rate was reflected across the various cost components utilization rates as outlined below.

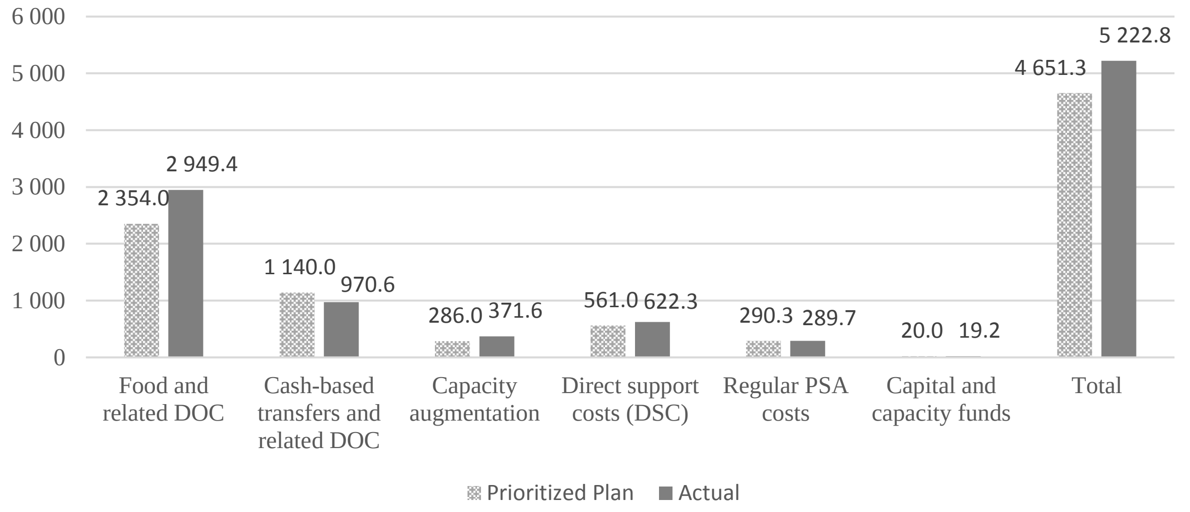
- food and related direct operational costs (DOC) at 59 percent;
- cash-based transfers and related DOC at 57 percent;
- capacity augmentation at 66 percent;
- direct support costs (DSC) at 61 percent.

28. Cash-based transfers represented 29 percent of the original budget (compared with 23 percent in 2015), and 28 percent of the final budget (18 percent in 2015). The largest cash-based transfers' budget is attributable to the programmatic response for Syrian refugees in Egypt, Iraq, Jordan, Lebanon, and Turkey.

29. The final PSA budget consisted of USD 290.3 million for regular expenditure and USD 28.7 million for critical corporate initiatives. Of the final approved regular PSA budget 99.8 percent was utilized by 31 December 2016. Of the final approved critical corporate initiatives, 67 percent was utilized at 31 December 2016.

Prioritized Plan and Actual utilization of final budget

Figure 5. Comparison of Prioritized Plan and Actual for the period ended 31 December 2016 *(USD million)*



30. The Actual costs are greater than the Prioritized Plan due to a higher than expected contributions revenue, driven by the increase in operational requirements to cope with increased needs for relief operations mainly in Ethiopia and in the Syrian region that resulted in an increase in the food transfers, capacity augmentation activity, and DSC.

Enhancing Transparency and Accountability

31. 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.

32. 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.

33. The Executive Management Group (EMG) meets 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.

34. WFP has implemented Committee of Sponsoring Organizations of the Treadway Commission (COSO)-based internal control and enterprise risk management (ERM) frameworks. Following the 2015 approval of the new ERM policy by the Executive Board, WFP updated its Risk Appetite Statement in early 2016, setting out the vision for how risks are viewed within the organization and incorporating themes and issues that have emerged from operational risk analyses as well as quarterly EMG meetings. All WFP offices continue to manage their respective risk registers, escalating risks as required in line with existing managerial structures. Corporate risks reflect the challenges that WFP encounters in achieving its mandate globally. With the implementation of the Strategic Plan (2017–2021) and accompanying polices rolled out through the Integrated Road Map (see below), WFP will also strengthen its risk management culture and practice. Revisions to the Corporate Risk Register, in order to assess challenges in meeting the Strategic Goals set out in the Strategic Plan (2017–2021), will make greater use of day-to-day management processes as well as using oversight and evaluation findings as a foundation to designing and improving risk mitigation measures.

35. The Assistant Executive Director, Resource Management and Chief Financial Officer oversees 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. This Statement on Internal Control is issued with the annual financial statements and provides specific assurance on the effectiveness of internal control.

36. 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.

37. WFP has adopted clear policies related to the public disclosure of key oversight information. Evaluation reports dating back to 2000 can be found on WFP's external website and the accompanying management responses since 2009. In addition, since late 2012 internal audit and inspection reports are posted on WFP's external website within thirty days of their publication.

Integrated Road Map

38. The Integrated Road Map is comprised of four elements: the Strategic Plan (2017–2021), the Policy on Country Strategic Plans, the Financial Framework Review, and the Corporate Results Framework. Together, these interrelated components define the transformative changes required to facilitate and demonstrate WFP's contribution to achieving the goals of the 2030 Agenda. The holistic approach will strengthen WFP's emergency response and will allow the organization to design and implement coherent portfolios rather than the project-based approach. The Executive Board approved the Integrated Road Map at its 2016 Second Regular Session.

39. The objective of the Financial Framework Review is to maximize operational effectiveness through realistic financial planning, enhanced accountability, streamlined processes, and harmonized financial and results frameworks. Building on the extensive work performed at the country office level in 2015, WFP developed a country portfolio budget model aligned to the Country Strategic Plan framework and the Corporate Results Framework.

40. The country portfolio budget structure is results-oriented and creates a 'line of sight' from resources utilized to results achieved for better performance management. The new cost structure will enhance visibility and transparency and facilitate communication of operational results and value for beneficiaries. It provides a unique opportunity to clarify roles, responsibilities, and accountability across functions and geographic locations and further embed risk management in WFP's operations. In 2016, the prototype country portfolio budget structure was tested and assessed in eight country offices[1] and business requirements were identified for reconfiguration of the WFP Information Network and Global System (WINGS) to support the new structure. The country portfolio budget structure may be refined in 2017 based on lessons learned from the initial waves of approved Country Strategic Plans.

41. Standardizing resource-based implementation plans was a second work stream of the Financial Framework Review (FFR). In 2016, nine country offices[2] piloted implementation plans as an internal management tool to improve planning and performance management and enable country offices to make more effective use of resources against planned outcomes. Based on the success of the pilots, every country office prepared a resource-based implementation plan for 2017. These plans were aggregated to create the 2017 global prioritized plan of work presented in the Management Plan (2017–2019).

[1] Colombia, Indonesia, Jordan, Kenya, the Niger, Uganda, Yemen and Zimbabwe

[2] Ethiopia, Guatemala, Kenya, Lesotho, Mali, Nicaragua, Pakistan, the Sudan and Zimbabwe

42. The third work stream under the FFR – macro-advance financing – seeks to improve funding predictability, efficiency, and effectiveness by providing aggregated budget authority earlier in the process. The concept was piloted in five country offices in 2016. A total of USD 100.7 million was advanced from the Internal Project Lending facility. Repayment is ongoing and lessons learned and potential gains in efficiency and associated risks will be assessed and reported in 2017.

Financial Risk Management

43. 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.

44. 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.

45. WFP has also made significant efforts to enhance its ability to minimize and mitigate the potential financial risks that surround cash-based transfer (CBT) operations. The 'Cash-Based Transfer: Financial Management Manual', released in July 2016, provides guidance on CBT-related financial management, accounting policies and procedures and promotes compliance with the corporate Internal Control Framework. New guidance materials and risk assessment tools at both, macro and micro level have been developed or enhanced to support country offices in their ability to identify and respond to potential risks that may impact CBT operations.

46. WFP's employee benefits liabilities were USD 660.1 million at 31 December 2016. WFP sets aside assets for the long-term employee benefits liabilities in the form of cash and long-term investments (bonds and equities). In accordance with the current funding plan approved by the Board in 2010, an incremental annual funding of USD 7.5 million is included in the standard staff costs over a 15-year period starting in 2011, with a view towards achieving a fully funded status of the long-term employee benefits liabilities. WFP determines the funding level based on the gross long-term employee benefits liabilities. As at 31 December 2016, the level of assets set aside (USD 456.4 million) for the funding of the gross long-term employee benefits liabilities (USD 694.9 million) represents a 66 percent funding level. This is a decrease from the 70 percent funding level in 2015 and is primarily due to an increase in the gross long-term employee benefits liabilities given the current lower discount rates used to value the liabilities. Due to the lower interest rates, impacting both the discount rate for the liability and the rate of return of investment, the fully funded status as targeted in 2025 may not be achievable. The Secretariat will conduct an asset-liability study in 2017 to determine whether any revisions to the funding policy approved by the Board in 2010 are to be proposed.

47. At the United Nations system level, the issue of the significant level of After-Service Health Insurance (ASHI) liabilities and the related funding was recognized. Pursuant to the General Assembly (GA) resolution 68/244, in which the GA requested the Secretary-General (SG) to undertake a survey of current health-care plans for active and retired staff in the United Nations system, the SG submitted a report on managing after-service health insurance liabilities to the GA at its Seventieth Session (A/70/590). The report was largely informed by the work of a United Nations inter-agency working group on ASHI, of which WFP is an active member, and it explored options to increase the efficiency of the health insurance plans and contain the related costs. During the period since the Seventieth Session of the GA, the working group prioritized the recommendations endorsed by the GA in relation to which its work stands to produce the greatest impact on ASHI liabilities in the short term. Updates on previous recommendations and additional recommendations of the working group were reviewed by the Advisory Committee on Administrative and Budgetary Questions (ACABQ), requesting the SG to maintain the working group and report its finding to the GA during its Seventy-third Session.

Sustainability

48. 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.

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

Administrative Matters

50. 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 to this document.

Responsibility

51. 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 2016.

Statement I — Statement of Financial Position at 31 December 2016

Statement II — Statement of Financial Performance for the year ended 31 December 2016

Statement III — Statement of Changes in Net Assets for the year ended 31 December 2016

Statement IV — Statement of Cash Flow for the year ended 31 December 2016

Statement V — Statement of Comparison of Budget and Actual amounts for the year ended 31 December 2016

Notes to the Financial Statements at 31 December 2016.

Ertharin Cousin

Executive Director

Rome, 27 March 2017

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 exposes WFP to operating environments and situations where there is a high level of inherent risk, including in terms of the security of its employees and, in some cases, the ability to maintain the highest standards of internal control.

4. Internal control is a key role of management and an integral part of the overall process of managing operations. 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 guidance issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. 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.

6. Following the 2015 approval of the new enterprise risk management policy by the Executive Board, WFP updated its Risk Appetite Statement in early 2016, setting out the vision for how risks are viewed within the organization and incorporating themes and issues that emerged from operational risk analyses as well as quarterly Executive Management Group meetings. WFP offices manage their respective risk registers, escalating risks as required in line with existing managerial structures. Corporate risks reflect the challenges that WFP encounters in achieving its mandate globally. As WFP implements its Strategic Plan (2017–2021) and accompanying policies, revisions to the Corporate Risk Register will consider WFP's role in contributing to the achievement of Sustainable Development Goals, as well as using oversight and evaluation findings as a foundation to designing and improving risk mitigation measures. The

Corporate Risk Register is shared with the WFP Audit Committee and is used as a basis for briefings to the Executive Board.

7. 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.

8. Following the issuance of WFP's Anti-Fraud and Anti-Corruption (AFAC) Policy in May 2015, WFP enhanced its focus on countering fraud and corruption through: i) appropriate internal checks and balances; ii) personnel training and awareness; iii) due diligence practices in the recruitment of WFP personnel and the hiring of contractors; and iv) internal and external auditing controls with effective inspections and investigations. WFP introduced learning and development opportunities on the risk of fraud and corruption, including a mandatory online training course for all employees on prevention of fraud, corruption and sexual exploitation and abuse, which is available in four languages and aims to increase awareness of the risks of fraud and corruption and develop skills for understanding, detecting, preventing and reporting such practices.

9. In 2016, WFP introduced a mandatory ethics training programme entitled "Ethics and Standards of Conduct at WFP," the objective of which is to ensure that all WFP personnel understand standards of conduct as expressed in the Charter of the United Nations, the Standards of Conduct for the International Civil Service, the Staff Regulations and Rules, the WFP Code of Conduct, and other administrative issuances.

10. In line with its commitment to a proactive approach to countering fraud, WFP piloted the use of Proactive Integrity Reviews (PIRs) in 2016 as a tool to examine WFP's business processes or operations to assess their susceptibility to fraud, corruption and/or other wrongdoing. Through the PIRs, WFP identified a number of weaknesses in management oversight and internal control lapses in procurement and other functions, all of which have been or are being addressed and some of which led to formal investigations.

11. In 2017, WFP plans to establish a management-side anti-fraud function to complement the independent activities of the Inspector General and Oversight Office (OIG). Following the completion of a comprehensive fraud risk assessment by OIG, WFP will prepare an action plan to further integrate anti-fraud controls into organizational frameworks and operational management.

Review of the Effectiveness of Internal Control

12. 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 Headquarters divisions. This is a 100 percent compliance rate. Submissions were subject to at least one higher level of review. As in previous years, 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 2016 assurance statement included a new question on the implementation of the Evaluation Policy (2016–2021), as well as updated questions on ethics, gender, human resources, fraud and information technology.

    ii) **The Assurance Opinion from the Office of 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.

iii) **Other evidence,** including oversight recommendations from Internal Audit, External Audit and the United Nations Joint Inspection Unit, Corporate Risk Register and global risk profile reports, and meetings of the Audit Committee, which 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 2016

13. Two significant risks and internal control issues arose during 2016:

a) **Enterprise risk management and oversight.** WFP's internal management systems and oversight mechanisms are in place to uphold high standards of integrity, operational efficiency and effectiveness. It became evident during 2016 that in light of the tightening risk environment in which WFP operates, there is a need to strengthen enterprise risk management and oversight. "Full implementation of the enterprise risk management strategy" was raised as an issue in the 2011 Statement on Internal Control and closed in the 2014 Statement on Internal Control. WFP recognizes its responsibility to ensure that robust enterprise risk management processes are effective in all operating environments, particularly where there may be unique challenges due to the impact of conflict or natural disasters. Corporate analysis indicates that some country offices and Headquarters divisions do not formally and regularly assess risks to the achievement of their objectives. In their annual assurance opinion, the Office of the Inspector General highlighted the need for strengthening organizational risk assessment and management processes, tools and guidance, including fraud risk assessment, and ensuring that they are embedded in WFP's day-to-day processes. WFP will continue to strengthen organizational risk management and management oversight during 2017, particularly addressing the first and second lines of defence.

b) **Talent management and workforce planning.** Another issue that arose during 2016, reflecting the persisting level of Level 3 and Level 2 emergencies, was the need to improve talent management and workforce planning. WFP's 2014 People Strategy, which is a blueprint for how WFP intended to reinforce, build, retain, and recruit its workforce, has not fully addressed the staffing needs throughout the organization. Some country offices classified as hardship duty stations experienced challenges in attracting and retaining qualified staff, particularly in conflict areas. In other cases, inadequate staff skills were attributed to lack of training due to insufficient funds. Over-reliance on short-term staff resulted in high turnover and gaps in knowledge retention. The Office of the Inspector General also highlighted significant gaps in respect of workforce planning and talent management not being fully introduced, although they did observe good practices and positive developments in this area. They identified the need for organizational guidance, and drew attention to issues associated with the use of short-term staff.

Issues Reported in the 2015 Statement on Internal Control

14. The 2015 Statement on Internal Control drew attention to two improvement areas. Significant progress has been made in both areas; however, further work is needed.

a) **Improving operational monitoring and review systems**. The 2015 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 corporate country office tool for managing effectively (COMET) continued during 2016. COMET was rolled out globally in 2016 and all 2016 Standard Project Reports (SPRs) were generated using COMET data through Standard Project Report Intelligent Next Generation (SPRING). A new directive on the use of COMET for programme design, implementation, and monitoring and performance management was issued during April 2016. During 2017, WFP will modify COMET in line with the approved Integrated Road Map processes.

The new Corporate Results Framework, which is being rolled out as part of the Integrated Road Map, guides the planning, implementation and monitoring of WFP's programmes.

The Office of the Inspector General has reported in its 2016 Assurance Opinion that monitoring and evidence-based results remain an improvement area for WFP, notwithstanding positive practices and developments noted in this area.

WFP will continue to prioritize this matter during 2017.

b) **The impact of an unusually high number of Level 3 and Level 2 emergencies on internal control in WFP.** During 2016, WFP continued to respond to multiple, prolonged and simultaneous emergencies classified as either Level 3 or Level 2. 2016 saw the activation and/or extension of Level 3 emergency responses in Iraq, Nigeria, South Sudan, Southern Africa, the Syrian Arab Republic and Yemen, as well as Level 2 emergencies in the Central African Republic, Democratic Republic of the Congo, Ecuador, Libya, Mali and Ukraine. The 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 inability of WFP to meet its humanitarian commitments, due in part to a proliferation of crises, continues to feature on the Corporate Risk Register.

The Office of the Inspector General has also reported in their 2016 Assurance Opinion on: i) potential overstretching of resources across the organization; ii) the inability and inadequacy of the organization's emergency management apparatus to cope with these multiple demands and ineffective scale-up of initial emergency responses when required; and iii) the possible de-prioritization of other important areas and initiatives.

During 2017, 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.

15. 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 2016. During 2017, WFP management will emphasize oversight for the key issues identified by the Office of the Inspector General in their 2016 Assurance Opinion: a) organization-wide risk management and management oversight; b) cash-based transfers; c) stretched capacity; and d) talent management and workforce planning.

Statement

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

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 2016 in line with COSO's Internal Control - Integrated Framework (2013).

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

Ertharin Cousin

Executive Director Rome, 27 March 2017

WORLD FOOD PROGRAMME

STATEMENT I

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

(USD million)

	Note	2016	2015 (restated)
ASSETS			
Current assets			
Cash and cash equivalents	2.1	777.5	772.2
Short-term investments	2.2	1 176.6	817.2
Contributions receivable	2.3	2 756.9	2 233.4
Inventories	2.4	643.2	650.1
Other receivables	2.5	127.1	109.4
		5 481.3	**4 582.3**
Non-current assets			
Contributions receivable	2.3	488.4	36.5
Long-term investments	2.6	506.3	462.3
Property, plant and equipment	2.7	140.3	144.5
Intangible assets	2.8	5.7	5.2
		1 140.7	**648.5**
TOTAL ASSETS		**6 622.0**	**5 230.8**
LIABILITIES			
Current liabilities			
Payables and accruals	2.9	557.8	513.8
Deferred revenue	2.10	486.9	198.9
Provisions	2.11	7.0	5.7
Employee benefits	2.12	7.8	10.6
Loan	2.13	5.7	5.8
		1 065.2	**734.8**
Non-current liabilities			
Deferred revenue	2.10	499.3	39.7
Employee benefits	2.12	652.3	601.9
Loan	2.13	78.1	83.8
		1 229.7	**725.4**
TOTAL LIABILITIES		**2 294.9**	**1 460.2**
NET ASSETS		**4 327.1**	**3 770.6**
FUND BALANCES AND RESERVES			
Fund balances	2.15	3 997.4	3 492.4
Reserves	2.15	329.7	278.2
TOTAL FUND BALANCES AND RESERVES		**4 327.1**	**3 770.6**

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

Ertharin Cousin	Manoj Juneja
Executive Director	Assistant Executive Director and Chief Financial Officer
Rome, 27 March 2017	

WORLD FOOD PROGRAMME

STATEMENT II

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2016

(USD million)

		2016	2015 (restated)
REVENUE			
Monetary contributions	3.1	5 300.4	4 111.3
In-kind contributions	3.2	470.7	550.9
Currency exchange differences	3.3	(31.3)	(34.1)
Return on investments	3.4	20.3	3.7
Other revenue	3.5	148.8	133.6
TOTAL REVENUE		**5 908.9**	**4 765.4**
EXPENSES			
Cash-based transfers distributed	4.1	882.3	679.1
Food commodities distributed	4.2	2 051.1	1 784.1
Distribution and related services	4.3	641.4	635.9
Wages, salaries, employee benefits and other staff costs	4.4	826.4	797.4
Supplies, consumables and other running costs	4.5	170.8	167.3
Contracted and other services	4.6	689.5	645.0
Finance costs	4.7	2.1	2.2
Depreciation and amortization	4.8	48.3	52.4
Other expenses	4.9	55.3	52.9
TOTAL EXPENSES		**5 367.2**	**4 816.3**
SURPLUS (DEFICIT) FOR THE YEAR		**541.7**	**(50.9)**

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 2016

(USD million)

	Note	Accumulated surplus/fund balances	Surplus (Deficit)	Reserves	Total net assets
TOTAL NET ASSETS at 31 December 2015		**3 616.1**	**94.6**	**298.5**	**4 009.2**
Change in Accounting Policy	1	(72.8)	(145.5)	(20.3)	(238.6)
TOTAL NET ASSETS at 31 December 2015 (restated)		**3 543.3**	**(50.9)**	**278.2**	**3 770.6**
Allocation of the deficit for 2015		(50.9)	50.9	-	-
Movements in fund balances and reserves in 2016					
Transfer from/to reserves	2.15	(51.5)	-	51.5	-
Net unrealized gains on long-term investments recognized directly within fund balance	2.6 / 2.15	14.8	-	-	14.8
Surplus for the year		-	541.7	-	541.7
Total movements during the year		**(36.7)**	**541.7**	**51.5**	**556.5**
TOTAL NET ASSETS at 31 December 2016		**3 455.7**	**541.7**	**329.7**	**4 327.1**

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 2016
(USD million)

	Note	2016	2015 (restated)
Cash flows from operating activities:			
Surplus (deficit) for the year		541.7	(50.9)
Adjustments to reconcile surplus (deficit) to net cash flows from operating activities			
Depreciation and amortization	2.7/2.8	48.3	52.4
Unrealized (gain) loss on short-term investments	2.2	(0.8)	2.1
Unrealized (gain) on long-term investments	2.6	(0.3)	(8.3)
(Increase) in amortized value of long-term investments	2.2/2.6	(3.9)	(4.1)
(Decrease) in amortized value of long-term loan	2.13	(0.5)	(0.5)
Interest expense on long-term loan	2.13	2.6	2.7
(Increase) decrease in inventories	2.4	6.9	(71.5)
(Increase) in contributions receivable	2.3	(975.4)	(77.0)
(Increase) decrease in other receivables	2.5	(16.4)	12.7
(Increase) in property, plant and equipment (donated in kind)	2.7	(8.2)	(20.3)
(Decrease) increase in payables and accruals	2.9	44.0	(22.1)
Increase in deferred revenue	2.10	747.6	145.5
Increase (decrease) in provisions	2.11	1.3	(0.5)
Increase in employee benefits	2.12	47.6	47.0
Net cash flows from operating activities		434.5	7.2
Cash flows from investing activities:			
(Increase) decrease in short-term investments	2.2	(350.9)	42.5
(Increase) decrease in accrued interest receivable	2.5	(1.3)	0.1
(Increase) in long-term investments	2.6	(32.7)	(16.9)
(Increase) in property, plant and equipment	2.7	(34.6)	(46.4)
(Increase) in intangible assets	2.8	(1.8)	(1.3)
Net cash flows from investing activities		**(421.3)**	**(22.0)**
Cash flows from financing activities:			
Interest paid on loan	2.13	(2.6)	(2.7)
Repayment of annual principal on loan	2.13	(5.3)	(5.3)
Repayment of loan		-	(27.0)
Net cash flows from financing activities		**(7.9)**	**(35.0)**
Net increase (decrease) in cash and cash equivalents		**5.3**	**(49.8)**
Cash and cash equivalents at beginning of the year	2.1	**772.2**	**822.0**
Cash and cash equivalents at end of the year	2.1	**777.5**	**772.2**

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 2016

(USD million)

	Note	Budget Amount		Actual on Comparable basis	Difference: Final budget and actual	Prioritized Plan
		Original Budget	**Final Budget**			
	6					
Food and related DOC		4 265.7	4 996.7	2 949.4	2 047.3	2 354.0
Cash-based transfers and related DOC		2 421.5	1 717.3	970.6	746.7	1 140.0
Capacity augmentation		465.0	562.8	371.6	191.2	286.0
Direct support costs		867.4	1 011.9	622.3	389.6	561.0
Subtotal direct project costs		8 019.6	8 288.7	4 913.9	3 374.8	4 341.0
Regular programme support and administrative costs		290.3	290.3	289.7	0.6	290.3
Critical corporate initiatives		20.0	28.7	19.2	9.5	20.0
Subtotal indirect costs		310.3	319.0	308.9	10.1	310.3
TOTAL		8 329.9	8 607.7	5 222.8	3 384.9	4 651.3

The accompanying notes form an integral part of these financial statements

* Prepared on a commitment basis

Notes to the Financial Statements at 31 December 2016

Note 1: Accounting Policies

Basis of Preparation

1. The financial statements of WFP have been prepared on the accrual basis of accounting in accordance with IPSAS using the historic cost convention, modified by the inclusion of investments at fair value. Where an IPSAS does not address a particular issue, the appropriate International Financial Reporting Standard (IFRS) has been applied.

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

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

Cash and Cash Equivalents

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

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

Financial Instruments

6. 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.

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

8. 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.

9. 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.

10. 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.

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

Inventories

12. 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.

13. The cost of food commodities includes purchase cost or fair value[3] if donated in-kind and all other costs incurred in bringing the food commodities into WFP's custody at their point of first entry into a recipient country where they become distributable. In addition, any significant costs of conversion such as milling or bagging are included. Cost is determined on the weighted average basis.

Contributions Receivable

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

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

16. 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.

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

Property, Plant and Equipment

18. 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:

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

19. 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.

[3] 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.

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

Intangible Assets

21. 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.

22. 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

23. 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.

24. WFP is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF or the Fund), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to employees. The Fund is a funded, multi-employer defined benefit plan. As specified by Article 3 (b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

25. The Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the plan. WFP and the UNJSPF, in line with the other participating organizations in the Fund, are not in a position to identify WFP’s respective proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence WFP has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25. WFP’s contributions to the Fund during the financial period are recognized as expenses in the Statement of Financial Performance.

Provisions and Contingent Liabilities

26. 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.

27. Other material commitments, which do not meet the recognition criteria for liabilities, are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of WFP.

Contributions Revenue

28. In 2016, WFP changed its accounting policy for recognition of contributions revenue (non-exchange revenue), whereby for contributions stipulated for future years, WFP recognizes an asset (cash or receivable) and a liability (deferred revenue) when the agreement is confirmed in writing. The liability is reduced and revenue is recognized only when the contribution year, as stipulated by the donor, starts. Previously, the entity recognized revenue for contributions stipulated for all years including future years and did not recognize deferred revenue. This change in accounting policy has been applied retrospectively in accordance with IPSAS 3 (Accounting policies, changes in accounting estimates and errors), resulting in the restatement of the comparative financial statements for 2015. Statements I, II, III, and IV were restated, Note 2.10 discloses the opening and closing balances for deferred revenue, Note 2.15 discloses the impact on fund balances and reserves, Note 3 discloses the impact on contributions revenue, and Note 7 discloses the impact on segment reporting.

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

Food Commodities and Cash-Based Transfers Distributed

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

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

Fund Accounting and Segment Reporting

32. 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.

33. 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.

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

35. 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.

36. 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.

37. 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.

38. 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

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

40. 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.

41. 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.

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

Note 2.1: Cash and Cash Equivalents

	2016	2015
	USD million	
Cash and cash equivalents		
Bank and cash at Headquarters	178.3	153.1
Bank and cash at regional bureaux and country offices	53.4	81.8
Money market and deposit accounts at Headquarters	218.6	398.7
Cash and cash equivalents held by investment managers	327.2	138.6
Total cash and cash equivalents	**777.5**	**772.2**

43. 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

	2016	2015
	USD million	
Short-term investments		
Short-term investments	1 169.1	809.5
Current portion of long-term investments (Note 2.6)	7.5	7.7
Total short-term investments	**1 176.6**	**817.2**

44. 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 2016 and remained at very low levels in the context of a market environment of low absolute yields.

45. Short-term investments were valued at USD 1,169.1 million at 31 December 2016 (USD 809.5 million at 31 December 2015). Of this amount, USD 565.2 million pertains to bonds issued or guaranteed by governments or government agencies (USD 367.7 million at 31 December 2015); USD 373.3 million pertains to corporate bonds (USD 299.0 million at 31 December 2015) and USD 230.6 million pertains to asset-backed securities (USD 142.8 million at 31 December 2015). 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.

46. At 31 December 2016, 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 6.6 million (USD 11.7 million at 31 December 2015).

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

	2015	Net additions/ (deductions)	Interest received/ amortized	Net realized gains/ (losses)	Net unrealized gains/(losses)	2016
			USD million			
Short-term investments	809.5	349.0	12.6	(2.8)	0.8	1 169.1
Current portion of long-term investments	**7.7**	(0.6)	0.4	-	-	**7.5**
Total short-term investments	**817.2**	**348.4**	**13.0**	**(2.8)**	**0.8**	**1 176.6**

48. During 2016, short-term investments increased by USD 359.4 million. This increase includes net unrealized gains of USD 0.8 million presented in the reconciliation of surplus to operating cash flows in the Statement of Cash Flow and amortized interest on the current portion of the long-term investment of USD 0.4 million, also presented in the reconciliation as part of the increase in amortized value of the long-term investment of USD 3.9 million. The remaining balance, net of reclassification from long-term to short-term of USD 7.3 million, amounting to USD 350.9 million is presented in the Statement of Cash Flow under investing activities.

Note 2.3: Contributions Receivable

	2016	2015
	USD million	
Composition:		
Current	2 756.9	2 233.4
Non-current	488.4	36.5
Total net contributions receivable	**3 245.3**	**2 269.9**
Monetary contributions receivable	3 165.5	2 178.3
In-kind contributions receivable	206.9	205.2
Total contributions receivable before allowance	**3 372.4**	**2 383.5**
Allowance for reduction in contribution revenue	(111.6)	(92.2)
Allowance for impairment	(15.5)	(21.4)
Total net contributions receivable	**3 245.3**	**2 269.9**

49. 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 2016.

50. 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.

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

	2016		2015	
	USD million	***%***	***USD million***	***%***
Year of confirmation				
2016	2 760.3	80		
2015	522.5	15	1 879.2	77
2014 and earlier	180.9	5	578.0	23
Subtotal	**3 463.6**	**100**	**2 457.2**	**100**
Revaluation adjustments (non-USD contributions receivable)	(91.2)	-	(73.7)	-
Total contributions receivable before allowance	**3 372.4**	**100**	**2 383.5**	**100**

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

53. Allowance for reduction in contribution revenue is an amount estimated for any reduction 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.

54. The change in the allowance for reduction in contribution revenue during 2016 is as follows:

	2015	Utilization	Increase/ (decrease)	2016
	USD million			
Total allowance for reduction in contribution revenue	**92.2**	**(71.6)**	**91.0**	**111.6**

55. During 2016, the reduction in contributions receivable amounted to USD 71.6 million. This reduction is recorded as a utilization of the allowance for reduction in contribution revenue and reported in the Statement of Financial Position. At 31 December 2016, the allowance is USD 111.6 million. Accordingly, an increase of USD 91.0 million was recorded as an adjustment to monetary contribution revenue for the year and is reported in the Statement of Financial Performance.

56. In 2016, WFP revised the procedure for assessing the allowance for impairment. Under this revised procedure, the allowance for impairment is recorded based on a review of contributions receivable to determine any items that may not be collectible based on objective evidence of impairment as a result of one or more events that occurred after initial recognition of the receivable that have an impact on the estimated future cash flows of the contributions receivable or group of receivables. The allowance for impairment is for contributions receivable where expenses have already been incurred but donors are not expected to provide funding. Actual write-offs require a transfer from the General Fund and approval by the Executive Director for amounts in excess of USD 10,000.

57. The change in the allowance for impairment during 2016 is as follows:

	2015	Utilization	Increase/ (decrease)	2016
	USD million			
Total allowance for impairment	**21.4**	**(4.4)**	**(1.5)**	**15.5**

58. During 2016, write-offs of contributions receivable amounted to USD 4.4 million. These write-offs are recorded as a utilization of the allowance for impairment and reported in the Statement of Financial Position. At 31 December 2016, the allowance for impairment is USD 15.5 million. Accordingly, a decrease of USD 1.5 million was recorded as an adjustment for the year and is reported in the Statement of Financial Performance.

Note 2.4: Inventories

59. 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.

	2016	2015
	USD million	
Food on hand	490.0	506.2
Food in transit	140.2	128.5
Subtotal food	**630.2**	**634.7**
Less: allowance for impairment - food	(3.4)	(3.2)
Total food	**626.8**	**631.5**
Non-food items	16.6	18.8
Less: allowance for impairment - non-food	(0.2)	(0.2)
Total non-food items	**16.4**	**18.6**
Total inventories	**643.2**	**650.1**

Food reconciliation	**2016**	**2015**
	USD million	
Opening inventory	631.5	563.0
Add back: impairment allowance	3.2	2.8
Food purchased	1 304.2	1 131.6
In-kind commodities received	419.8	448.9
Transport and related costs	315.2	264.7
Total inventory available for distribution	**2 673.9**	**2 411.0**
Less: Food distributed	(2 043.7)	(1 776.3)
Less: Allowance for impairment	(3.4)	(3.2)
Total food	**626.8**	**631.5**

60. For 2016, food and non-food items distributed totalled USD 2,051.1 million (USD 1,784.1 million in 2015), as reported in the Statement of Financial Performance. Of this amount, USD 2,043.7 million relates to food commodities and USD 7.4 million relates to non-food items (USD 1,776.3 million and USD 7.8 million, respectively, in 2015).

61. 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.

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

63. 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.

64. 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.

65. Food commodity stocks at 31 December 2016 were 1.0 million mt valued at USD 630.2 million (at 31 December 2015, stocks were 1.1 million mt valued at USD 634.7 million).

66. 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 0.54 percent of total food and 1.23 percent for non-food items (in 2015, the allowance for food was 0.51 percent and the allowance for non-food items was 1.05 percent). Inventories are valued net of any impairments or obsolescence. During 2016, USD 3.0 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 2016, the estimated final allowance for impairment required is USD 3.6 million. Accordingly, an increase in the allowance for impairment of USD 2.9 million is reported in the Statement of Financial Performance.

67. The change in the allowances for impairment during 2016 is as follows:

	2015	**Utilization**	**Increase/(decrease)**	**2016**
	USD million			
Allowance for impairment – food	3.2	(3.0)	3.2	3.4
Allowance for impairment – non-food	0.2	0.2	(0.2)	0.2
Total allowance	**3.4**	**(2.8)**	**3.0**	**3.6**

Note 2.5: Other Receivables

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

	2016	2015
	USD million	
Advances to vendors	38.0	31.5
Advances to staff	26.5	25.3
TPA receivables	3.4	0.3
Miscellaneous receivables	96.3	90.7
Total other receivables before allowance	**164.2**	**147.8**
Allowance for impairment	**(37.1)**	**(38.4)**
Total net other receivables	**127.1**	**109.4**

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

70. 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.

71. 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.

72. Other receivables are reviewed to determine whether an allowance for impairment is required. As at 31 December 2016, the allowance is USD 37.1 million, of which USD 36.0 million is for value-added tax receivable and USD 1.1 million is for other receivables (USD 37.8 million for value-added tax receivable and USD 0.6 million for other receivables in 2015).

73. The change in the allowance for impairment during 2016 is as follows:

	2015	Utilization	Increase/ (decrease)	Revaluation adjustment	2016
			USD million		
Total allowance for impairment	**38.4**	**(0.9)**	**13.7**	**(14.1)**	**37.1**

74. During 2016, write-offs of other receivables amounted to USD 0.9 million. These write-offs are recorded as a utilization of the allowance for impairment of other receivables and reported in the Statement of Financial Position.

75. The revaluation adjustment reflects the revaluation of the allowance for impairment denominated in non-USD currency.

76. As at 31 December 2016, the allowance for impairment is USD 37.1 million. Accordingly, an increase of USD 13.7 million was recorded as an expense for the period and is reported in the Statement of Financial Performance.

Note 2.6: Long-Term Investments

	2016	2015
	USD million	
US Treasury STRIPS	69.1	73.1
Current portion (Note 2.2)	(7.5)	(7.7)
Long-term portion, US Treasury STRIPS	**61.6**	**65.4**
Bonds	212.7	200.5
Equities	232.0	196.4
Total bonds and equities	**444.7**	**396.9**
Total long-term investments	**506.3**	**462.3**

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

78. 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.

79. Changes in market value of the investment in STRIPS are not recognized. At 31 December 2016, the market value of this investment was USD 84.1 million (USD 90.2 million at 31 December 2015).

80. 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.

81. 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.

82. The increase in the value of the long-term bond and equity investments of USD 47.8 million resulted from the increased value of invested assets and from the investment of cash into bonds and equities of amounts charged to funds and projects in relation to the employee benefit liabilities. The cash transfer of USD 31.7 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.

83. The movement of long-term investments accounts during 2016 is as follows:

	2015	Additions/ (deductions)	Interest received/ amortized	Net realized gains/(losses)	Net unrealized gains/(losses)	2016
				USD million		
Bonds and equities	**396.9**	31.7	5.0	(4.0)	15.1	**444.7**
Investment in STRIPS	**65.4**	(7.3)	3.5	-	-	**61.6**
Total long-term investment	**462.3**	**24.4**	**8.5**	**(4.0)**	**15.1**	**506.3**

84. During 2016, long-term investments increased by USD 44.0 million. Long-term bonds and equities are treated as available-for-sale financial assets except the investment in derivative financial instruments (USD 28.0 million) which are treated as held for trading financial assets. Accordingly, under IPSAS, the net unrealized gains of USD 14.8 million related to those financial assets treated as available-for-sale are transferred to net assets and presented in the Statement of Changes in Net Assets. The net unrealized losses of USD 0.7 million related to derivative financial instruments and the net unrealized gains of USD 1.0 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 3.5 million is presented in the reconciliation of surplus to operating cash flows in the Statement of Cash Flow as part of the increase in amortized value of the long-term investment of USD 3.9 million. The remaining balance, net of a reclassification from long-term to short-term of USD 7.3 million, amounting to USD 32.7 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 2015	**Additions**	**Disposal/ transfers**	**At 31 Dec 2016**	**At 31 Dec 2015**	**Depreciation expense**	**Disposal/ transfers**	**At 31 Dec 2016**	**At 31 Dec 2016**
					USD million				
Buildings									
Permanent	23.0	2.2	(0.1)	25.1	(2.7)	(0.6)	-	(3.3)	21.8
Temporary	85.3	12.6	(1.8)	96.1	(49.1)	(12.8)	1.4	(60.5)	35.6
Computer equipment	10.9	1.1	(0.2)	11.8	(9.3)	(1.1)	0.2	(10.2)	1.6
Office equipment	25.9	3.0	(0.7)	28.2	(20.5)	(3.5)	0.6	(23.4)	4.8
Office fixtures and fittings	0.4	0.2	-	0.6	(0.2)	(0.1)	-	(0.3)	0.3
Security and safety equipment	5.5	0.3	-	5.8	(4.5)	(0.7)	-	(5.2)	0.6
Telecommunication equipment	9.2	1.1	(0.2)	10.1	(6.7)	(1.4)	0.1	(8.0)	2.1
Motor vehicles	161.0	18.4	(5.3)	174.1	(94.0)	(23.5)	4.7	(112.8)	61.3
Workshop equipment	6.8	0.3	(0.1)	7.0	(4.3)	(1.0)	-	(5.3)	1.7
Leasehold improvements	19.7	3.0	(1.8)	20.9	(14.8)	(2.3)	1.7	(15.4)	5.5
Fixed assets under construction	2.9	4.2	(2.1)	5.0	-	-	-	-	5.0
TOTAL	**350.6**	**46.4**	**(12.3)**	**384.7**	**(206.1)**	**(47.0)**	**8.7**	**(244.4)**	**140.3**

	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
					USD million				
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
TOTAL	**288.6**	**67.5**	**(5.5)**	**350.6**	**(163.4)**	**(47.3)**	**4.6**	**(206.1)**	**144.5**

85. In 2016 and 2015, major additions to PP&E were for temporary buildings and motor vehicles. Net acquisitions (after disposals) for the period ended 31 December 2016 totalled USD 34.1 million (USD 62.0 million at 31 December 2015) of which USD 8.2 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 47.0 million is reported in the Statement of Financial Performance (USD 47.3 million in 2015).

86. PP&E 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.

87. Assets are reviewed annually to determine if there is any impairment in their value. The review that was undertaken in 2016 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 2015	Additions	Disposal/ transfers	At 31 Dec 2016	At 31 Dec 2015	Amortization expense	Disposal/ transfers	At 31 Dec 2016	At 31 Dec 2016
					USD million				
Internally generated software	54.0	0.8	-	54.8	(49.1)	(1.1)	-	(50.2)	4.6
Externally acquired software	2.8	-		2.8	(2.7)	(0.1)	-	(2.8)	-
Licenses and rights	0.7	-	-	0.7	(0.6)	(0.1)	-	(0.7)	-
Intangible asset under construction	0.1	1.0	-	1.1	-	-	-	-	1.1
Total Intangible Assets	**57.6**	**1.8**	**-**	**59.4**	**(52.4)**	**(1.3)**	**-**	**(53.7)**	**5.7**

	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
					USD million				
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
Total Intangible Assets	**56.2**	**3.3**	**(1.9)**	**57.6**	**(47.3)**	**(5.1)**	**-**	**(52.4)**	**5.2**

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

89. Additions or disposals in intangible assets are reported in the Statement of Financial Position while the amortization expense for the year of USD 1.3 million is reported in the Statement of Financial Performance.

Note 2.9: Payables and Accruals

	2016	2015
	USD million	
Vendor payables	101.0	107.0
Donor payables	25.9	5.4
Miscellaneous	65.6	48.8
Subtotal payables	**192.5**	**161.2**
Accruals	365.3	352.6
Total payables and accruals	**557.8**	**513.8**

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

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

92. Accruals are liabilities for goods and services that have been received or provided to WFP during the year and which have not been invoiced by suppliers.

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

Note 2.10: Deferred Revenue

	2016	2015 (restated)
	USD million	
Composition:		
Current	486.9	198.9
Non-current	499.3	39.7
Total deferred revenue	**986.2**	**238.6**

94. The change in accounting policy for the recognition of contributions revenue as described in Note 1 has resulted in the recognition of deferred revenue. Deferred revenue represents contributions where revenue recognition has been deferred to future financial periods since the contribution year starts after the current financial period.

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

96. The following table illustrates the composition of deferred revenue by contribution year:

	2016	2015 (restated)
	USD million	
Year of confirmation		
2021	10.3	-
2020	55.7	-
2019	139.0	-
2018	294.3	1.9
2017	486.9	37.8
2016	-	198.9
Total deferred revenue	**986.2**	**238.6**

Note 2.11: Provisions

	2016	2015
	USD million	
Provision for refunds to donors	**7.0**	**5.7**

97. 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.

98. The change in the provision for refunds to donors during 2016 is as follows:

	2015	Utilization	Increase/ (decrease)	2016
	USD million			
Provision for refunds to donors	**5.7**	**(9.1)**	**10.4**	**7.0**

99. During 2016, refunds made to donors totalled USD 9.1 million. These refunds are recorded as a utilization of the provision for refunds to donors and reported in the Statement of Financial Position. At 31 December 2016, the estimated final provision required is USD 7.0 million. Accordingly, an increase of USD 10.4 million was recorded as an adjustment to monetary contribution revenue for the period and is reported in the Statement of Financial Performance.

Note 2.12: Employee Benefits

	2016	2015
	USD million	
Composition:		
Current	7.8	10.6
Non-current	652.3	601.9
Total employee benefits liabilities	**660.1**	**612.5**

	2016			2015
	Actuarial valuation	WFP valuation	Total	
	USD million			
Short-term employee benefits	2.8	5.0	7.8	10.6
Post-employment benefits	551.0	1.6	552.6	507.5
Other long-term employee benefits	94.3	5.4	99.7	94.4
Total employee benefits liabilities	**648.1**	**12.0**	**660.1**	**612.5**

2.12.1 Valuation of Employee Benefit Liabilities

100. Employee benefit liabilities are determined by professional actuaries or calculated by WFP based on personnel data and past payment experience. At 31 December 2016, total employee benefits liabilities amounted to USD 660.1 million, of which USD 648.1 million were calculated by the actuaries and USD 12.0 million were calculated by WFP (USD 594.5 million and USD 18.0 million, respectively, at 31 December 2015).

101. Of the total employee benefits liabilities of USD 660.1 million, the amount of USD 454.9 million has been charged against relevant funds and projects (USD 399.9 million at 31 December 2015). The balance of liabilities in the amount of USD 205.2 million has been allocated against the General Fund (USD 212.6 million at 31 December 2015). 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.

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

102. 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 category and general service in Headquarters and; b) WFP’s national professional officers and general service staff members in the country offices and regional bureaux (collectively, locally recruited staff members). Both groups of staff are covered by the Food and Agriculture Organization of the United Nations (FAO) Staff Rules and the United Nations Staff Rules.

103. Post-employment benefits and other separation-related benefits liabilities which are calculated by actuaries totalled USD 645.3 million at 31 December 2016 net of actuarial gains and losses (USD 594.5 million in 2015) of which USD 494.0 million pertains to staff members who are in the professional category and general service in Headquarters (USD 465.4 million in 2015) and USD 151.3 million pertains to the benefits for locally recruited staff members (USD 129.1 million in 2015).

104. In the 2016 valuation, WFP’s gross defined benefit obligations totalled USD 687.8 million (USD 571.0 million in 2015), of which USD 593.5 million represents post-employment benefits (USD 482.5 million in 2015) and USD 94.3 million represents other separation-related benefits (USD 88.5 million in 2015).

105. Under IPSAS 25, actuarial gains and losses for post-employment benefits can be recognized over time using the corridor approach. Under this approach, amounts up to 10 percent of the defined benefit obligations are not recognized as revenue or expense so as to allow the reasonable possibility of offsetting gains and losses over time. Gains and losses over 10 percent of the defined benefit obligation (DBO) are amortized over the average remaining service of active staff for each benefit. For other separation-related benefits, actuarial gains and losses are recognized immediately and no corridor approach is applied.

106. In the 2016 valuation of employee benefits liabilities, the actuaries have determined actuarial losses under post-employment benefits of USD 42.5 million (actuarial gains of USD 23.5 million in 2015) and actuarial losses under other separation-related benefits of USD 6.1 million (actuarial gains of USD 2.7 million in 2015).

107. Of the total actuarial losses of USD 42.5 million, actuarial losses of USD 44.2 million relate to the After-Service Medical Plans, actuarial gains of USD 4.7 million relate to the Separation Payments Scheme and actuarial losses of USD 3.0 million pertain to the Compensation Plan Reserve Fund (Note 2.12.5.4). Actuarial gains and losses for all post-employment plans exceeded 10 percent of the defined benefit obligations. 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: 12.67 and 14.53 years for the Basic Medical Insurance Plan (BMIP) and Medical Insurance Coverage Scheme (MICS) After-Service Medical Plans, respectively, 11.94 years for the Separation Payments Scheme, 9.35 and 10.40 years for the Compensation Plan Reserve Fund of professional and general service staff category in Headquarters and locally recruited staff members, respectively.

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

109. The movements of employee benefit liabilities as determined by the actuaries during 2016 are as follows:

	2015	**Utilization**	**Increase/ (decrease)**	**2016**
		USD million		
After-Service Medical Plans	472.7	(4.1)	48.5	517.1
Separation Payments Scheme	24.7	(2.0)	2.1	24.8
Compensation Plan Reserve Fund	8.6	(0.7)	1.2	9.1
Other separation-related benefits	88.5	(6.9)	12.7	94.3
Total employee benefits liabilities	**594.5**	**(13.7)**	**64.5**	**645.3**

2.12.3 Short-Term Employee Benefits

110. Short-term employee benefits consist of annual leave, education grants and incurred but not paid amounts relating to all plans. The incurred but not paid amounts were estimated by consulting professional actuaries.

2.12.4 Post-Employment Benefits

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

112. 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 in Headquarters. MICS is provided to locally recruited staff members in country offices and regional bureaux.

113. 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.

114. 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.

115. The liabilities include the service costs for 2016 less benefit payments made.

2.12.5 Other Long-Term Employee Benefits

116. 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.

2.12.5.1 Actuarial Assumptions and Methods

117. 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 2016 valuation, the assumptions and methods used are described in the following table which also indicates the assumptions and methods used for the 2015 valuation.

118. The assumptions and methods adopted for the 2016 actuarial valuation resulted in an increase in the post-employment and other separation-related benefits net liabilities in the total amount of USD 50.8 million (USD 46.7 million in 2015).

119. 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.

120. 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 2016. Assumptions relating only to certain employee benefits are specifically identified:

Discount rate	3.0 percent for accounting and funding based on yield curve approach for plans provided to staff members in professional category and general service category in Headquarters (3.5 percent in 2015 valuation) 4.7 percent based on yield curve approach for plans provided to locally recruited staff members (4.9 percent in 2015 valuation)
Medical cost increases (ASM* only)	BMIP – 5.0 percent per year during 2017, decreasing 0.1 percent every two years to 4.4 percent in 2029, and then decreasing 0.1 percent every three years to 4.0 percent in 2041 and beyond (4.5 percent per year from 2016 through 2020, decreasing 0.1 every five years to 4.0 percent in 2041 and beyond) MICS – 9.5 percent from 2017, decreasing by 0.3 percent each year to 7.1 percent in 2025, then decreasing by 0.2 percent each year to 5.1 percent in 2035, and then decreasing by 0.1 percent each year until it reaches 4.0 percent in 2046 and beyond (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 beyond)
Expected return on assets	Funding – 5.6 percent (same in 2015 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 2016
Medical claims cost (ASM only)	BMIP – Average claims for 2017 in 2016 valuation are USD 5,572 for each adult participant (USD 5,186 for 2016 in 2015 valuation) MICS – Average claims for 2017 in 2016 valuation are USD 976 for each adult participant (USD 1,081 for 2016 in 2015 valuation)
Annual administrative costs (ASM only)	BMIP – 3.0 percent of the 2017 claims cost (3.0 percent of the 2016 claims cost excluding the insurer's retention, increasing at the general inflation rate thereafter) MICS – included in claims cost shown above
Insurer's retention (ASM only)	2.3 percent of the 2017 claims (same as in 2015 valuation)
Future participant contributions (ASM only)	BMIP – Accounting and Funding 29 percent (same as in 2015 valuation) MICS – medical costs increase with inflation, while participant contributions increase with pay/pension amounts.
Mortality rates	Mortality rates match the 31 December 2015 valuation of the United Nations Joint Staff Pension Fund
Disability rates	Disability rates match the 31 December 2015 valuation of the United Nations Joint Staff Pension Fund
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 – 95.0 percent of future retirees will elect coverage in the BMIP (same as in 2015 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 2015 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)	85.0 percent of male and 55.0 percent of female retirees have a spouse who elects coverage in the BMIP (same as in 2015 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)	10.0 percent of deaths and 4.0 percent of disablements (same as in 2015 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
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 80.0 percent of those staff members who retire or withdraw from service (same in 2015 valuation). 80.0 percent of eligible males were assumed to be married and 50.0 percent of female staff members were assumed to be married (same in 2015 valuation)
Repatriation travel and removal costs (OSRB only)	USD 8,600 for unmarried staff and USD 12,200 for married staff in 2016, growing with inflation thereafter (same as in 2015 valuation)
Accrued leave payable at separation (OSRB only)	Average accrued leave benefit was assumed to be 37 days' pay (same as in 2015 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

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

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

2.12.5.2 Reconciliation of Defined Benefit Obligation

	After-Service Medical Plans	Other separation-related benefits	Separation Payments Scheme	Compensation Plan Reserve Fund	Total
			USD million		
Net defined benefit obligation at 31 December 2015	**450.5**	**88.5**	**19.9**	**12.1**	**571.0**
Service cost for 2016	31.3	3.5	1.6	0.5	36.9
Interest cost for 2016	17.6	3.1	0.7	0.4	21.8
Actual gross benefit payments for 2016	(5.7)	(6.9)	(2.0)	(0.6)	(15.2)
Participant contributions	1.5	-	-	-	1.5
Exchange rate movements	(10.1)	(0.1)	(0.9)	-	(11.1)
Other actuarial (gain)/loss	76.2	6.2	0.8	(0.3)	82.9
Defined benefit obligation at 31 December 2016	**561.3**	**94.3**	**20.1**	**12.1**	**687.8**

2.12.5.3 Annual Expense for Calendar Year 2016

	After-Service Medical Plans	Other separation-related benefits	Separation Payments Scheme	Compensation Plan Reserve Fund	Total
			USD million		
Service cost	31.3	3.5	1.6	0.5	36.9
Interest cost	17.6	3.1	0.7	0.4	21.8
(Gain)/Loss amortization	(0.4)	6.1	(0.2)	0.3	5.8
Sub-total expense	**48.5**	**12.7**	**2.1**	**1.2**	**64.5**

2.12.5.4 Reconciliation of Present Value of Defined Benefit Obligation

	After-Service Medical Plans	Other separation-related benefits	Separation Payments Scheme	Compensation Plan Reserve Fund	Total
			USD million		
Defined benefit obligation					
Inactive	156.3	-	-	9.4	165.7
Active	405.0	94.3	20.1	2.7	522.1
Total	**561.3**	**94.3**	**20.1**	**12.1**	**687.8**
(Surplus)/deficit	561.3	94.3	20.1	12.1	687.8
Unrecognized (loss)/gain	(44.2)	-	4.7	(3.0)	(42.5)
Net balance sheet liability	**517.1**	**94.3**	**24.8**	**9.1**	**645.3**

2.12.5.5 After-Service Medical Plans – Sensitivity Analysis

122. 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.

123. In the 2016 valuation, it was assumed that for the BMIP, medical costs will increase at 5.0 percent per year during 2017, decreasing 0.1 percent every two years to 4.4 percent in 2029, and then decreasing 0.1 percent every three years to 4.0 percent in 2041 and remains each year thereafter. For the MICS, it was assumed that medical costs will increase at 9.5 percent from 2017, decreasing by 0.3 percent each year to 7.1 percent in 2025, then decreasing by 0.2 percent each year to 5.1 percent in 2035, and then decreasing by 0.1 percent each year until it reaches 4.0 percent in 2046 and remains each year thereafter.

124. It was also assumed that for the BMIP, the future exchange rates between the euro and US dollar will average about USD 1.046 per euro, which was the United Nations operational rate of exchange at 31 December 2016. For the MICS, it is assumed that all claims are incurred in US dollars or other currencies that are correlated with the US dollars.

125. Further assumed was a discount rate of 3.0 percent for the BMIP, based on yield curve approach at 31 December 2016 (3.5 percent in 2015 valuation) and a discount rate of 4.7 percent for the MICS (4.9 percent in 2015 valuation).

126. A sensitivity analysis was undertaken to determine the impact of the above assumptions on the liability 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.

127. Using the current assumptions, the defined benefit obligation is USD 561.3 million. For the liability sensitivity analysis, an increase in the medical inflation rate of 1 percent per year, would, other assumptions being equal, result in a defined benefit obligation of USD 717.4 million. An exchange rate of USD 1.146 per euro would, other assumptions being equal, result in a BMIP defined benefit obligation of USD 586.1 million. A decrease in the discount rate of 1 percent would, other assumptions being equal, result in a defined benefit obligation of USD 724.0 million.

2.12.5.6 Expected Costs during 2017

128. The expected contribution of WFP in 2017 to the defined benefits plans is USD 13.3 million which is determined based on expected benefit payments for that year.

2.12.6 United Nations Joint Staff Pension Fund

129. The Fund’s Regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the Open Group Aggregate Method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

130. WFP’s financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9 percent for participants and 15.8 percent for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

131. The actuarial valuation performed as of 31 December 2015 revealed an actuarial surplus of 0.16 percent (a deficit of 0.72 percent in the 2013 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve a balance as of 31 December 2015 was 23.54 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 2017.

132. At 31 December 2015, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 141.1 percent (127.5 percent in the 2013 valuation). The funded ratio was 100.9 percent (91.2 percent in the 2013 valuation) when the current system of pension adjustments was taken into account.

133. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2015, 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.

134. During 2016, WFP's contributions paid to the UNJSPF amounted to USD 65.4 million (USD 63.7 million in 2015). Expected contributions due in 2017 are USD 65.3 million.

135. The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the UNJSPF Board on the audit every year. The UNJSPF publishes quarterly reports on its investments and these can be viewed by visiting the UNJSPF at www.unjspf.org.

2.12.7 Social Security Arrangements for Employees under Service Contracts

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

Note 2.13: Loan

	2016	2015
	USD million	
Current portion of loan	**5.7**	**5.8**
Non-current portion of loan	**78.1**	**83.8**
Loan	**83.8**	**89.6**

137. 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 loan contract with a government agency of the donor country.

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

139. The loan is reflected at amortized cost using the effective interest rate of 2.44 percent. At 31 December 2016, total amortized cost was USD 83.8 million (USD 89.6 million at 31 December 2015) with an amount due within one year of USD 5.7 million and a long-term portion of USD 78.1 million (USD 5.8 million and USD 83.8 million, respectively in 2015).

140. Interest expense during 2016 totalled USD 2.1 million (USD 2.2 million at 31 December 2015) as reflected in the Statement of Financial Performance, of which USD 2.6 million represents the annual interest paid in May 2016 and USD (0.5) million represents the amortized cost resulting from the recognition of the loan to its net present value.

141. In the Statement of Cash Flow, interest paid during the year in the amount of USD 2.6 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

142. 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.

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

	2016	**2015**
	USD million	
Financial assets at fair value through surplus or deficit	1 170.4	811.5
Held-to-maturity investments	69.1	73.1
Loans and receivables	3 950.5	2 953.6
Available-for-sale financial assets	443.4	394.9
Subtotal	**5 633.4**	**4 233.1**
Non-financial assets	988.6	998.9
Total	**6 622.0**	**5 232.0**

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

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

146. The following table presents the WFP assets that are measured at fair value at 31 December 2016 and 2015, respectively.

	2016				**2015**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
	USD million				***USD million***			
Financial assets at fair value through surplus or deficit	-	1 169.4	1.0	1 170.4	-	802.1	9.4	811.5
Available-for-sale financial assets	224.3	217.2	1.9	443.4	196.3	198.6	-	394.9
Total	**224.3**	**1 386.6**	**2.9**	**1 613.8**	**196.3**	**1 000.7**	**9.4**	**1 206.4**

147. 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).

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

149. The following table presents the changes in Level 3 financial instruments for the years ended 31 December 2016 and 2015, respectively.

			2016			**2015**
	Financial assets at fair value through surplus or deficit	**Available-for-sale financial assets**	**Total**	**Financial assets at fair value through surplus or deficit**	**Available-for-sale financial assets**	**Total**
	USD million			***USD million***		
Opening balance	9.4	-	9.4	9.2	0.7	9.9
Gains/(losses) recognized in Statement of Financial Performance	-	-	-	-	-	-
Gains/(losses) recognized in Statement of Net Assets	-	(0.1)	(0.1)	-	-	-
Purchases	1.0	3.0	4.0	4.4	-	4.4
Sales	-	(1.0)	(1.0)	(4.2)	-	(4.2)
Settlements	-	-	-	-	-	-
Capital change	(9.4)	-	(9.4)	-	-	-
Transfer	-	-	-	-	(0.7)	(0.7)
Closing balance	**1.0**	**1.9**	**2.9**	**9.4**	**-**	**9.4**

150. There were no transfers out of Level 1 into Level 2 and out of Level 2 into Level 1 during 2016 and 2015.

2.14.2 Credit Risk

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

152. 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.

153. Contributions receivable comprise primarily amounts due from sovereign nations. Details of contributions receivable, including allowance for reduction in contribution revenue and allowance for impairment, are provided in Note 2.3.

2.14.3 Interest Rate Risk

154. WFP is exposed to interest rate risk through short-term investments and long-term bonds. At 31 December 2016, the effective interest rates of these two investment portfolios were 1.20 percent and 1.78 percent, respectively (1.11 percent and 1.85 percent, respectively, in 2015). A measurement of interest rate sensitivity indicates that the effective duration is 0.62 years for the short-term investments and 6.09 years for the long-term bonds (0.80 years and 6.26 years, respectively, in December 2015). Fixed income derivatives are used by external investment managers to manage interest rate risk under strict investment guidelines.

2.14.4 Foreign Currency Risk

155. At 31 December 2016, 90 percent of cash, cash equivalent and investments are denominated in the US dollar base currency and 9 percent are denominated in euros and remaining 1 percent in other currencies (87 percent in the US dollar base currency and 10 percent in euros and remaining 3 percent in other currencies at 31 December 2015). Non-US dollar holdings have the primary objective of supporting operating activities. In addition, 66 percent of contributions receivable is denominated in the US dollar base currency, 18 percent is denominated in euros, 8 percent in Canadian dollars and 8 percent is denominated in other currencies (79 percent in the US dollar base currency, 13 percent in euros, 3 percent in Canadian dollars and 5 percent in other currencies at 31 December 2015).

156. 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 2016, 12 contracts were settled at a realized gain of USD 0.1 million (12 contracts were settled during the year ended 31 December 2015 at a realized loss of USD 17.4 million). In addition, a new hedging strategy was implemented for 2017, in which WFP entered into 12 foreign exchange forward contracts to purchase on average euro 4.8 million on a monthly basis at a fixed exchange rate. At 31 December 2016, the 12 contracts have a notional value of USD 64.5 million and an unrealized loss of USD 3.9 million using the forward rate at 31 December 2016. Both the realized gain and unrealized loss are included in currency exchange differences presented in the Statement of Financial Performance.

2.14.5 Market Risk

157. 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.

158. 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 9.3 million unrealized loss (gain). For long-term bond portfolio, if interest rates were to rise (fall) by 1 percent, the impact to the Statement of Changes in Net Assets is a USD 13.0 million unrealized loss (gain).

159. Futures price sensitivity – For short-term investments, if futures prices were to rise (fall) by 1 percent, the impact to the Statement of Financial Performance is a USD 0.1 million unrealized loss (gain). For long-term bond portfolio, if futures prices were to rise (fall) by 1 percent, the impact to the Statement of Changes in Net Assets is a USD 0.2 million unrealized gain (loss).

160. 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 2.3 million unrealized gain (loss).

161. Foreign Exchange forwards sensitivity – For the remaining 12 PSA hedge forward contracts, if USD/EUR rate were to rise (fall) by 1 percent, the impact to the Statement of Financial Performance is a USD 0.6 million unrealized gain (loss), with all other variables held constant. For long-term investments, if foreign currency prices were to appreciate (depreciate) versus the USD by 1 percent across the forward currency positions currently held, the impact to the Statement of Financial Performance is a USD 0.3 million unrealized loss (gain).

Note 2.15: Fund Balances and Reserves

162. 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.

	2016					
	Programme category funds (fund balance)	**Bilateral operations and trust funds (fund balance)**	**General Fund and Special Accounts**		**Total**	**2015 (restated)**
			(fund balance)	**Reserves**		
	USD million					
Opening balance at 1 January	**3 375.5**	**315.7**	**19.5**	**298.5**	**4 009.2**	**3 922.7**
Change in accounting policy (Note 1)	(166.9)	(19.9)	(31.5)	(20.3)	**(238.6)**	**(93.1)**
Opening balance at 1 January (restated)	**3 208.6**	**295.8**	**(12.0)**	**278.2**	**3 770.6**	**3 829.6**
Surplus (deficit) for the year	**223.1**	**(90.4)**	**409.0**	**-**	**541.7**	**(50.9)**
Subtotal	**3 431.7**	**205.4**	**397.0**	**278.2**	**4 312.3**	**3 778.7**
Movements during the year:						
Advances to projects	215.2	-	-	(215.2)	-	-
Repayments by projects	(124.7)	-	-	124.7	-	-
Approved Board allocations	-	-	20.0	(20.0)	-	-
Repayments of unspent Board allocations	-	-	(0.2)	0.2	-	-
Replenishments	-	-	(53.0)	53.0	-	-
Surplus of ISC revenue over PSA expenses	-	-	(108.8)	108.8	-	-
Transfers between funds	238.8	20.0	(258.8)	-	-	-
Net unrealized gains (losses) on long-term investments	-	-	14.8	-	14.8	(8.1)
Total movements during the year	**329.3**	**20.0**	**(386.0)**	**51.5**	**14.8**	**(8.1)**
Closing balance at 31 December	**3 761.0**	**225.4**	**11.0**	**329.7**	**4 327.1**	**3 770.6**

163. 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.

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

165. The change in accounting policy of contributions revenue as described in Note 1 has resulted in the adjustment of the amount reported in prior years as indicated in the table above.

166. Reserves are established by the Board as facilities for funding and/or financing specific activities under specific circumstances. During 2016, WFP had 4 active reserves: i) Operational Reserve; ii) Global Commodity Management Facility (GCMF) reserve; iii) IRA; and, iv) PSA Equalization Account. The following table presents WFP's reserves.

	2016					
	2.15.1 Operational Reserve (OR)	**2.15.2 Global Commodity Management Facility Reserve (GCMF)**	**2.15.3 Immediate Response Account (IRA)**	**2.15.4 PSA Equalization Account (PSAEA)**	**Total**	**2015 (restated)**
	USD million					
Opening balance at 1 January	**95.2**	**6.0**	**59.0**	**138.3**	**298.5**	**331.4**
Change in accounting policy (Note 1)	-	-	(5.4)	(14.9)	**(20.3)**	**(6.1)**
Opening balance at 1 January	**95.2**	**6.0**	**53.6**	**123.4**	**278.2**	**325.3**
Advances to projects	-	-	(215.2)	-	(215.2)	(165.8)
Repayments by projects	-	--	124.7	-	124.7	98.5
Approved Board allocations	-	--	-	(20.0)	(20.0)	(87.2)
Repayments of unspent Board allocations	-	--	-	0.2	0.2	2.3
Replenishments	-	--	53.0	-	53.0	80.5
Surplus of ISC revenue over PSA expenses	-	-	-	108.8	108.8	24.6
Closing balance at 31 December	**95.2**	**6.0**	**16.1**	**212.4**	**329.7**	**278.2**

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

2.15.1 Operational Reserve

168. 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).

169. The balance of the Operational Reserve at 31 December 2016 is USD 95.2 million.

2.15.2 Global Commodity Management Facility Reserve

170. 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).

171. The balance of the GCMF reserve at 31 December 2016 is USD 6.0 million.

2.15.3 Immediate Response Account

172. 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.

173. In 2016, the IRA received USD 53.0 million in replenishments which is below the target income level of 200.0 million approved by the Executive Board Decision 2014/EB.2/4.

174. Advances made to projects totalled USD 215.2 million and repayments by projects amounted to USD 124.7 million.

175. The aforementioned change in accounting policy for recognition of contributions revenue resulted in an amount of USD 5.4 million reclassified from the IRA to deferred revenue.

176. The IRA balance at 31 December 2016 is USD 16.1 million. As approved in the WFP Management Plan (2017–2019) (Decision 2016/EB.2/6 iv), this balance is increased in early 2017 by a USD 15.0 million transfer from the PSA Equalization Account to the Immediate Response Account.

177. Outstanding advances to projects made by the IRA at 31 December 2016 totalled USD 148.9 million (USD 96.6 million in 2015).

2.15.4 Programme Support and Administrative Budget Equalization Account

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

179. During the Second Regular Session of the Board in November 2015, the Board approved two allocations totalling USD 20.0 million (USD 17.0 million and USD 3.0 million) for critical corporate initiatives from the PSA Equalization Account (Decision 2015/EB.2/5 iv and v). These allocations were made in 2016.

180. Unspent balances totalling USD 0.2 million pertaining to allocations approved by the Board from the PSAEA in previous periods were returned back to the PSAEA in 2016 pursuant to Financial Regulation 9.9.

181. The excess of ISC revenue over PSA expenses totalling USD 108.8 million was transferred to the PSAEA in 2016 (USD 33.4 million surplus in 2015).

182. The aforementioned change in accounting policy for recognition of contributions revenue resulted in an amount of USD 14.9 million reclassified from the PSAEA to deferred revenue.

183. The PSAEA balance at 31 December 2016 is USD 212.4 million.

184. As approved in the WFP Management Plan (2017–2019) (Decision 2016/EB.2/6 iv), this balance is reduced in early 2017 by a USD 15.0 million transfer from the PSA Equalization Account to the Immediate Response Account.

Note 3: Revenue

		2016	2015 (restated)
		USD million	
3.1	**Monetary contributions**		
	Contributions for direct costs	5 021.1	3 877.2
	ISC contributions	382.4	305.2
	Subtotal	**5 403.5**	**4 182.4**
	Less:		
	Refunds, reprogrammes and reductions in contribution revenue	(103.1)	(71.1)
	Total monetary contributions	**5 300.4**	**4 111.3**
3.2	**In-kind contributions**		
	Commodities in-kind contributions	442.0	526.3
	Services and non-food items in-kind contributions	32.0	33.4
	Subtotal	**474.0**	**559.7**
	Add (deduct):		
	Increase (decrease) in contribution revenue	(3.3)	(8.8)
	Total in-kind contributions	**470.7**	**550.9**
3.3	**Currency exchange differences**	**(31.3)**	**(34.1)**
3.4	**Return on investments**		
	Net realized (losses) on investments	(7.8)	(24.1)
	Net unrealized gains on investments	1.7	6.0
	Interest earned	26.4	21.8
	Total return on investments	**20.3**	**3.7**
3.5	**Other revenue**		
	Revenue generated from provision of goods and services	119.4	102.6
	Miscellaneous revenue	29.4	31.0
	Total other revenue	**148.8**	**133.6**
	Total revenue	**5 908.9**	**4 765.4**

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

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

187. During 2016, other revenue amounted to USD 148.8 million of which USD 119.4 million was generated from the provision of goods and services (USD 102.6 million at 31 December 2015) and USD 29.4 million from miscellaneous revenue (USD 31.0 million at 31 December 2015). 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.

188. The change in accounting policy for recognition of contributions revenue as described in Note 1 has resulted in the adjustment of the contributions revenue reported in previous years as shown in the table below. Corresponding adjustments through accumulated surplus/deficit are shown in Statement III: Statement of Changes in Net Assets.

	2015	**2014**	**2013**	**2012**	**Total**
			USD million		
Reduction in contributions revenue of past years	145.5	70.9	20.2	2.0	**238.6**

Note 4: Expenses

		2016	2015
		USD million	
4.1	**Cash-based transfers distributed**	**882.3**	**679.1**
4.2	**Food commodities distributed**	**2 051.1**	**1 784.1**
4.3	**Distribution and related services**	**641.4**	**635.9**
4.4	**Wages, salaries, employee benefits and other staff costs**		
	International and national staff	608.3	596.3
	Consultants	108.2	97.1
	United Nations volunteers	3.5	4.9
	Temporary staff	84.3	78.3
	Other personnel costs	22.1	20.8
	Total wages, salaries, employee benefits and other staff costs	**826.4**	**797.4**
4.5	**Supplies, consumables and other running costs**		
	Telecommunications and Information Technology	11.1	12.5
	Equipment	99.4	87.4
	Office supplies and consumables	24.4	40.2
	Utilities	7.2	8.1
	Vehicle maintenance and running costs	28.7	19.1
	Total supplies, consumables and other running costs	**170.8**	**167.3**
4.6	**Contracted and other services**		
	Air operations	315.5	312.8
	Other contracted services	282.3	216.1
	Telecommunications/IT related services	31.5	32.9
	Security and other services	24.0	50.0
	Leases	36.2	33.2
	Total contracted and other services	**689.5**	**645.0**
4.7	**Finance Costs**	**2.1**	**2.2**
4.8	**Depreciation and amortization**	**48.3**	**52.4**
4.9	**Other expenses**		
	Maintenance services	6.6	8.0
	Insurance	7.8	4.0
	Bank charges/investment manager and custodian fees	3.5	2.6
	Impairment and write-offs	15.4	24.6
	Other	22.0	13.7
	Total other expenses	**55.3**	**52.9**
	Total expenses	**5 367.2**	**4 816.3**

189. 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 21.1 million (USD 11.6 million in December 2015) (Note 9).

190. Given WFP's accounting policy to expense when food is handed over to the cooperating partners, at 31 December 2016, USD 67.9 million (93,543 mt) of food held by cooperating partners was yet to be distributed to beneficiaries (USD 70.6 million (98,653 mt) at 31 December 2015).

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

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

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

Note 5: Statement of Cash Flow

194. 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

195. 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.

196. 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.

197. Budget amounts have been presented on a functional classification basis in accordance with the Management Plan (2016–2018), which presents a breakdown of the budget by year.

198. 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 project costs, the regular programme support and administrative costs and critical corporate initiatives approved by the Executive Board in November 2015 (WFP/EB.2/2015/5-A/1/Rev.1).

199. 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.

200. 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.

201. 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.

202. 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.

203. 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.

204. 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 2016 is presented below:

	Operating	**Investing**	**Financing**	**Total**
	USD million			
Actual amount on comparable basis (Statement V)	**(5 222.8)**	**-**	**-**	**(5 222.8)**
Basis differences	11.2	(421.3)	(7.9)	(418.0)
Presentation differences	5 854.1	-	-	5 854.1
Entity differences	(208.0)	-	-	(208.0)
Actual amount in the Statement of Cash Flow (Statement IV)	**434.5**	**(421.3)**	**(7.9)**	**5.3**

Note 7: Segment Reporting

Note 7.1: Statement of Financial Position by Segment

	2016					2015 (restated)
	Programme Category Funds	**General Fund and Special Accounts**	**Bilateral Operations and Trust Funds**	**Inter-Segment Transac-tions**	**Total**	
			USD million			
ASSETS						
Current Assets						
Cash, cash equivalents and short-term investments	1 406.9	303.3	243.9	-	1 954.1	1 589.4
Contributions receivable	2 509.1	143.4	104.4	-	2 756.9	2 233.4
Inventories	549.5	84.9	8.8	-	643.2	650.1
Other receivables	98.7	542.7	7.2	(521.5)	127.1	109.4
	4 564.2	**1 074.3**	**364.3**	**(521.5)**	**5 481.3**	**4 582.3**
Non-current Assets						
Contributions receivable	265.1	177.5	45.8	-	488.4	36.5
Long-term investments	-	506.3	-	-	506.3	462.3
Property, plant and equipment	93.0	44.6	2.7	-	140.3	144.5
Intangible assets	0.1	5.6	-	-	5.7	5.2
	358.2	**734.0**	**48.5**	**-**	**1 140.7**	**648.5**
TOTAL ASSETS	**4 922.4**	**1 808.3**	**412.8**	**(521.5)**	**6 622.0**	**5 230.8**
LIABILITIES						
Current Liabilities						
Payable and accruals	568.6	402.3	108.4	(521.5)	557.8	513.8
Deferred Revenue	315.5	142.0	29.4	-	486.9	198.9
Provisions	3.2	-	3.8	-	7.0	5.7
Employee benefits	-	7.8	-	-	7.8	10.6
Loan	-	5.7	-	-	5.7	5.8
	887.3	**557.8**	**141.6**	**(521.5)**	**1 065.2**	**734.8**
Non-current Liabilities						
Deferred Revenue	274.1	179.4	45.8	-	499.3	39.7
Employee benefits	-	652.3	-	-	652.3	601.9
Loan	-	78.1	-	-	78.1	83.8
	274.1	**909.8**	**45.8**	**-**	**1 229.7**	**725.4**
TOTAL LIABILITIES	**1 161.4**	**1 467.6**	**187.4**	**(521.5)**	**2 294.9**	**1 460.2**
NET ASSETS	**3 761.0**	**340.7**	**225.4**	**-**	**4 327.1**	**3 770.6**
FUND BALANCES AND RESERVES						
Fund balances	3 761.0	11.0	225.4	-	3 997.4	3 492.4
Reserves	-	329.7	-	-	329.7	278.2
TOTAL FUND BALANCES AND RESERVES, 31 December 2016	**3 761.0**	**340.7**	**225.4**	**-**	**4 327.1**	**3 770.6**
TOTAL FUND BALANCES AND RESERVES, 31 December 2015	**3 208.6**	**266.2**	**295.8**	**-**	**3 770.6**	

Note 7.2: Statement of Financial Performance by Segment

	2016					2015 (restated)
	Programme Category Funds	**General Fund and Special Accounts**	**Bilateral Operations and Trust Funds**	**Inter-Segment Transactions**	**Total**	
			USD million			
REVENUE						
Monetary contributions	4 455.9	729.4	115.1	-	5 300.4	4 111.3
In-kind contributions	451.9	15.0	3.8	-	470.7	550.9
Currency exchange differences	(32.5)	2.8	(1.6)	-	(31.3)	(34.1)
Return on investments	-	20.2	0.1	-	20.3	3.7
Other revenue	125.2	761.2	0.1	(737.7)	148.8	133.6
TOTAL REVENUE	**5 000.5**	**1 528.6**	**117.5**	**(737.7)**	**5 908.9**	**4 765.4**
EXPENSES						
Cash-based transfers distributed	875.9	-	6.4	-	882.3	679.1
Food commodities distributed	1 992.1	581.8	51.1	(573.9)	2 051.1	1 784.1
Distribution and related services	639.4	14.1	15.5	(27.6)	641.4	635.9
Wages, salaries, employee benefits and other staff costs	470.8	293.2	73.8	(11.4)	826.4	797.4
Supplies, consumables and other running costs	122.7	40.0	18.4	(10.3)	170.8	167.3
Contracted and other services	594.2	152.5	34.3	(91.5)	689.5	645.0
Finance costs	-	2.1	-	-	2.1	2.2
Depreciation and amortization	31.0	16.0	1.3	-	48.3	52.4
Other expenses	51.3	19.9	7.1	(23.0)	55.3	52.9
TOTAL EXPENSES	**4 777.4**	**1 119.6**	**207.9**	**(737.7)**	**5 367.2**	**4 816.3**
SURPLUS (DEFICIT) FOR THE YEAR, 2016	**223.1**	**409.0**	**(90.4)**	**-**	**541.7**	**(50.9)**
SURPLUS (DEFICIT) FOR THE YEAR, 2015	**(276.1)**	**250.0**	**(24.8)**	**-**	**(50.9)**	

205. 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.

	2016	2015
	USD million	
Cash and cash equivalents	777.5	772.2
Short-term investments	1 176.6	817.2
Total cash and cash equivalents and short-term investments	**1 954.1**	**1 589.4**

206. 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.

207. 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

	2016	2015
	USD million	
Obligations for property leases:		
Within 1 year	39.5	36.4
Later than 1 year and not later than 5 years	26.8	30.3
Beyond 5 years	1.0	2.2
Total property leases obligations	**67.3**	**68.9**

208. At 31 December 2016, property lease obligations for the WFP Headquarters building in Rome represent 18 percent of the total obligations under the within 1 year category and 4 percent under the later than 1 year and not later than 5 years category (19 percent and 26 percent, respectively, at 31 December 2015). 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

209. At 31 December 2016, WFP had commitments for the acquisition of food commodities, transportation, services, non-food items, and capital commitments contracted but not delivered as follows:

	2016	2015
	USD million	
Food commodities	286.3	208.8
Transportation – Food commodities	131.1	126.8
Services	113.6	110.3
Non-food items	51.7	58.7
Capital commitments	8.2	7.7
Total open commitments	**590.9**	**512.3**

210. 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: Contingent Liabilities and Contingent Assets

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

212. There is one material contingent asset resulting from an arbitration award in 2010 as described below.

213. 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 2.9 million at 31 December 2016).

214. 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 the FAO of WFP's immunity, WFP applied to the High Court of South Africa to make the arbitral award an order of court for the purpose of enforcement in South Africa, which was granted in October 2011 and is now final.

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

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

Note 9: Losses, Ex-gratia payments and Write-offs

217. 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."

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

	2016	**2015**
	USD million	
Ex-gratia payments	0.4	0.1
Contributions receivable	4.4	3.9
Food commodity losses	21.1	11.6
Non-food item losses	0.1	0.3
Other assets and cash losses	1.4	0.2
	mt	
Commodity losses (quantity)	23 786	14 277

219. The *ex-gratia* payments mainly pertain to field emergency claims. 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.

220. Fraud reported in 2016 comprised entitlement, vendor and partner fraud involving WFP staff and third parties valued at USD 314,964 of which USD 23,100 has been recovered to date (USD 1,182,152 of which USD 234,174 recovered in 2015 and USD 779,278 in 2016).

Note 10: Related Party and Other Senior Management Disclosure

Note 10.1: Key Management Personnel

	Number of individuals	Number of positions	Compensation and post adjustment	Entitlements and benefits	Pension and health plans	Total remuneration	Outstanding advances against entitlements
			USD million				
Key management personnel, 2016	**6**	**6**	**1.2**	**0.4**	**0.3**	**1.9**	**0.1**
Key management personnel, 2015	**7**	**6**	**1.1**	**0.6**	**0.3**	**2.0**	**0.2**

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

Note 10.2: Other Senior Management

	Number of individuals	Number of positions	Compensation and post adjustment	Entitlements and benefits	Pension and health plans	Total remuneration	Outstanding advances against entitlements
			USD million				
Other senior management, 2016	**37**	**28**	**4.5**	**2.2**	**1.1**	**7.8**	**1.2**
Other senior management, 2015	**40**	**31**	**4.7**	**2.5**	**1.2**	**8.4**	**1.5**

222. 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.

223. 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.

224. 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.

225. Key management personnel and other senior management qualify for post-employment benefits and other long-term employee benefits at the same level as other employees. The actuarial assumptions applied to measure such employee benefits are disclosed in Note 2.12. Key management personnel and other senior management are ordinary members of the UNJSPF.

226. During 2016, compensation provided to close members of the family of other senior management amounted to USD 0.4 million (USD 0.7 million in 2015). There was no compensation provided to close members of the family of the key management personnel in 2016 and 2015.

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

Note 11: Events After Reporting Date

228. WFP's reporting date is 31 December 2016. 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

Cour des comptes
FRANCE

The First President

Paris, 27 MARS 2017

To the Executive Board

AUDIT OPINION

Opinion

We have audited the Financial Statements of the World Food Programme (WFP), for the 12 month period ended 31 December 2016. These Financial Statements include a Statement of Financial Position as at 31 December 2016, a Statement of Financial Performance, a Statement of Changes in Net Assets, a Statement of Cash Flow, a Statement of comparison of budget and actual amounts and Notes including a summary of the accounting policies and other information.

In our opinion, the financial statements present fairly the financial position of the World Food Programme as at 31 December 2016 and the results of the operations for the period, in conformity with the IPSAS (International Public Sector Accounting Standards). The financial statements were prepared in accordance with the stated accounting policies and the accounting polici financial statements are free from material misstatements. As required by the Charter of ethics of the *Cour des comptes*, we guarantee the independence, the fairness, the neutrality, the integrity and the professional discretion of the auditors. Furthermore, we also fulfilled our other ethical obligations in compliance with the Code of Ethics of the International Organisation of Supreme Audit Institutions (INTOSAI). The responsibilities of the auditor are more extensively described in the section “Auditor’s Responsibilities for the Audit of the Financial Statements”.

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

Management’s Responsibilities for the Financial Statements

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

Didier MIGAUD

Cour des comptes
FRANCE

AUDIT REPORT

FINANCIAL STATEMENTS OF THE WORLD FOOD PROGRAMME

FOR THE YEAR ENDED 31 DECEMBER 2016

REFERENCE COUR DES COMPTES : WFP-2017-1

WFP
World Food Programme
wfp.org

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I. OBJECTIVES AND SCOPE OF THE AUDIT

1. In accordance with our letter of notification dated 16 December 2016, a team of eight external auditors (including an IT expert and a data analyst) carried out the verification of the Financial Statements of WFP for the year ended 31 December 2016. The audit work was primarily carried out at WFP's Headquarters in Rome during two phases: an interim mission from 5 to 16 December 2016 and a final mission from 20 February to 10 March 2017. The objective of this audit was to issue a report and an opinion on WFP's Financial Statements for the year ended 31 December 2016.

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

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

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

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

6. A letter of engagement was drawn up with the Executive Director in order to ensure that, in accordance with the international audit standards, the respective obligations of the management and of the External Auditor are clearly understood. In addition, before each audit, the External Auditor communicates to the Secretariat the scope of the verifications which he undertakes.

7. This report comes under the annual work plan of the External Auditor submitted to the Executive Board of WFP during its Second Regular Session of November 2016, which details the verifications to be carried out between July 2016 and June 2017. Pursuant to the terms of reference, the External Auditor must produce each year an audit report on the Financial Statements of WFP (subject to the approval of the Board) accompanied by an opinion on the accounts, two reports on the performance and the regularity of the management of WFP, also known as "performance audit reports" (submitted to the Board for consideration) and ten management letters prepared at the end of visits to the external offices (including regional bureaux and country offices). The External Auditor also validates the draft annual report on the implementation status of its previous recommendations, submitted by the Secretariat to the Board for consideration.

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

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

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

- whether the Financial Statements fairly reflect, in all material respects, WFP's financial position at 31 December 2016 and results of operations recognized during the period, in accordance with IPSAS;
- whether the Financial Statements were prepared in accordance with the Financial Regulations and stated accounting policies;
- whether the accounting policies applied correspond to those used in the previous year;
- whether the transactions were carried out in compliance with the Financial Regulations and legislative authority.

11. Each observation and each recommendation was discussed with the relevant staff. The audit closure meeting was held with senior management of WFP's Finance and Treasury Division (RMF) on 9 March 2017. The management received the External Auditor's draft report and provided feedback; this report fully takes into account its comments and answers.

12. The External Auditor expressed an unqualified opinion on the Financial Statements. Without qualifying this opinion, an emphasis-of-matter paragraph has been added to draw the reader's attention to the change in accounting policy that took place in 2016 on the recognition of revenues relating to future-year contributions.

[1] Bangkok and Dakar regional bureaux, WFP offices in Brussels, Copenhagen and London, country offices in Burkina Faso, Cambodia, Cameroon, the Central African Republic, Ethiopia, the Lao People's Democratic Republic, Myanmar and Pakistan.

II. LIST OF RECOMMENDATIONS

13. Recommendations are ranked according to their priority level:

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

Field	Priority	Recommendations
Cash-based transfers	1	The External Auditor recommends that WFP carries out the following actions to set up controls to prevent and detect risks related to the cash-based transfers activity: 1. reinforces the harmonization of beneficiary management systems by increasing the deployment rate of the SCOPE system and by systematically integrating the report of digital data necessary for the identification of beneficiaries; 2. regularly updates beneficiary information, documents the follow-up of modifications, and supervises the updates; 3. establishes a secure beneficiary data transmission system ensuring that the file transmitted by the sender corresponds in all respects to the file received by the recipient (export, sending and integration secured through automation of the process); 4. under the close supervision of Headquarters, extends analysis of data on sales carried out by retailers and directs it to usage that enables detection of potential errors or frauds and to ensure the traceability of work carried out in this area.
Contributions revenue and receivables	3	The External Auditor recommends that WFP carries out the following actions to improve processes for accounting contributions: 5. carries out a thorough analysis of all the conditions associated with the contributions, in particular those for which the donor reserves the right to decide their utilization at a later date, and to draw the consequences regarding the appropriate accounting treatment according to IPSAS 23; 6. makes an inventory of all the third-party organizations for which it ensures a secretariat and fund management service, analyses the legal framework to determine whether WFP acts as an agent within the meaning of IPSAS 9, and draws the consequences regarding the accounting policy to apply; 7. re-examines the accounting treatment of stand-by partner agreements and states the policy applied in Note 1 to the Financial Statements.

Field	Priority	Recommendations
Contributions revenue and receivables	2	8. The External Auditor recommends that WFP improve traceability of the audit trail of contributions recorded in WINGS and the related contractual documentation, and enhance monitoring of receivables in the field and at Headquarters through donor-level monitoring.
IT review	1	9. The External Auditor recommends that WFP undertake actions to review the matters highlighted concerning general IT controls and WINGS application controls.

III. OBSERVATIONS AND RECOMMENDATIONS

1. Follow-up of previous recommendations

14. We examined the status of implementation of the four recommendations issued by the previous External Auditor, during its audit of WFP's Financial Statements for the year ended 31 December 2015. Our assessment of the level of implementation is summarized in the table below.

Table 1: Implementation status of the previous External Auditor Financial Statements for the year ended 31 December 2015

Subject	*Implemented*	*Being implemented*	*Not implemented*	*Total*	*Reference paragraphs in the 2015 report*
Cash-based transfers	x			1	Par. 31-33
Reconciliation of stocks	x			1	Par. 35-37
Projects at closure stage	x			1	Par. 39-42
Write-off of losses	x			1	Par. 44-45
Total	4	0	0	4	

15. WFP considers that it has implemented the first three recommendations, by deploying the new cash-based transfer procedures in July 2016, by transferring monitoring of inventory in the Commodity Movement Processing and Analysis System (COMPAS) to the Logistics Execution Support System (LESS) in October 2016, and by estimating provisions with respect to projects at the financial closure stage on an actual basis, when it is known, rather than on a statistical basis. The fourth recommendation, namely, to ascertain whether the Executive Director's approval for write-off of the food commodities losses is required, has also been implemented, as write-offs were formally approved by the Executive Director this year. Nevertheless, this approval was signed on 4 April 2017, i.e. after the finalization and certification of the Financial Statements of 27 March 2017. This matter is elaborated upon in Part 6.2 of this report.

16. The External Auditor confirms WFP's analysis on the follow-up of recommendations and noted in particular that the reconciliation of inventory recorded in the general accounting system with that monitored in the LESS system was satisfactory at the end of 2016. Nevertheless, there is room for improvement as regards internal control related to cash-based transfers, beyond the provisions of the procedures introduced in July 2016, and the justification of the accounting of contributions revenue and receivables. These subjects are elaborated in Parts 4.1 and 4.2 of this report and give rise to new recommendations.

2.1 Presentation of the simplified Statement of Financial Position

Table 2: WFP simplified Statement of Financial Position (*USD million*)

	31 12 2016	31 12 2015 (restated)	31 12 2015
Current assets			
Cash and investments	1,954	1,589	1,589
Contributions receivable	2,757	2,233	2,233
Inventories	643	650	650
Other	127	109	109
Total current assets	***5,481***	***4,582***	***4,582***
Non-current assets			
Contributions receivable	488	36	36
Investments	506	462	462
Property, plant and equipment and intangible assets	146	150	150
Total non-current assets	***1,141***	***648***	**648**
TOTAL ASSETS (a)	***6,622***	***5,230***	**5,230**
Current liabilities			
Deferred revenues	487	199	0
Vendor payables and other liabilities	578	536	536
Total current liabilities	**1,065**	**735**	**536**
Non-current liabilities			
Deferred revenues	500	40	0
Employee benefits	652	602	602
Loan	78	83	83
Total non-current liabilities	***1,230***	***725***	***685***
TOTAL LIABILITIES (b)	**2,295**	**1,460**	**1,221**
NET ASSETS (a)-(b)	**4,327**	**3,770**	**4,009**

Source: Statement I of WFP's Financial Statements (amounts rounded to the nearest figure)

17. WFP's simplified Statement of Financial Position, presented above, shows a solid financial position with net assets of USD 4.33 billion at 31 December 2016, an increase of USD 318 million compared to the 2015 figure as indicated in the previous Financial Statements.[2] This financial strength is also illustrated by the composition of the assets on the Statement of Financial Position at 31 December 2016, which, out of a total of USD 6.62 billion, includes USD 2.46 billion in cash and cash equivalents and short-term and long-term investments, i.e., 37% of the total for the Statement of Financial Position.

18. The simplified Statement of Financial Position includes a "31/12/2015 restated" column corresponding to the application of a change in accounting policy related to the recognition of future-year contributions, which WFP decided to implement in 2016. This change in accounting policy is presented in Part 3.1 of this report and has given rise to an emphasis of matter in the audit opinion on the Financial Statements for 2016. This change resulted in a USD 239 million increase in liabilities and, as a consequence, a decrease of the same magnitude in net assets, between the Financial Statements for 2015 that were presented last year and the restated statements.

[2] The increase is USD 557 million with respect to the restated 2015 net assets.

19. This change in accounting policy resulted in the portion of contributions stipulated for future years by the donors now being presented as deferred revenue on the liabilities side of the Statement of Financial Position. The fact that this line item increased from USD 239 million at the end of 2015 (199+40), in the restated statements, to USD 987 million at the end of 2016 (487+500) is testimony to WFP's success in collecting these contributions.

20. WFP's long-term liabilities include employee benefits obligations (the largest portion of which concerns the after-service medical plans), which totalled USD 652 million at the end of 2016. WFP has set up a long-term investment in order to fund these liabilities, pursuant to the Executive Board decision in December 2010. The balance of this investment stood at USD 445 million at 31 December 2016.

2.2 Presentation of the simplified Statement of Financial Performance

Table 3: WFP simplified Statement of Financial Performance *(USD million)*

	2016	2015 (restated)	2015
Revenue			
Contributions	5,771	4,662	4,808
Other revenue	138	103	103
Total revenue	***5,909***	***4,765***	***4,911***
Expenses			
Food commodities distributed	2,051	1,784	1,784
Cash-based transfers distributed	882	679	679
Distribution and related services	641	636	636
Employee costs	826	797	771
Other expenses	967	920	920
Total expenses	***5,367***	***4,816***	**4,816**
SURPLUS/(DEFICIT) FOR THE YEAR	***542***	***-51***	**95**

Source: Statement II of WFP's Financial Statements (amounts rounded to the nearest figure)

21. 2016 was characterized by a very high level of contributions, totalling USD 5.77 billion, i.e., USD 1.1 billion more than the 2015 figure restated for the change in accounting policy relating to future-year contributions. Excluding this change, the amount of contributions in 2016 would have been USD 6.59 billion (taking into account future-year contributions recognized as deferred revenue on the liabilities side of the Statement of Financial Position), i.e., USD 1.75 billion more than presented for 2015 in the previous Financial Statements. The principal donors that contributed to revenue in 2016 were the United States of America, Germany, the European Union, the United Kingdom and Canada.

22. This very high level of revenue in 2016 did not lead to an equivalent increase in expenses, resulting in a substantial surplus of USD 542 million, which would have amounted to USD 1,329 million without the change in accounting policy. WFP considers that this situation is not due to its inability to employ the funding received, but to a seasonal effect: the level of funding recorded in the final quarter of 2016 was high – USD 2.2 billion – but it came too late to enable commitment of the funds before the end of the year. For information, WFP had already recorded a very high surplus of USD 1.4 billion in 2008.

23. The presentation of the expenses does not make it possible to determine precisely the portion of expenses directly attributable to beneficiaries of food assistance provided by WFP. It is possible to distinguish expenses related to food distributions and cash-based transfers (CBTs), but the Statement of Financial Performance does not enable the portion of staff costs and logistics costs directly related to distributions to be separated out from overheads, in other words costs that do not change according to production. Food distributions and CBTs totalled USD 2.9 billion, i.e., USD 470 million more than in 2015 and 55% of total expenses (an increase compared with the 51% observed in 2015). WFP clearly needs to have logistics and personnel to ensure that assistance reaches the beneficiaries, but it is difficult to evaluate, on the basis of the Financial Statements alone, what share of expenses this represents compared to the inevitable overheads for any international organization.

24. As regards CBTs, out of a total of USD 882 million, USD 470 million (53% of the total) was committed in Lebanon, Jordan, Turkey and Iraq, as this means was deemed particularly appropriate to needs related to the Syrian crisis. The most commonly used method was the distribution of electronic vouchers (USD 512 million, involving pre-paid card distribution and the sending of messages by mobile phone, for example), followed by the distribution of immediate cash (USD 169 million) and paper vouchers (USD 131 million). Even if the expenses related to this innovative activity increased by USD 203 million between 2015 and 2016, WFP's principal means of action remains food distribution, which represented USD 2 billion in 2016, an increase of USD 267 million compared to 2015.

25. Staff costs increased between 2015 and 2016, mainly due to the increase in WFP staffing: 15,625 employees at end 2016, i.e., 392 people more than at the end of 2015. Among these, the 3,546 people whose pay is managed directly at Headquarters (international staff and consultants in particular) alone represented an expense of USD 416 million in 2016, i.e., more than 50% of staff costs.

3. Main audit points

3.1 Change in accounting policy on the recognition of revenues

26. Until 2015, WFP recognized all future-year contributions as revenue for the year in which the donor agreement was concluded, independently of the years in which the contributions were to be employed. Recognizing the strong growth in these future-year contributions, WFP decided to change its accounting policy to record the portion of contributions relating to future years as deferred revenue. WFP based this decision on the treatment provided for in IPSAS 23 for contributions subject to conditions, considering that the future-year dimension created a condition for usage within the meaning of the aforementioned standard. WFP also considered that this involved a change in accounting policy: it thus restated the 2015 accounts and provided information on this change in the Notes to the Financial Statements.

27. This change had a material impact on the Financial Statements, which show deferred revenues of USD 986.2 million on the liabilities side of the Statement of Financial Position (Statement 1) for 2016 and deferred revenues of USD 238.6 million on the liabilities side of the Statement of Financial Position for 2015. It also reduced the revenue and results for the year recognized on the Statement of Financial Performance (Statement 2). Thus, while the Statement of Financial Performance for 2015, as approved last year, showed a surplus of USD 94.6 million, the 2015 Statement of Financial Performance restated for the change in accounting policy now shows a deficit of USD 50.9 million. Likewise, excluding this change in policy, the 2016 surplus would be USD 1.3 billion rather than USD 541.7 million.

28. **The External Auditor agrees with this change in accounting policy, but considers that, given its material impact on the Financial Statements, it is an essential point for the comprehension of these. The External Auditor has therefore formulated an emphasis of matter in its opinion on the 2016 Financial Statements, in order to draw the Financial Statements that describe the change in accounting policy and its impact.**

29. In order to determine its position, the External Auditor reviewed the supporting documentation produced by WFP with regard to the IPSAS applicable, compared the accounting policy considered with those practiced by other international organizations, and consulted members of the United Nations Panel of external auditors as well as a member of the IPSAS Board. This work shows that the IPSAS Board is reviewing this matter, which may result in the adoption of a new standard; in that case, WFP would have to review its accounting policy in order to bring it into line with the IPSAS that will then be applicable. However, it should be noted that WFP is not the only international organization to use thus the concept of deferred revenues.

3.2 Accounting treatment of stocks transferred to partners but not yet distributed to beneficiaries at 31 December 2016

30. WFP uses different modalities to recognize assets held for its own account by partners, depending on whether they involve food commodities or CBTs. These modalities are presented in paragraphs 30 and 31 of Note 1 to the Financial Statements. They result in food commodity stocks being removed from the asset side of the Statement of Financial Position once they are handed over to cooperating partners or service providers, even if they have not yet been distributed to beneficiaries, while CBTs are only removed once they are distributed to the beneficiaries.

31. WFP considers that the use of these different modalities is warranted by the type of contractual commitments and operating modalities. WFP does not retain control of food commodity stocks once they have been transferred to partners as it does not have physical control over the partners' warehouses; on the other hand, it retains control of CBTs, as contractual clauses stipulate that the partner shall use a dedicated bank account authorized by WFP and that the funds are reimbursable to WFP until they are distributed to beneficiaries. At 31 December 2016, the stock held by partners that was removed from the asset side of the Statement of Financial Position represented 93,543 metric tons of food, i.e., around 9% of the total inventory.

32. The External Auditor sees no reason, in view of the accounting standards applicable, to change this accounting treatment.

4. Main internal control points

4.1 Risks linked to the cash-based transfer activity in the context of the new procedure implemented since July 2016

33. In recent years, WFP has developed a new food assistance activity consisting of making cash-based transfers to beneficiaries. This activity represented USD 882 million in 2016 for 13.3 million beneficiaries as against USD 679 million in 2015 for 9.6 million beneficiaries. It offers the advantage of reducing certain distribution costs as it eliminates landside transport, storage and handling costs and helps shorten transfer times to beneficiaries. There are four distribution models: immediate cash (19%), cash account (8%), e-vouchers (58%) and paper vouchers (15%). These distribution models in turn use various delivery mechanisms (SMS, electronic cards, bank transfers, pre-paid cards, etc.) depending on the context and specificities of the operating zones, which requires the collaboration of retail partners and financial service providers or mobile telecom providers.

34. Cash-based transfers involve higher potential risks, in particular in terms of fraud. WFP declared to the External Auditor that the losses it reported in 2016 with regard to the CBT activity totalled USD 141,000 pertaining to five dossiers, of which USD 32,000 is deemed recoverable. These losses resulted from fraud or errors. Aware of this situation, WFP, on the one hand, implemented a new CBT procedure in July 2016 and, on the other, deployed proactive integrity review missions on cash-based transfer operations in Lebanon and Jordan.

35. The External Auditor has analysed this activity, reviewed the new procedure, taken note of the proactive integrity review reports and carried out walk-through tests, substantive tests on samples and data analyses. This work led to the conclusion that certain significant risks were not covered sufficiently by the internal controls in place. These were either risks of errors that might affect the Financial Statements, or risks of fraud or financial losses for WFP. Some of the risks are inherent to the activity of WFP and are also present for usual food distribution activities. However, the cash-based transfer activity has specific features that demand adaptation of internal control. These risks, described below, relate to the reliability of beneficiary data, secure transmission of this data and the sales carried out by retailers.

- Reliability of beneficiary data. Over the past few years, WFP has developed the SCOPE (System for Cash Operations) digital platform, which is used for the electronic registration of beneficiaries and data transfer management. At end-2016, SCOPE had a coverage rate of around 30%[3] of the amounts distributed and WFP has set the target of attaining a rate of 90% at end-2017. A certain number of country offices have developed alternative local IT systems to register cash-based transfer beneficiaries, some of which have generated losses (as is the case for Kenya, with a loss of USD 33,000 in April 2016). This type of system sometimes presents technical shortcomings allowing for double registrations, or requiring manual restatements, and exposes the country offices to misstatements and additional risks, including cyber-security risks, each time further developments are needed. Other countries still carry out monitoring of the beneficiary list using an Excel spreadsheet, which presents a high risk of errors or manual manipulation.

- Secure transmission of beneficiary data. The SCOPE solution still allows the export of beneficiary data in the unsecured comma separated value (CSV) format in order to exchange this data with its cooperating partners or with financial institutions. This type of format allows for manual modifications and exposes WFP to the risks of data alteration or corruption. WFP has developed a solution enabling the automated transmission of data, which should be fully deployed in 2017.

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[3] Data reported by WFP.

- Detective controls on sales carried out by retail partners. The recent proactive integrity review reports detail apparently abnormal movements detected in some reporting of sales carried out by retail partners. The latter are generally equipped with Point-of-Sale systems (POS) that reconstitute details of sales carried out to the benefit of WFP's beneficiaries. So as to enhance cost efficiency, WFP has started to carry out data analyses to help retail partners optimize inventory levels according to consumption by beneficiaries. This type of control helps identify abnormal sales transactions (late hours or repetitive peaks in transaction volumes), undue transaction costs, excessive prices for beneficiaries or the sale of unauthorized products.

36. The External Auditor thus considers that additional actions must be taken by WFP with respect to controls on risks related to the cash-based transfer activity. These recommendations should be Priority 1 level, as certain weaknesses observed are prone to creating risks of fraud.

Recommendation 1. The External Auditor recommends that WFP reinforces the harmonization of beneficiary management systems by increasing the deployment rate of the SCOPE system and by systematically integrating the report of digital data necessary for the identification of beneficiaries.

Recommendation 2. The External Auditor recommends that WFP regularly updates beneficiary information, documents the follow-up of modifications, and supervises the updates.

Recommendation 3. The External Auditor recommends that WFP establishes a secure beneficiary data transmission system ensuring that the file transmitted by the sender corresponds in all respects to the file received by the recipient (export, sending and integration secured through automation of the process).

Recommendation 4. The External Auditor recommends that WFP extends, under the close supervision of Headquarters, analysis of data on sales carried out by retailers and directs it to usage that enables detection of potential errors or frauds and to ensure the traceability of work carried out in this area.

4.2 Accounting policies and internal control relating to revenue and receivables resulting from contributions

37. In both these areas, improvements could be made to current procedures for recognizing contributions revenue and receivables. These involve, on the one hand, accounting policies used to record certain operations and, on the other, the traceability of the audit trail for the recognition of revenue.

38. Concerning the accounting policies used at present:

- As indicated in Part 3.1 of this report, WFP changed its policy with regard to recognition of revenues for future-year contributions in 2016, considering the time stipulation as a condition within the meaning of IPSAS 23. However, other factors could constitute conditions with respect to this standard. Therefore, WFP's position should be better justified when it considers that a contribution pending allocation (i.e., when a donor specifies that part of its contribution may only be used at a later date depending on indications it will specify at that time), does not constitute a condition within the meaning of said standard. The accounting treatment of these contributions, which represented USD 29 million in 2016, should be better justified, as the existence of a condition would imply recognition of a liability rather than revenue.

- WFP includes as revenue all amounts received from third-party organizations such as the African Risk Capacity for which WFP provides secretariat and fund management services (USD 8.9 million was recognized as revenue in 2016). In this case, WFP deems that, as it does not consider itself as meeting the criteria under IPSAS 9 to be qualified as an agent, it can recognize this revenue; otherwise, WFP would have to recognize a liability instead of revenue. This position should be better justified.
- In the Notes to the Financial Statements, WFP indicates that it recognizes the revenue from contributions at the date of their confirmation in writing by the donors. However, this is not the case when donors provide personnel or equipment to support WFP operations when needed (Stand-by Partner agreements) as, in these specific cases, the revenue is recognized when services are actually provided.

Recommendation 5. The External Auditor recommends WFP carries out a thorough analysis of all the conditions associated with the contributions, in particular those for which the donor reserves the right to decide on their utilization at a later date, and to draw the consequences regarding the appropriate accounting treatment according to IPSAS 23;

Recommendation 6. The External Auditor recommends that WFP makes an inventory of all the third-party organizations for which it ensures a secretariat and fund management service, analyses the legal framework to determine whether WFP acts as an agent within the meaning of IPSAS 9, and draws the consequences regarding the accounting policy to apply;

Recommendation 7. The External Auditor recommends that WFP re-examines the accounting treatment of stand-by partner agreements and states the policy applied in Note 1 to the Financial Statements.

39. Additionally, WFP has gone from making a statistical estimate of the depreciation of overdue contributions receivable, based on historical data, to a case-by-case estimate. This change has no significant impact on the Financial Statements, depreciation at year-end 2016 coming to USD 15.5 million (compared with USD 21.4 million at end-2015). The new method is preferable as it allows a more precise estimate. However, WFP still uses a statistical method based on historical data to estimate the bulk of the impairment of receivables relative to projects for which not all earmarked funds will be necessary and so the balance must be returned to donors. This depreciation amounted to USD 111.6 million at year-end 2016 (compared with USD 92.2 million at end-2015).

40. **We consider that an estimate based on a case-by-case analysis would be preferable. However, WFP considers that this method would in no way guarantee a more accurate estimate while substantially increasing the workload on its services. This point will be discussed further during the next financial audit mission.**

41. The External Auditor reached the same conclusions concerning the traceability of the audit trail as those formulated in the Office of Internal Audit's Report AR/15/13 on WFP management of donor funding in November 2015. The auditor considers that observations 3, 5, 7, 8 and 10 of the report are still relevant. These observations relate to follow-up of the conditions set by donors, management of the grants management (GM) module in the WFP Information Network and Global System (WINGS), monitoring of contribution receivables and unspent balances to be refunded, as well as the sharing of information.

42. WFP's system for the recognition of revenue relies mainly on an IT system, in particular the FI (Finance) and GM modules in WINGS, which has not been configured to monitor the contribution input validation process or subsequent accounting movements. Verification of the exhaustiveness of the recognition of contributions, entered by WFP staff at Headquarters or in the liaison offices is made difficult, in particular, by an audit trail that does not ensure sufficient traceability of the reconciliation between the data generated by WINGS and the corresponding contractual documents; it is also complicated by the absence of a link between the sub-grants input to a single contribution.

43. Reconciliation of receivables with the responses obtained from donors, under the direct confirmation procedure set up by the External Auditor, was made more complex by a monitoring of receivables by contribution and not by donor. Certain discrepancies could be identified and explained. However, there remain other discrepancies concerning older contributions from certain donors or contributions entered by WFP under a classification (type or project) that is very different from that of the donor.

44. The External Auditor acknowledges that these difficulties are also linked to the inherent complexity of the contribution mechanism, which may be modified by donors and for which the documentation is not uniform.

Recommendation 8. The External Auditor recommends that WFP improve traceability of the audit trail of contributions recorded in WINGS and the related contractual documentation, and reinforce monitoring of receivables in the field and at Headquarters through donor-level monitoring.

5. Conclusions of the IT review

45. 2016 being the first year of the External Auditor's mandate and the production of WFP's Financial Statements being carried out using the WINGS enterprise resource planning software based on SAP architecture, the audit team carried out a two-week IT review during the interim mission in December 2016. This work focused on reviewing the IT general controls (i.e., controls on general IT security) and several key IT application controls in WINGS (i.e., IT controls occurring in the financial statement production process). This review shows that the IT environment contributing to the preparation of the Financial Statements is satisfactory overall, even if there are areas of risk that may be improved. These are presented in the following paragraphs. The External Auditor has not ruled out conducting another IT review, as part of its financial audit mission, in two years' time, in particular, in order to examine the progress made on the weaknesses observed.

46. Regarding the IT general controls, the following issues require particular attention:

- 15 persons had administrator access to the entirety of WINGS at the time of the audit. We consider this number to be excessive, but WFP has underlined in its reply that this access is required by its service provider and that risk mitigation measures are in place. The level of residual risk will be verified during the next IT review.

- 193 persons who left their positions in 2016 still had their account with access rights at the time of the audit; following the audit WFP explained that this situation does not pose a risk as the accounts are deprovisioned when agents leave, making them impossible to use. We will verify this point at the next IT review.

- The procedure describing the controls carried out by the administrators, including as regards the segregation of duties, should be better formalized.

47. Regarding the IT application controls, the following issues require particular attention:

- Authorized persons can modify the bank details of a supplier, and the system does not provide for systematic approval by a third party: indeed, the corresponding control in the system has not been activated, although it represents good practice. WFP considers that the internal control procedures for these changes to bank details are sufficient. This point will be verified at the next review.

- Finance officers, who are in charge of invoice capture, can remove an invoice item from the Invoice Tracking System workflow without informing the spending office requestor.

- At the time of the audit, 100 persons had access rights allowing them to modify data in the supplier file. WFP has explained that these 100 persons were divided into several categories, each of which had limited rights. During the audit we did not receive an explanation of the role and responsibilities of 43 of these persons.

- At the time of the audit, 206 users had at least two approval levels in the purchase order walkthrough process, which is not in conformity with best practices in terms of the separation of functions. In view of the inherent risk of potential fraud given the environment WFP operates in, it is not opportune to deviate from the most rigorous practice of segregation of duties, even if WFP rules allow for some flexibility in the field to account for specific operational constraints: thus, 35 persons had the possibility to both approve an order and carry out payment; there were also 26 users that had six levels of delegation, in other words, the possibility of carrying out six tasks in the purchase process that are considered incompatible. In response, WFP indicated that the accumulation of levels of approval is under control and does not systematically lead to risk situations. These points will be verified at the next IT review.

Recommendation 9. The External Auditor recommends that WFP carries out actions to address the areas of improvement observed concerning WINGS II IT general controls and applications controls.

48. This recommendation should be high priority (level 1), as certain risks are prone to creating opportunities for fraud if they are not properly controlled.

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

6.1 Prevention of fraud risk

49. WFP is exposed to an inherent risk of fraud due to its activity, the regions in which it operates, the nature of its assets, the very decentralized nature of its organization and the large number of partners with which it interacts. Frauds are regularly detected as shown by the annual reports of the Inspector General. In 2016, the latter reported to the External Auditor that he was aware of four frauds or presumptive frauds for a total of USD 330,000, of which USD 23,000 was ultimately recovered. The example of the Central African Republic country office, which was the object of a field audit by the External Auditor in 2016, also highlighted that some cases of losses that may be potential cases of fraud were not systematically reported to the Inspector General and that some were reported late.

50. The role of the External Auditor is not to investigate frauds nor provide any assurance on the matter whatsoever. Nevertheless, he relies on his appreciation of the risk of fraud to define his audit strategy and his work in application of ISA 240. In view of what was set out in the previous paragraph, the External Auditor considered that inherent fraud risk was high at WFP. As such, the External Auditor adapted his procedures in consequence, in particular by paying attention to the unpredictability of a portion of the accounting entries tested and by conducting data analyses on cash disbursements in 2016 with the help of Benford's law on abnormal number distributions. This work[4] did not result in the detection of new potential cases of fraud.

51. The External Auditor observes that WFP is equipped with significant resources to detect and punish fraud, with, in particular, a zero-tolerance policy, investigations conducted by the Inspector General and proactive integrity reviews, as carried out in 2016 on operations in the Republic of the Congo, the Central African Republic, on food procurement and on operations in the Syrian Arab Republic, as well as on CBTs in Lebanon and Jordan.

52. Nevertheless, it is necessary to reinforce the elements of internal control that could help prevent and detect potential fraud. Implementation of the recommendations formulated in Part 5 of the present report, namely on the IT review, will assist in reducing opportunities to commit fraud. Furthermore, the External Auditor's management letters on reviews of the Dakar and Bangkok regional bureaux, and its report on decentralization, contain recommendations aimed at reinforcing the role of regional bureaux in the supervision and oversight of the country offices in their geographical region. Lastly, the cash-based transfer activities, which are expanding, present a high inherent risk: implementing the recommendation formulated in this respect in Part 4.1 of this report would enhance control over this area, beyond what is provided in the procedure established in July 2016.

6.2 Write-offs and ex gratia payments

53. WFP had not formally submitted a separate document to the External Auditor with a list of all the ex gratia payments[5] and amounts written off of losses of cash, commodities and other assets, even though Article 12.4 of the Financial Regulations provides that all amounts written off be submitted. WFP considers that the detail of losses and ex-gratia payments presented in a note to the draft Financial Statements submitted to the External Auditor suffices with regard to that Article. As a result, the External Auditor has included a specific paragraph in the letter of representation, so that WFP management confirms to the auditor that the elements reported in this respect in Note 9 of the 2016 Financial Statements were all encompassing.

[4] The main anomaly detected on cash disbursements with respect to Benford's Law related to 6,287 disbursements of an identical amount of USD 86 that occurred between 19 and 29 September on a bank account at the Philippines country office: the analysis showed that this did not involve an anomaly but payments carried out under a CBT programme.

[5] Payment made when there is no legal liability, but the moral obligation is such as to make payment desirable (WFP Financial Regulations, article 1.1).

54. **The External Auditor noted that food commodities written off virtually doubled compared to 2015: they stood at USD 21.1 million in 2016** versus USD 11.6 million in 2015, with the main losses occurring in South Sudan, Yemen and the Syrian Arab Republic. At the request of the External Auditor, these write-offs were formally authorized by the Executive Director, pursuant to the provisions of Article 12.4 of the Financial Regulations. However, this authorization was given on 4 April 2017, after the 27 March 2017 cut-off date for the Financial Statements. Moreover, at said cut-off date, write-offs had not undergone a systematic detailed analysis and there was no plan of action to limit the future risk. It should be noted that the Report on Post-Delivery Losses for 2015 including this analysis was only released on 18 May 2016, more than a month and a half after the cut-off date, when the losses were formally registered**. The write-offs should only be recognized after formal authorization from the Executive Director, on the basis of the annual Report on Post-Delivery Losses, after full investigation, in accordance with the provisions of Article 12.4 of the Financial Regulations.**

55. Ex-gratia payments and other write-offs in 2016 were authorized by the Executive Director and represented a total of USD 6.3 million in 2016, an increase compared to USD 4.5 million in 2015. This increase was attributable in part to ex-gratia payments made to staff based in South Sudan that lost personal goods as a result of conflict in 2013, and in part to the write-off of a contribution receivable from South Sudan, and write-offs of value-added tax receivables from Uganda and Malawi.

IV. ACKNOWLEDGEMENTS

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

End of the audit observations.

Appendix: Audit adjustments and requested modifications to the Financial Statements

1. The work carried out by the External Auditor did not reveal any audit adjustments, whether due to error or difference in judgement.

2. The External Auditor requested that the information presented in the Note 1 to the Financial Statements with respect to the change in accounting policy relating to recognition of revenues on future-year contributions be improved. WFP agreed to carry out this modification. The information concerned is the object of an emphasis of matter in the audit opinion.

ANNEX

	Name	Address
WFP	World Food Programme	Via Cesare Giulio Viola 68/70 Parco de' Medici 00148 Rome, Italy
General Counsel and Director, Legal Office	Bartolomeo Migone	Via Cesare Giulio Viola 68/70 Parco de' Medici 00148 Rome, Italy
Actuaries	AON Hewitt Associates	45 Glover AVE STE 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	First President of the Cour des Comptes (France)	13 rue Cambon 75001 Paris, France

Acronyms Used in the Document

BMIP	Basic Medical Insurance Plan
CBT	cash-based transfer
COMET	country office tool for managing effectively
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DOC	direct operational costs
DSC	direct support costs
ERM	enterprise risk management
FFR	Financial Framework Review
GA	General Assembly
IPSAS	International Public Sector Accounting Standards
IRA	Immediate Response Account
ISA	International Standards on Auditing
ISC	indirect support costs
LESS	Logistic Execution Support System for Cash Operations
MICS	Medical Insurance Coverage Scheme
MSCI	Morgan Stanley Capital International
OIG	Inspector General and Oversight Office
PIR	Proactive Integrity Review
PP&E	property, plant and equipment
PSA	Programme Support and Administrative (budget)
PSAEA	PSA Equalization Account
SCOPE	System for Cash Operations
SDG	Sustainable Development Goal
SG	Secretary-General
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