FC 144/2

May 2012

E

	منظمة الأغذية والزراعة للأمم المتحدة	联合国粮食及农业组织	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

FINANCE COMMITTEE

Hundred and Forty-fourth Session
Rome, 14 – 15 May 2012
Audited Annual Accounts, 2011

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

Mr Pedro Guazo

Director, Finance and Treasury Division

World Food Programme

Tel: +3906 6513 2293

EXECUTIVE SUMMARY

- The WFP Secretariat is pleased to submit the Audited 2011 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 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.
- For the first time a 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 "Report on the Implementation of the External Auditor Recommendations" (FC144/9).

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to endorse WFP's "Audited Annual Accounts, 2011" 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 "Audited Annual Accounts, 2011".**

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

Executive Board
Annual Session

Rome, 4 8 June 2012

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For approval

E

Distribution: GENERAL
WFP/EB.A/2012/6-A/1
3 May 2012
ORIGINAL: ENGLISH

AUDITED ANNUAL ACCOUNTS, 2011

NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for approval

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

Acting Chief Financial Officer and Officer-in-Charge, RM*:	Mr S. O'Brien	tel.: 066513-2682
Director, RMF**:	Mr P. Guazo	tel.: 066513-2293
Director, RMFF***:	Mr G. Craig	tel.: 066513-2094

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

* Resource Management and Accountability Department
** Finance and Treasury Division
*** Financial Reporting Service

TABLE OF CONTENTS

The Secretariat is pleased to submit the Audited 2011 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.

Additionally, this year for the first time a Statement on Internal Control has been issued with the annual financial statements. The statement provides specific assurance on the effectiveness of internal control in WFP.

Since 2008, the Secretariat has presented its responses to the External Auditor's recommendations at the same session at which the External Auditor's report is presented. These responses are contained in "Report on the Implementation of the External Auditor Recommendations" (WFP/EB.A/2012/6-H/1).

DRAFT DECISION*

The Board:

i) approves the 2011 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 US$752,890 during 2011 for the write-off of cash losses and receivables from staff and suppliers; and

iii) notes post-delivery losses of commodities during 2011 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.

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) for the year ended 31 December 2011. The External Auditor has given his opinion and report on the 2011 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.

FINANCIAL AND BUDGET ANALYSIS

Summary

2. 2011 has been another challenging year for WFP, its donors and its beneficiaries. With over 900 million people continuing to be affected by hunger, rising food and fuel prices, increasing social and political unrest, WFP is more needed and relevant today than ever before.

3. Throughout 2011, WFP continued its efforts to meet changing needs by providing the right tools and the right food in the right place at the right time. Despite the extremely difficult financial climate, donors continued to provide strong support with US$3,596.5 million in contributions allowing WFP to continue to provide assistance to beneficiaries and to address emergencies in the Horn of Africa and countries affected by the Arab Spring events.

4. WFP continued to operate within the International Public Sector Accounting Standards (IPSAS) environment, under which it recognizes its contributions revenue when confirmed in writing and expenses when goods and services are received or when food commodities are delivered. There is an inherent time-lag between the recognition of revenue and the recognition of expense. Resources available for use in 2011 therefore consisted of the fund balances at the end of 2010 and new contributions confirmed by donors during 2011. 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.

2011 Financial Performance

5. Total revenue was US$3,736.1 million, a reduction of US$530.1 million or 12 percent from the revenue of US$4,266.2 million in 2010. 2011 total revenue comprised of:

   - monetary and in-kind contributions: US$3,596.5 million;
   - currency exchange differences: (US$0.5) million;

- return on investments: US$27.5 million; and
- other revenue: US$112.6 million.

6. WFP spent a total of US$4,016.8 million, a reduction of US$220.9 million or 5 percent from 2010. Food commodities distributed in 2011 decreased by 0.8 million metric tonnes from 4.6 million in 2010 to 3.8 million in 2011, a 17 percent decrease. The decrease in the volume of commodities distributed is reflected in the reduced expenses, and partially reflects the increase in the use of new food assistance tools such as cash and vouchers.

7. In 2011, there was a deficit of revenue over expenses of US$280.7 million, compared to a surplus of US$28.5 million in 2010. This change was the net result of:

   - a decrease in contribution revenue of US$533.3 million from US$4,129.8 million in 2010 to US$3,596.5 million in 2011;
   - a decrease in spending of US$220.9 million from US$4,237.7 million in 2010 to US$4,016.8 million in 2011;
   - an increase in other revenue of US$6.1 million due to an increase in the level of Special Account activities; and
   - a decrease in other revenue items of US$2.9 million - the net result of a decrease in currency exchange revenue of US$7.8 million as the US dollar strengthened in 2011 against the Euro, the main non-United States dollar currency held by WFP and an increase in return on investments of US$4.9 million.

Financial Position at the End of 2011

8. At 31 December 2011, WFP had US$3,787.5 million in total Fund Balances and Reserves, of which US$2,836.0 million relate to the Programme's projects, representing approximately seven months of operational activity (seven months in 2010). The balance relates to the General Fund, Special Accounts, Reserves, Bilateral Operations and Trust Funds.

9. Total cash and short-term investments increased by US$326.8 million or 25 percent from US$1,329.1 million in 2010 to US$1,655.9 million in 2011. The increase is mainly due to the collection in 2011 of significant contributions receivable balances outstanding in 2010 and prior years; and an improvement in the average time taken to receive cash from donors. These changes also were reflected in the reduction in contributions receivable at the end of 2011 of US$1,825.1 million, a decrease of US$645.4 million or 26 percent from 2010.

10. WFP's cash and short-term investments included in the Programme Category Funds segment of US$1,065.3 million cover three to four months of operations, compared with two months in 2010.

11. The value of WFP's food commodity inventory at the end of 2011 increased by US$78.5 million or 12 percent from the 2010 value as a result of the increase in the average price of commodity inventory held despite a reduction in the tonnage held – 1.2 million metric tonnes at the end of 2011, an 8 percent decrease from that at the end of 2010 of 1.3 million metric tonnes.

12. Using the projected operational requirements in the 2012–2014 Management Plan, the 1.2 million metric tonnes of food commodity in inventory represents four months of activity.

Budgetary Analysis

Basis of the budget

13. The budget figures for direct project costs and indirect costs (Programme Support and Administrative (PSA) budget) which are disclosed in *Financial Statement V – Statement of Comparison of Budget and Actual Amounts* are derived from the Programme of Work in the Biennial Management Plan 2010–2011. 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.

14. In the original Management Plan 2010–2011, presented to the Board in November 2009, the total 2011 Programme of Work was US$4,346.6 million. This is disclosed in *Financial Statement V* as 'Original Budget'. By the end of 2011, the Programme of Work had expanded to reflect changes in WFP's project needs due mainly to the emergency operations in Pakistan, the Horn of Africa and countries affected by the Arab Spring events. The final 2011 Programme of Work was US$5,988.4 million, an increase of US$1,641.8 million or 38 percent. This is disclosed in *Financial Statement V* as 'Final Budget'.

Utilization of the budget

15. It is important to note that WFP can use resources when contributions are confirmed to approved projects, from funds given through advance financing facilities based on forecasted contributions or through strategic purchases from the Forward Purchase Facility. Therefore, budgetary utilization within the year is constrained by the timing of confirmed contributions, the amount of confirmed contributions, inherent operational constraints and availability of advance financing funds. In 2011, WFP's final direct cost budget was US$5,710.9 million. Utilization of the final direct project cost budget in 2011 was 61 percent, reflecting this constraint.

16. This utilization rate was reflected across the various cost components utilization rates as outlined below. The variation in the budgetary utilization of the different budget cost components is due to a number of different operational factors such as the planned origin of the commodities versus the actual location where food purchases were conducted.

- ➢ food commodity budget was consumed at 63 percent;
- ➢ external transport consumption was at 45 percent, resulting from an increase in actual local and regional purchases compared to planned;
- ➢ landside transport, storage and handling (LTSH) at 59 percent;
- ➢ other direct operational costs (ODOC) at 59 percent;
- ➢ direct support costs (DSC) at 66 percent.

17. The original 2011 PSA indirect cost budget was decreased from US$283.9 million to US$277.5 million. The final PSA budget consisted of US$237.7 million for regular PSA and US$39.8 million for the Capital and Capacity Funds.

18. Of the final approved regular PSA budget for 2011, 99 percent was utilized by 31 December 2011.

19. Of the final approved Capital and Capacity budget, 87 percent had been utilized at 31 December 2011. Most of the variance can be attributed to the remaining balances of United Nations Department of Safety and Security (UNDSS) funds and the Security Emergency Fund.

ENHANCING TRANSPARENCY AND ACCOUNTABILITY

20. Financial Regulation 12.1 requires WFP to ensure that its internal controls take into account prevailing best practices. In June 2009, WFP committed to review the scope for both adopting and then implementing best practice in internal control in line with guidance issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

21. In 2010, the first stage of this work was taken forward under the Strengthening Managerial Control and Accountability (SMCA) initiative. This showed that:

    i) WFP already had in place all the key elements of an effective system of internal control, but that they could be improved; and

    ii) successful implementation of initiatives to improve performance and risk management were a prerequisite for better internal control.

22. Work towards this goal continued during 2011:

    - A new Internal Control Framework was issued based on COSO, taking into account the views of the External and Internal Auditors and the Audit Committee. The framework consists of the five main COSO components – internal communications; risk management; control activities; information and communication; and monitoring – and contains 22 best practice principles.
    - A range of guidance material was developed to help managers implement the new internal control framework. This included a completely new guide for managers on internal control, a range of new internal control self-assessment tools and further guidance on the implementation of risk and performance management.
    - The Resource Management and Accountability Department provided both training and direct support on reviews of internal control and risk management for a number of country offices (focusing in particular on larger offices) and regional bureaux and Headquarters divisions.
    - The Secretariat continued to focus management attention on the effective follow-up of the recommendations of internal and external oversight bodies, reporting regularly to the WFP Audit Committee on the volume and nature of recommendations outstanding and the actions in train to address high risks.
    - A new Financial Resource Management Manual and a WFP-specific Human Resources (HR) Manual have been drafted and will be finalized and made available to all WFP staff in 2012.

- ➢ A new process was introduced whereby each and every senior manager provides the Executive Director (ED) (through WFP's framework of internal accountabilities) with a range of specific assurances related to the operation of internal control within their office entities. Line managers have reviewed individual assurance statements for completeness and accuracy, where appropriate.
- ➢ Further targeted action was taken to address key areas where internal control could be improved. These included: the implementation of a new Executive Management Council to both streamline and reinforce internal decision-making structures; further work to improve manuals, guidance and instructions available to staff; and major efforts to reinforce risk and performance management practices across WFP.

23. For the first time this year, a 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, which has now become one of the very few United Nations agencies and programmes to provide this additional level of assurance to its governing body.

24. The SIC has been prepared based on a thorough and organization-wide review of internal controls by managers, and an analysis and validation of the results of that review against the work and recommendations of WFP's internal and external auditors and evaluation services.

25. As the SIC makes clear, best practice on internal control continues to evolve, while the risks the organization faces also change over time. There will always be areas where there is scope for further improvements, and the Statement make specific reference to the most significant of these areas. The SMCA initiative will continue during 2012, both to address the specific issues raised this year and to further embed the concepts of strong managerial control into the organization's culture. The main areas of activity under the project will include:

- ➢ establishing a clear plan of action for addressing all the issues raised in the 2011 SIC;
- ➢ provide further support and training of managers and staff in key aspects of internal control;
- ➢ further refine the internal control guidance and tools and improve the assurance questionnaire completed by managers;
- ➢ finalize and issue a new WFP specific HR Manual; and complete work on outstanding sections of the new Financial Resource Management Manual (FRMM); and
- ➢ further actions to mainstream work currently undertaken under the SMCA initiative

26. WFP has prepared IPSAS-based Financial Statements since 2008. By adopting and implementing IPSAS in 2008, and consolidating this implementation since then, WFP enhanced its ability to produce more relevant and useful financial information, improving the transparency and accountability with which it manages its resources. During 2011, eight other United Nations agencies were also successful in their adopting of IPSAS for the 2010 financial year, which will assist in the future comparability in

financial performance and financial position between IPSAS-compliant agencies. WFP also undertook several additional significant steps during 2011 to further enhance transparency and accountability.

27. WFP continues to actively support other United Nations agencies in their efforts to implement IPSAS for a first time, through involvement on the High-Level Committee on Management (HLCM) Task Force on IPSAS. This support was welcomed greatly both by United Nations agencies that successfully implemented IPSAS in 2011, and other agencies still in the implementation process. WFP remains committed to fully supporting other United Nations agencies in this regard during 2012 and beyond.

28. IPSAS accounting standards are constantly being updated to reflect best accounting practice. WFP's continued compliance with IPSAS remains a priority and requires significant focus to ensure we keep up to date with professional developments. In 2010, four new IPSAS standards have been issued, dealing with financial instruments and intangibles (IPSAS 28: Financial Instruments: Presentation; IPSAS 29: Financial Instruments: Recognition and Measurement; IPSAS 30: Financial Instruments: Disclosures; and IPSAS 31: Intangible Assets). IPSAS 31 has been implemented and the others will be implemented from 2013, in accordance with IPSAS implementation requirements. In 2011, one new IPSAS standard was issued – IPSAS 32 – Service Concession Arrangements: Grantor, which is required to be implemented by 2014.

29. WFP is continuing to move further to gain the maximum benefit from IPSAS on the level of transparency and accountability in all aspects of its operations – 'The IPSAS Dividend'. In this regard, building on several initiatives since IPSAS implementation, in the first quarter of 2011, the Executive Management Council (EMC) consisting of the Executive Director and other senior staff members was established. The EMC met regularly to discuss issues and strategies of common concern, including the Quarterly Financial Statements, containing WFP's financial performance, financial position and cash flows, with supporting qualitative analysis and key financial performance metrics. This has served to strengthen senior management focus on identified financial risks.

Enterprise Risk Management and Financial Risk Management

Enterprise Risk Management

30. WFP's risk management policy was approved by the Board in November 2005. Since then, WFP has taken various actions to embed risk management across all its activities and is continuing to enhance its internal processes following IPSAS and the WFP Information Network and Global System (WINGS II) implementation.

31. A Risk Management Implementation Plan was developed and shared with the Audit Committee, who continue to receive regular briefings on progress on implementation. A corporate risk register was developed and is reviewed regularly by the EMC established in early 2011. The EMC covers the risk management tasks previously covered by the Executive Risk Management Committee (ERMC). In that regard the EMC facilitates decision-making on all corporate, operational and financial risks faced by the organization including the oversight and management of relevant mitigation actions.

32. As part of its commitment to improve transparency of risk management, the Secretariat has held a series of quarterly operational briefings to consider the contextual, programmatic and institutional risks arising from the corporate risk register as well as those that specifically impact country level operations (e.g. Afghanistan and Somalia).

33. Throughout 2011, WFP has continued to embed risk management across the organization. As at December 2011, 67 percent of office entities (country offices regional bureaux and Headquarters divisions) had formal risk registers. A network of performance and risk management champions has been established to drive forward best practice in this area. The Performance Accountability Management Division (RMP) plans to provide direct support and training to all offices that have yet to meet these high standards during 2011. To support effective risk management throughout the organization, RMP has developed a software application based on the SAP platform which will be rolled out to all business units and offices by 2013. A blueprint design with technical specifications has been completed and the configuration, testing and piloting of this system will be taken up in 2012 as part of the Risk Management implementation plan.

Financial Risk Management

34. 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, where feasible, potential adverse effects on the financial performance of WFP.

35. Financial risk management is carried out by a central treasury function using guidelines set out by the WFP Investment Committee and advice from the Investment Advisory Panel consisting of external investments experts. Established policies cover areas of financial risk such as foreign exchange, interest rate and credit risk, the use of derivative financial instruments, and the investing of excess liquidity. There is also no perceived risk that receivables and payables may not be liquidated when they fall due.

36. During 2011, the first phase of treasury management system enhancement was completed with the implementation of the treasury and risk management module for foreign exchange transactions, deposits and money market investments, including an on-line trading platform to obtain competitive prices from banks with a full audit trail. The enhanced treasury business processes allow for significant costs savings, in particular for foreign exchange conversions of donor funds into local currencies to support project implementation.

37. WFP's employee benefit liabilities totalled US$349.0 million at 31 December 2011. WFP sought advice from independent actuaries in establishing the value of these liabilities. Of this amount, US$217.7 million has been funded to date through the charging of relevant funds and projects. The balance of US$131.3 million has not yet been charged to individual funds and projects. These liabilities are accounted for as liabilities of the General Fund. 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 US$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.

Sustainability

38. WFP has evaluated the consequences of any potential reduction in contributions in the context of the global economic and financial situation, and whether it would lead to a consequential reduction in the scale of operations and number of beneficiaries 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. For this reason, we will continue to adopt the going concern basis in preparing WFP's financial statements.

39. My above assertion is supported by: i) the requirements I put forward in the Management Plan for 2012–2014; ii) the Strategic Plan prepared for the period 2008–2013; iii) the net assets held at the end of the period and contributions received in 2011; iv) the projected contributions levels for the year 2012; and v) the trend in donor support that has been sustaining WFP's mandate since its inception in 1963.

Administrative Matters

40. WFP's principal place of business as well as the names and addresses of its General Counsel, actuaries, principal bankers and External Auditor are given in Annex I.

Responsibility

41. 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 2011.

Statement I	-	Statement of Financial Position at 31 December 2011
Statement II	-	Statement of Financial Performance for the Year Ended 31 December 2011
Statement III	-	Statement of Changes in Net Assets for the Year Ended 31 December 2011
Statement IV	-	Statement of Cash Flow for the Year Ended 31 December 2011
Statement V	-	Statement of Comparison of Budget and Actual Amounts for the Year Ended 31 December 2011

Notes to the Financial Statements

Signed on original
Josette Sheeran
Executive Director

Rome, 28 March 2012

Statement on Internal Control

SCOPE OF RESPONSIBILITY AND PURPOSE OF INTERNAL CONTROL

42. The Executive Director of the World Food Programme is accountable to the 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.

43. 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. Therefore, it can only provide a reasonable and 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

44. By the very nature of its work as a humanitarian organization, WFP is called to go where it is needed. This exposes WFP to situations where there is a high level of inherent risk, both in terms of the security of its staff and its ability to maintain high standards of internal control. WFP seeks to engage fully with its governing bodies in both explaining the risks it faces and in sharing its response to such risks, seeking to minimize these wherever possible.

45. Internal control is a key role of management and integral part of the overall process of managing operations. As such, it is the responsibility of management of WFP at all levels to:

- Establish an internal environment that promotes effective internal control;
- Identify and assess risks that may impact the achievement of objectives;
- 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 staff have the information they need to fulfil their responsibilities; and
- Monitor the effectiveness of the controlling processes that have been established and foster continuous improvement to these processes.

THE INTERNAL CONTROL FRAMEWORK AND ENTERPRISE RISK MANAGEMENT

46. During 2011 WFP adopted a new internal control framework based on COSO best practice. The new framework is supported by a range of additional guidance and tools to help managers assess the effectiveness of internal control in their office entities.

47. WFP has continued to develop and enhance its risk management processes in line with its policy on Enterprise Risk Management. Under this policy, WFP seeks to identify and manage risks at two broad levels – risks that impact an individual office entity (country office, regional bureau, Headquarters division) and risks that impact WFP as a whole.

48. WFP, and the United Nations in general, monitors the security situation in each country in which it operates, taking strategic decisions where necessary to limit WFP's operations and the risk exposure of its staff. WFP's goal is to ensure that all risks at an office entity level are captured in a formal risk register, subject to regular review by line managers and escalated to more senior managers for attention where necessary.

49. A high-level corporate risk assessment has been undertaken resulting in the production of a corporate risk register, which was regularly reviewed and amended by the Executive Management Council during 2011. The corporate risk register provides a means of judging the level of risk exposure across WFP. It is shared with the WFP Audit Committee and is used as a basis for briefings to the Executive Board. Since the first quarter of 2011, management has provided quarterly operational briefings to the Executive Board, where the risk appetite of WFP is considered in the context of specific country operations.

50. As a consequence, the Audit Committee which is mandated to advise the Executive Director and the Executive Board on effectiveness of internal control and risk management in WFP, has received a systematic update of the risk profile throughout 2011.

REVIEW OF THE EFFECTIVENESS OF INTERNAL CONTROL

51. The review of effectiveness of WFP's internal controls is informed by managers within WFP who have the responsibility for the identification of 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 128 senior WFP managers including Deputy Executive Directors, Regional Directors, Country, Liaison Office and Headquarters Division Directors. This represented 100 percent compliance in the process and submissions were subject to at least one level of review by their immediate supervisors. These statements included actions taken to address risks, as well as actions taken to implement oversight body recommendations; and

    ii) **A letter of assurance from the Inspector General** based on the results of internal audit and inspections and investigations by the Inspector General and the Oversight Office.

52. The Audit Committee further advises on the effectiveness of WFP's internal control systems, including risk management and internal governance practices.

SIGNIFICANT RISK AND INTERNAL CONTROL MATTERS

53. Assurance statements received from WFP Directors provided significant and positive assurance on the effectiveness and strength of WFP's internal controls. However, the following areas have been identified where further improvements in internal control are required:

i) **Full implementation of the enterprise risk management strategy.** WFP has continued to implement its enterprise risk management strategy throughout 2011. WFP continues to make progress with the implementation of formal risk registers, which now exist in 65 percent of WFP country offices (55 percent in 2010), covering 89 percent of operational expenditure (67 percent in 2010). There is a need for further training and guidance on managing risk and this will be addressed in 2012. WFP expects all of its offices to have formal risk registers in place by the end of 2012.

ii) **Further implementation of emergency preparedness strengthening initiatives.** WFP is putting in place a number of initiatives to strengthen emergency preparedness, including the development of a three-year Preparedness and Response Enhancement Programme (PREP). PREP includes several discrete projects that seek to enhance WFP's capability to respond effectively and efficiently to emergencies and includes initiatives that will, among other things, ensure that several important internal audit recommendations will be addressed. These projects include, improving emergency training programmes, making better use of staff rosters and improving procedures for recruiting staff externally. Furthermore, WFP is introducing a new Emergency Preparedness and Response Package (EPRP) to help country offices to prepare for emergencies. At 31 December 2011 around 20 percent of country offices had reported that they had implemented the EPRP and WFP expects that all offices, with sufficient support, will have fully implemented EPRP by the end of 2012. WFP is also developing an on line monitoring tool to provide a capability to monitor EPRP minimum preparedness and readiness actions and advise senior management regarding compliance and gaps. WFP expects the complete PREP programme to be fully implemented by 2013.

iii) **Improving operational monitoring and evaluation systems.** WFP has a critical role in monitoring operations, measuring their impact, and carrying out evaluations and other missions to assess the results and impact of programmes and projects. Many improvements to field level operational monitoring and evaluation (M&E) systems have been made in past years, but country offices still face challenges collecting and reporting outputs and outcomes of programmes. To address these concerns, WFP has put in place a corporate Monitoring and Self-Evaluation Strategy which aims to strengthen WFP's M&E system and management of information at country office, regional bureau and Headquarters level in the period 2012–13. This should result in higher quality corporate reporting and establish robust M&E foundations for implementing WFP's Strategic Objectives.

iv) **Ensuring staff performance is appraised in a timely manner.** WFP's Performance and Competency Enhancement programme (PACE), launched in 2004, is the main tool for assessing the performance and competence of staff and a key driver in many career decisions including promotion. It is important for WFP to ensure that all staff complete all three stages of the formal PACE process (work plan, mid-term review and final review) in a timely and effective manner. For an emergency humanitarian aid organization there will inevitably be times when the humanitarian imperative impacts on this goal. While the percentage of staff who have completed their work plan, as well as received mid-term feedback is much higher, as of 31 January 2012, only 50 percent of all staff had finalized the annual PACE process for 2011. As a best practice employer, this remains an issue of concern and the organization will consider additional strategies to improve the timeliness and completeness of performance assessments.

v) **Ensuring effective segregation of duties is embedded in the corporate IT systems.** Segregation of duties is a key part of the system of internal control. In their assurance statements, 99 percent of directors reported that effective segregation of duties existed in their office entities in line with WFP policies. The Office of Internal Audit has recommended that improvements are needed concerning segregation of duties for the management of key roles within WFP's corporate IT system (WINGS II). WFP has established new guidance to address this issue and is looking at ways in which it can be implemented effectively going forward.

STATEMENT

54. All internal controls have inherent limitations – including the possibility of circumvention – and therefore can provide only reasonable assurance. Further, because of changing conditions, the effectiveness of internal controls may vary over time.

55. 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 2011 and up to the date of approval of the financial statements.

56. WFP is committed to addressing the internal control and risk issues identified in paragraph 53 above as part of the continuous improvement of its internal controls.

Signed on original
Josette Sheeran
Executive Director

Rome, 28 March 2012

WORLD FOOD PROGRAMME

STATEMENT I

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2011

(US$ millions)

	Note	2011	2010
ASSETS			
Current assets			
Cash and cash equivalents	2.1	659.6	550.5
Short-term investments	2.2	996.3	778.6
Contributions receivable	2.3	1 625.7	2 352.6
Inventories	2.4	776.6	700.2
Other receivables	2.5	122.0	186.4
		4 180.2	**4 568.3**
Non-current assets			
Contributions receivable	2.3	199.4	117.9
Long-term investments	2.6	281.1	248.2
Property, plant and equipment	2.7	100.9	85.1
Intangible assets	2.8	30.8	36.5
		612.2	**487.7**
TOTAL ASSETS		**4 792.4**	**5 056.0**
LIABILITIES			
Current liabilities			
Payables and accruals	2.9	535.2	522.0
Provisions	2.10	7.8	19.0
Employee benefits	2.11	19.9	22.2
Current portion of long-term loan	2.12	5.8	-
		568.7	**563.2**
Non-current liabilities			
Employee benefits	2.11	329.1	286.4
Long-term loan	2.12	107.1	112.3
		436.2	**398.7**
TOTAL LIABILITIES		**1 004.9**	**961.9**
NET ASSETS		**3 787.5**	**4 094.1**
FUND BALANCES AND RESERVES			
Fund balances	7.1	3 550.2	3 834.7
Reserves	2.14	237.3	259.4
TOTAL FUND BALANCES AND RESERVES		**3 787.5**	**4 094.1**

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

Signed on original

Josette Sheeran

Executive Director

Rome, 28 March 2012

WORLD FOOD PROGRAMME

STATEMENT II

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2011

(US$ millions)

		2011	2010
REVENUE			
Monetary contributions	**3.1**	2 979.0	3 546.7
In-kind contributions	**3.2**	617.5	583.1
Currency exchange differences	**3.3**	(0.5)	7.3
Return on investments	**3.4**	27.5	22.6
Other revenue	**3.5**	112.6	106.5
TOTAL REVENUE		**3 736.1**	**4 266.2**
EXPENSES			
Cash and vouchers distributed	**4.1**	120.7	60.3
Food commodities distributed	**4.2**	2 061.2	2 254.6
Distribution and related services	**4.3**	532.9	659.0
Wages, salaries, employee benefits and other staff costs	**4.4**	680.4	646.4
Supplies, consumables and other running costs	**4.5**	148.1	152.5
Contracted and other services	**4.6**	387.2	374.3
Finance costs	**4.7**	2.7	2.7
Depreciation and amortization	**4.8**	37.1	25.1
Other expenses	**4.9**	46.5	62.8
TOTAL EXPENSES		**4 016.8**	**4 237.7**
(DEFICIT) SURPLUS FOR THE YEAR		**(280.7)**	**28.5**

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 2011
(US$ millions)

	Note	Accumulated surpluses/fund balances	Surplus	Reserves	Total net assets
31 December 2010		**3 806.2**	**28.5**	**259.4**	**4 094.1**
Allocation of surplus for 2010		28.5	(28.5)	-	-
Movements in fund balances and reserves in 2011					
Transfer from/to reserves	2.14	22.1	-	(22.1)	-
Net unrealized losses on long-term investments recognized directly within fund balance	2.6 / 2.14	(25.9)	-	-	(25.9)
Deficit for the year	7.2	-	(280.7)	-	(280.7)
Total movements during the year		**(3.8)**	**(280.7)**	**(22.1)**	**(306.6)**
TOTAL NET ASSETS at 31 December 2011		**3 830.9**	**(280.7)**	**237.3**	**3 787.5**

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 2011
(US$ millions)

	Note	2011	2010
Cash flows from operating activities:			
(Deficit) surplus for the year		(280.7)	28.5
Adjustments to reconcile surplus to net cash flows from operating activities			
Depreciation and amortization	**2.7/2.8**	37.1	25.1
Unrealized (gain) on short-term investments	**2.2**	(2.4)	(11.5)
Unrealized loss on long-term investments	**2.6**	1.5	-
(Increase) in amortized value of long-term investments	**2.6**	(4.7)	(4.6)
Increase in amortized value of long-term loan	**2.12**	0.6	0.6
Interest expense on long-term loan	**2.12**	2.1	2.1
(Increase) decrease in inventories	**2.4**	(76.4)	38.2
(Increase) decrease in contribution receivable	**2.3**	645.4	(424.9)
(Increase) decrease in other receivables	**2.5**	65.3	(54.2)
(Increase) in property, plant and equipment (donated in kind)	**2.7**	(0.6)	(0.6)
Increase in payables and accruals	**2.9**	13.2	41.2
(Decrease) in provisions	**2.10**	(11.2)	(5.4)
Increase in employee benefits	**2.11**	40.4	29.9
Net cash flows from operating activities		**429.6**	**(335.6)**
Cash flows from investing activities:			
(Increase) in short-term investments	**2.2**	(207.0)	(182.8)
(Increase) in accrued interest receivable	**2.5**	(0.9)	(0.4)
(Increase) in long-term investments	**2.6**	(63.9)	(34.0)
(Increase) in property, plant and equipment	**2.7**	(44.2)	(55.9)
(Increase) in intangible assets	**2.8**	(2.4)	(0.9)
Net cash flows from investing activities		**(318.4)**	**(274.0)**
Cash flows from financing activities:			
Interest paid on long-term loan	**2.12**	(2.1)	(2.1)
Net cash flows from financing activities		**(2.1)**	**(2.1)**
Net increase (decrease) in cash and cash equivalents		**109.1**	**(611.7)**
Cash and cash equivalents at beginning of the year	**2.1**	**550.5**	**1 162.2**
Cash and cash equivalents at end of the year	**2.1**	**659.6**	**550.5**

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 2011
(US$ millions)

	Notes	Budget Amount		Actual on comparable basis	Difference: final budget and actual
		Original Budget	Final Budget		
Cost components	6				
Food		2 006.8	2 897.6	1 827.8	1 069.8
External transport		349.9	434.0	194.0	240.0
Landside transport, storage and handling		892.3	991.2	588.8	402.4
Other direct operational costs		283.2	617.4	363.1	254.3
Direct support costs		530.5	770.7	509.0	261.7
Subtotal direct costs		**4 062.7**	**5 710.9**	**3 482.7**	**2 228.2**
Regular programme support and administrative costs		238.0	237.7	235.9	1.8
Capital and capacity funds		45.9	39.8	34.8	5.0
Subtotal indirect costs		**283.9**	**277.5**	**270.7**	**6.8**
TOTAL		**4 346.6**	**5 988.4**	**3 753.4**	**2 235.0**

The accompanying notes form an integral part of these financial statements

* Prepared on a commitment basis

Notes to the Financial Statements at 31 December 2011

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 and loans either at fair value or amortized cost. Where an IPSAS does not address a particular issue, the appropriate International Financial Reporting Standard (IFRS) has been applied.

2. In accordance with IPSAS requirements, and reflecting the nature of WFP's business, revenue from contributions confirmed in writing is recognized as non-exchange transactions as per IPSAS 23, Revenue from Non-Exchange Transactions. WFP considers that while there are restrictions on the use of contributions, these restrictions do not meet the definition of a condition as described under IPSAS 23.

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

4. The functional and reporting currency of WFP is the United States dollar. Transactions in currencies other than the US dollar are translated into dollars at the prevailing United Nations Operational Rates of Exchange (UNORE) at the time of transaction. Assets and liabilities in currencies other than US$ are translated into US$ 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

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

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

Financial Instruments

7. 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.

8. 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.

9. 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.

10. 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.

11. 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.

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

Inventories

13. 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.

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

15. Food commodities are expensed when distributed directly by WFP or once they are handed over to cooperating partners for distribution.

Contributions and Receivables

16. Contributions are recognized when confirmed in writing by donors.

17. Receivables are presented net of allowances for estimated reductions in contribution revenue and doubtful accounts.

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

18. In-kind contributions of services that directly support approved operations and activities, which have budgetary impact, and can be reliably measured, are recognized and valued at fair value. These contributions include use of premises, utilities, transport and personnel.

19. Donated property, plant and equipment (PP&E) and intangible assets are valued at fair market value and recognized as PP&E or intangible asset and revenue.

Property, Plant and Equipment

20. Property, Plant and Equipment (PP&E) are measured initially at cost. Subsequently, PP&E are carried at cost less accumulated amortization and any impairment losses. Borrowing costs, if any, are not capitalized. Donated PP&E are valued at fair market value and recognized as PP&E and revenue. Depreciation is provided for PP&Es 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

21. Leasehold improvements are recognized as assets and valued at cost, and depreciated over the lesser of remaining useful life of the improvements or the lease term.

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

Intangible Assets

23. Intangible assets are measured initially at cost. Subsequently, intangible assets are carried at historical cost less accumulated amortization and any impairment losses. Donated intangible assets are valued at fair market value and recognized as intangible asset and revenue.

24. Amortization is provided over the estimated useful life using the straight line method. The estimated useful life for intangible asset classes are as follows:

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

Employee Benefits

25. WFP recognizes the following employee benefits:

- short-term employee benefits which fall due wholly within twelve months after the end of the accounting period in which employees render the related service;
- post-employment benefits; and
- other long-term employee benefits.

26. Certain categories of employees of WFP are members of the United Nations Joint Staff Pension Fund (UNJSPF). The Pension Fund is a multi-employer funded, defined benefit plan. WFP is not in a position to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. Accordingly, WFP accounts for this plan as if it were a defined contribution plan, in line with the provisions of IPSAS 25.

Provisions and Contingent Liabilities

27. 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.

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

Fund Accounting and Segment Reporting

29. 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.

30. 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.

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

32. 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.

33. 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.

34. 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.

35. 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 indirect support cost revenue.

Budget Comparison

36. 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 components.

37. The Board approves budgets for the direct costs of operations either directly or through its delegated authority. It also approves the biennial Management Plan, including the appropriations for programme support and administrative costs, and capital and capacity funds. Budgets may be subsequently amended by the Board or through the exercise of delegated authority.

38. 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.

Note 2.1: Cash and Cash Equivalents

	2011	2010
	US$ millions	
Cash and cash equivalents		
Bank and cash at Headquarters	84.0	62.4
Bank and cash at regional bureaux and country offices	32.6	46.9
Money market and deposit accounts at Headquarters	251.9	224.2
Cash and cash equivalents held by investment managers	291.1	217.0
Total cash and cash equivalents	**659.6**	**550.5**

39. 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

	2011	2010
	US$ millions	
Short-term investments		
Short-term investments	988.0	776.5
Current portion of long-term investments (Note 2.6)	8.3	2.1
Total short-term investments	**996.3**	**778.6**

40. 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 was slightly reduced in 2011 and remained at very low levels in the context of a market environment of low absolute yields and continued uncertainties in financial markets.

41. Investments that no longer complied with WFP's investment guidelines were maintained in a segregated "legacy" portfolio with the objective of divesting these securities taking into account market conditions and the fundamental value of the underlying securities. Due to the active divestment policy, the remaining balance of the legacy portfolio has been divested in full in 2011.

42. Short-term investments were valued at US$988.0 million at 31 December 2011 (US$776.5 million at 31 December 2010). Of this amount, US$673.5 million pertains to bonds issued or guaranteed by governments or government agencies (US$539.4 million at 31 December 2010); US$205.1 million pertains to corporate bonds (US$145.2 million at 31 December 2010) and US$109.4 million pertains to asset-backed securities (US$91.9 million at 31 December 2010 to non-agency

mortgage-backed securities and asset-backed securities). 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.

43. At 31 December 2011, derivatives usage in short-term investments was limited to bond futures and foreign exchange forwards and derivatives exposure was considered not to be material. The notional amount of the derivatives financial instruments held in the investment portfolio is US$91.9 million (US$85.3 million at 31 December 2010) with a corresponding derivative offset which gets liquidated at the same time. This brings the book value of these derivatives to zero.

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

	2010	Net additions/ (deductions)	Interest received/ amortized	Net realized gains/ (losses)	Net unrealized gains/ (losses)	2011
	US$ millions					
Short-term investments	**776.5**	207.5	14.8	(13.2)	2.4	988.0
Current portion of long-term investments	**2.1**	5.9	0.3	-	-	**8.3**
Total short-term Investments	**778.6**	**213.4**	**15.1**	**(13.2)**	**2.4**	**996.3**

45. During 2011, short-term investments increased by US$217.7 million. This increase consists in part of net unrealized gains of US$2.4 million presented in the Statement of Cash Flow under operating activities and amortized interest on the current portion of the long-term investment of US$0.3 million, also presented under operating activities as part of the increase in amortized value of the long-term investment of US$4.7 million. The remaining balance, net of reclassification from long-term to short-term, amounting to US$207.0 million is presented in the Statement of Cash Flow under investing activities.

Note 2.3: Contributions Receivable

	2011	2010
	US$ millions	
Composition:		
Current	1 625.7	2 352.6
Non-current	199.4	117.9
Total net contributions receivable	**1 825.1**	**2 470.5**

	2011	2010
	US$ millions	
Monetary contributions	1 721.4	2 456.2
In-kind contributions	181.5	159.8
Total contributions receivable before allowance	**1 902.9**	**2 616.0**
Allowance for reductions in contribution revenue	(68.6)	(136.2)
Allowance for doubtful accounts	(9.2)	(9.3)
Total net contributions receivable	**1 825.1**	**2 470.5**

46. Current contributions receivable are for confirmed contributions that are due within twelve months while non-current contributions receivable are those that are due after 12 months from 31 December 2011.

47. 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.

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

	2011		2010	
	US$ millions	*%*	*US$ millions*	*%*
Year of confirmation				
2011	1 338.9	70	-	-
2010	413.5	21	1 862.1	72
2009 and earlier	166.8	9	740.2	28
Subtotal	**1 919.2**	**100**	**2 602.3**	**100**
Revaluation adjustments (non-US$ contributions receivable)	(16.3)	-	13.7	-
Total contributions receivable before allowance	**1 902.9**	**100**	**2 616.0**	**100**

49. Contributions receivable are shown net of allowances related to reductions in contribution revenue and doubtful accounts.

50. The allowance for reductions in contribution revenue is an amount estimated for any reductions of contributions receivable and revenue when the funding is no longer needed by the project to which the contributions were related. The allowance is based on historical experience.

51. The change in the allowance for reductions in contribution revenue during 2011 is as follows:

	2010	Utilization	Increase/ (Decrease)	2011
	US$ millions			
Total allowance for reductions in contribution revenue	**136.2**	**(103.8)**	**36.2**	**68.6**

52. During 2011, the reductions in contributions receivable amounted to US$103.8 million. These reductions are recorded as a utilization of the allowance for reductions in contribution revenue and reported in the Statement of Financial Position. At 31 December 2011, the estimated final allowance required is US$68.6 million. Accordingly, an increase of US$36.2 million was recorded as an expense for the period and is reported in the Statement of Financial Performance.

53. The allowance for doubtful accounts is for the expected write-offs of contributions receivable where expenses have already been incurred but donors are not expected to provide funding. Actual write-offs require a transfer from the General Fund and approval by the Executive Director for amounts in excess of US$5,000.

54. The allowance for doubtful accounts is estimated at the following percentages of outstanding contributions receivable. The percentages have changed from 2010 to reflect the experience of actual write-offs in 2011.

Contributions receivable outstanding for:	**%**
More than 4 years	75
Between 3 and 4 years	25
Between 2 and 3 years	5
Between 0 to 2 years	0

55. The change in the allowance for doubtful accounts during 2011 is as follows:

	2010	**Utilization**	**Increase/ (Decrease)**	**2011**
	US$ millions			
Total allowance for doubtful accounts	**9.3**	-	**(0.1)**	**9.2**

56. In 2010 and 2011, there were no write-offs of contributions receivable. At 31 December 2011, the estimated final allowance for doubtful accounts required is US$9.2 million. Accordingly, a decrease of US$0.1 million was recorded as an adjustment for the period and is reported in the Statement of Financial Performance.

Note 2.4: Inventories

57. 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.

	2011	2010
	US$ millions	
Food on hand	596.3	573.4
Food in transit	165.8	109.7
Subtotal food	**762.1**	**683.1**
Less allowance for impairment - food	(3.5)	(3.0)
Total food	**758.6**	**680.1**
Non-food items	18.2	20.3
Less allowance for impairment - non-food	(0.2)	(0.2)
Total non-food items	**18.0**	**20.1**
Total inventories	**776.6**	**700.2**

Food reconciliation	**2011**	**2010**
	US$ millions	
Opening inventory	680.1	720.7
Add back: impairment allowance	3.0	2.9
Food purchased	1 228.8	1 142.8
In-kind commodities received	600.8	655.7
Transport and related costs	306.1	405.2
Total inventory available for distribution	**2 818.8**	**2 927.3**
Less: Food distributed	(2 056.7)	(2 244.2)
Allowance for impairment - food	(3.5)	(3.0)
Total food	**758.6**	**680.1**

58. For 2011, food and non-food items distributed totalled US$2,061.2 million (US$2,254.6 million in 2010), as reported in the Statement of Financial Performance. Of this amount, US$2,056.7 million relates to food commodities and US$4.5 million relates to non-food items (US$2,244.2 million and US$10.4 million, respectively, in 2010).

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

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

61. Inventories include non-food items held at WFP warehouses in Dubai and at various strategic storage depots, including the Latin America and the Caribbean Emergency Response Network, and the United Nations Humanitarian Response Depot network.

62. Non-food items include the following: prefabricated building/warehouse, storage tents, water treatment units, solar power packs, satellite phones, ballistic blankets, tyres, motor vehicles and spare parts.

63. Food commodity stocks at 31 December 2011 were 1.2 million mt, valued at US$762.1 million. At 31 December 2010, stocks were 1.3 million mt valued at US$683.1 million.

64. 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 0.4 percent of total food and 0.9 percent for non-food items. In 2010 the allowance for food was 0.44 percent and 0.9 percent for non-food items. Inventories are valued net of any impairments or obsolescence. During 2011, US$2.2 million represents the total value of food impaired and is reported in the Statement of Financial Position. The increase in the allowance for impairment represents an expense for the year and is reported in the Statement of Financial Performance. There was no utilization of allowance nor an increase or decrease thereof for non-food items in 2011.

65. The change in the allowances for impairment during 2011 is as follows:

	2010	Utilization	Increase/(Decrease)	2011
	US$ millions			
Allowance for impairment – food	3.0	(2.2)	2.8	3.5
Allowance for impairment – non-food	0.2	-	-	0.2
Total allowance	**3.2**	**(2.2)**	**2.8**	**3.7**

Note 2.5: Other Receivables

	2011	2010
	US$ millions	
Advances to vendors	51.1	112.4
Advances to staff	25.5	26.1
TPA receivables (Note 11)	16.6	10.4
Miscellaneous receivables	78.6	82.9
Total Other receivables before allowance	**171.8**	**231.8**
Allowance for doubtful accounts	**(49.8)**	**(45.4)**
Total net other receivables	**122.0**	**186.4**

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

67. Advances to staff are for education grants, rental subsidies, travel and other staff entitlements.

68. Miscellaneous receivables include amounts due from clients for services provided, accrued interest receivable and value-added tax (VAT) receivables whereby outright tax exemptions have not been obtained from governments.

69. Other receivables are reviewed to determine whether any allowance for doubtful accounts is required. As at 31 December 2011, an allowance of US$49.8 million was established, of which US$48.9 million is for VAT paid and awaiting recovery and US$0.9 million is for other receivables (US$45.4 million for VAT paid in 2010).

70. The change in the allowance for doubtful accounts during 2011 is as follows:

	2010	Utilization	Increase/ (Decrease)	2011
	US$ millions			
Total allowance for doubtful accounts	**45.4**	-	**4.4**	**49.8**

Note 2.6: Long-Term Investments

	2011	2010
	US$ millions	
US Treasury STRIPS	88.3	85.8
Current portion (Note 2.2)	(8.3)	(2.1)
Long-term portion, US Treasury STRIPS	**80.0**	**83.7**
Bonds	96.5	76.9
Equities	104.6	87.6
Total bonds and equities	**201.1**	**164.5**
Total long-term investments	**281.1**	**248.2**

71. Long-term investments consist of investments in STRIPS and investments in bonds and equities. 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 2.12), 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.

72. Changes in market value of the investment in STRIPS are not recognized. At 31 December 2011, the market value of this investment was US$115.5 million (US$100.9 million at 31 December 2010).

73. The increase in the value of the long-term bond and equity investments of US$36.6 million resulted primarily 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 US$46.3 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. The balance of the net increase is due to changes in market values, reinvestment of interest received in 2011 and unrealized losses due to the impact of weaker equity markets.

74. Investments in equities are made through five 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.

75. The movement of long-term investments accounts during 2011 is as follows:

	2010	Additions/ (deductions)	Interest received/ amortized	Net realized gains/ (losses)	Net unrealized gains/ (losses)	2011
			US$ millions			
Bonds and equities	**164.5**	46.3	2.9	14.7	(27.4)	**201.1**
Investment in STRIPS	**83.7**	(8.1)	4.4	-	-	**80.0**
Total long-term investment	**248.2**	**38.2**	**7.4**	**14.7**	**(27.4)**	**281.1**

76. During 2011, long-term investments increased by US$32.9 million. Long-term bonds and equities are treated as available-for-sale financial assets except the investment in foreign exchange forward derivatives (notional value of US$13.1 million) which are treated as held for trading financial assets. Accordingly, under IFRS, the net unrealized losses of US$25.9 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 US$1.5 million related to foreign exchange forward derivatives are presented in the Statement of Financial Performance. The amortized interest on the investment in STRIPS of US$4.4 million is presented in the Statement of Cash Flow under operating activities as part of the increase in amortized value of the long-term investment of US$4.7 million. The remaining balance, net of a reclassification from long-term to short-term, amounting to US$63.9 million is presented in the Statement of Cash Flow under investing activities.

Note 2.7: Property, Plant and Equipment

	2010	Additions	Disposals/ Transfers	Accumulated depreciation	2011
			US$ millions		
Property, plant and equipment					
Buildings					
Permanent	3.5	7.7	-	(1.0)	10.2
Temporary	21.4	11.0	(0.6)	(9.6)	22.2
Computer equipment	3.9	3.0	-	(3.5)	3.4
Office equipment	11.4	3.2	(0.1)	(8.9)	5.6
Office fixtures and fittings	0.2	-	-	(0.1)	0.1
Security and safety equipment	1.9	0.6	(0.1)	(1.3)	1.1
Telecommunication equipment	2.6	2.8	(0.1)	(2.2)	3.1
Motor vehicles	55.8	16.0	(0.9)	(25.0)	45.9
Workshop equipment	1.0	0.9	-	(0.8)	1.1
Leasehold improvements	9.5	2.6	-	(4.5)	7.6
Fixed assets under construction	2.4	0.1	(1.9)	-	0.6
Total property, plant and equipment	**113.6**	**47.9**	**(3.7)**	**(56.9)**	**100.9**

77. During 2011, major additions to PP&E were for permanent buildings, temporary buildings, as well as motor vehicles (in 2010, major additions to PP&E were for temporary buildings, office equipment, motor vehicles, as well as leasehold improvements). Net acquisitions (after disposals) for the period ended 31 December 2011 totalled US$44.2 million (US$56.3 million at 31 December 2010) of which US$0.6 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 US$29.0 million is reported in the Statement of Financial Performance.

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

79. Assets are reviewed annually to determine if there is any impairment in their value. The review that was undertaken in 2011 did not result in any of the PP&E being impaired in value nor has the review of asset disposals indicated that PP&E were disposed due to these assets being unusable or unserviceable.

Note 2.8: Intangible Assets

	2010	Additions	Disposals/ Transfers	Accumulated Amortization	2011
			US$ millions		
Internally generated software	47.5	0.5	-	(19.8)	28.2
Externally acquired software	-	0.5	-	(0.1)	0.4
Licenses and rights	0.1	0.3	-	(0.1)	0.3
Intangible assets under construction	0.8	1.0	0.1	-	1.9
Total intangible assets	**48.4**	**2.3**	**0.1**	**(20.0)**	**30.8**

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

81. The internally generated software mainly relates to the WINGS II project – the customization and implementation of an integrated enterprise resource planning application. At 31 December 2011, total capitalized costs of the WINGS II project amounted to US$27.7 million (US$35.6 million in 2010), net of accumulated amortization of US$19.8 million (US$11.9 million in 2010). These capitalized costs comprise the system design and realization phase of the WINGS II project. Additions or disposals in intangible assets are reported in the Statement of Financial Position while the amortization expense for the year of US$8.1 million is reported in the Statement of Financial Performance.

Note 2.9: Payables and Accruals

	2011	2010
	US$ millions	
Vendor payables	89.5	123.2
Donor payables	61.0	50.4
Miscellaneous	26.7	23.6
Subtotal payables	**177.2**	**197.2**
Accruals	358.0	324.8
Total payables and accruals	**535.2**	**522.0**

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

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

84. 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.

85. Miscellaneous payables include amounts due to other United Nations agencies for services received and the fair value of foreign exchange forward contracts. At 31 December 2011, these foreign exchange forward contracts were in an unrealized loss position amounting to US$8.5 million (US$4.9 million in 2010).

Note 2.10: Provisions

	2011	2010
	US$ millions	
Provision for refunds to donors	7.2	18.1
Miscellaneous provisions	0.6	0.9
Total provisions	**7.8**	**19.0**

86. The provision for refunds to donors estimates the level of refunds that are expected to be given back to donors for unused contributions to projects that are financially closed. The provision is based on historical experience.

87. The change in the provision for refunds to donors during 2011 is as follows:

	2010	Utilization	Increase/ (Decrease)	2011
	US$ millions			
Provision for refunds to donors	**18.1**	**(11.5)**	**0.6**	**7.2**

88. During 2011, refunds made to donors totalled US$11.5 million. These refunds are recorded as a utilization of the allowance for refunds to donors and reported in the Statement of Financial Position. At 31 December 2011, the estimated final allowance required is US$7.2 million. Accordingly, an increase of US$0.6 million was recorded as an expense for the period and is reported in the Statement of Financial Performance.

89. Miscellaneous provisions are to meet legal liabilities, advances and payments to be made to the deceased and injured WFP staff who were victims of the 2009 bombing of a WFP country office.

Note 2.11: Employee Benefits

	2011	2010
	US$ millions	
Composition:		
Current	19.9	22.2
Non-current	329.1	286.4
Total employee benefits liabilities	**349.0**	**308.6**

	2011			2010
	Actuarial valuation	WFP valuation	Total	
	US$ millions			
Short-term employee benefits	-	19.9	19.9	22.2
Post-employment benefits	260.8	2.1	262.9	234.3
Other long-term employee benefits	59.6	6.6	66.2	52.1
Total employee benefit liabilities	**320.4**	**28.6**	**349.0**	**308.6**

2.11.1 Valuation of Employee Benefit Liabilities

90. Employee benefit liabilities are determined by professional actuaries or calculated by WFP based on personnel data and past payment experience. At 31 December 2011, total employee benefits liabilities amounted to US$349.0 million, of which US$320.4 million were calculated by the actuaries and US$28.6 million were calculated by WFP (US$279.7 million and US$28.9 million, respectively, at 31 December 2010).

91. Of the total employee benefits liabilities of US$349.0 million, the amount of US$217.7 million has been charged against relevant funds and projects (US$173.5 million at 31 December 2010). The balance of liabilities in the amount of US$131.3 million has been allocated against the General Fund. 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 US$7.5 million in the standard staff cost over a 15-year period starting in 2011 with a view to achieving fully funded status at the end of the 15-year period.

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

92. Liabilities arising from post-employment benefits and other separation-related benefits are determined by consulting professional actuaries. These employee benefits are established for staff members who are in the professional category and general service in Headquarters who are covered by the Food and Agriculture Organization of the United Nations (FAO) Staff Rules and the United Nations Staff Rules.

93. Post-employment benefits and other separation-related benefits liabilities which are calculated by actuaries totalled US$320.4 million at 31 December 2011 net of actuarial gains and losses (US$279.7 million in 2010). In the 2011 valuation, WFP's gross defined benefit obligations totalled US$353.9 million (US$314.1 million in 2010), of which US$294.3 million (US$266.6 million in 2010) represents post-employment benefits and US$59.6 million (US$47.5 million in 2010) represents other separation-related benefits.

94. 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.

95. In the 2011 valuation of employee benefits liabilities, the actuaries have determined actuarial losses under post-employment benefits and other separation-related benefits in the amounts of US$33.5 million and US$10.1 million, respectively (US$34.4 million for post-employment benefits and US$3.7 million for other separation-related benefits in 2010).

96. Of the total actuarial gains/(losses) of (US$33.5 million), (US$33.3 million) relates to After-Service Medical Plan, (US$0.4) million relates to the Separation Payments Scheme, and US$0.2 million pertains to the Compensation Plan Reserve Fund (Note 2.11.5.4). Actuarial gains/(losses) for the After-Service Medical Plan exceeded 10 percent of the DBO. Under the corridor method, gains/(losses) over 10 percent will be amortized over the average remaining service of active staff for each benefit. For the After-Service Medical Plan, the average remaining service of active staff is 13.78 years.

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

98. The movements of employee benefits liabilities as determined by the actuaries during 2011 are as follows:

	2010	Utilization	Increase/ (Decrease)	2011
		US$ millions		
After-Service Medical Plan	203.6	(2.2)	29.1	230.5
Separation Payments Scheme	22.6	(1.2)	2.9	24.3
Compensation Plan Reserve Fund	6.0	(0.5)	0.5	6.0
Other separation-related benefits	47.5	(3.6)	15.7	59.6
Total employee benefits liabilities	**279.7**	**(7.5)**	**48.2**	**320.4**

2.11.3 Short-Term Employee Benefits

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

2.11.4 Post-Employment Benefits

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

101. The After-Service Medical Plan is a plan that allows eligible retirees and their eligible family members to participate in the Basic Medical Insurance Plan (BMIP).

102. The Separation Payments Scheme is a plan to fund severance pay for WFP general service staff at the Rome duty station upon separation from service.

103. 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.

104. The liabilities include the service costs for 2011 less benefit payments made.

2.11.5 Other Long-Term Employee Benefits

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

2.11.5.1 Actuarial Assumptions and Methods

106. 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 2011 valuation, the assumptions and methods used are as described in the following table which also indicates the changes in the assumptions and methods used in comparison with the 2010 valuation.

107. The assumptions and methods adopted for the 2011 actuarial valuation resulted in an increase in the post-employment and other separation-related benefits liabilities in the total amount of US$40.7 million (US$29.7 million in 2010).

108. 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.

109. 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 2011. Assumptions relating only to certain employee benefits are specifically identified:

Discount rate	4.30 percent for accounting and funding (5.00 percent in 2010 valuation)
Medical cost increases (ASM* only)	4.00 percent for 2012 to 2014 and 5.00 percent in each year thereafter (5.00 percent in 2011)
Expected return on assets	Funding – 6.60 percent; Accounting - Not applicable as plans are treated as unfunded
Annual salary scale	3.00 percent plus Merit Component
Annual cost of living increases	2.50 percent (minimum death grant benefit for the Staff Compensation Plan remains unchanged)
Future exchange rates	United Nations rates at 31 December 2011
Medical claims cost (ASM only)	Average claims in 2012 are US$5,243 for each adult participant (US$5,287 in 2011 in 2010 valuation).
Annual administrative costs (ASM only)	$138.72 for the Dollar Plan and EUR 131.72 for the Euro Plan
Insurer's retention (ASM only)	2.30 percent of the claims in 2012 (2.45 percent of the claims in 2011 in 2010 valuation)
Future participant contributions (ASM only)	Accounting and Funding – 29.00 percent (26.06 percent in 2010 valuation)
Mortality rates	Mortality for all plans matches the 31 December 2009 valuations of the United Nations Joint Staff Pension Fund
Disability rates	Vary according to age and gender and categories of staff
Withdrawal rates	Based on a study of withdrawal rates from 2004 to 2008 for WFP
Retirement rates	Based on a study of withdrawal rates from 2004 to 2008 for WFP
Participation (ASM only)	95 percent of future retirees will elect coverage in the BMIP (same as in 2010 valuation). Based on a study of recent 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 (0.1 percent in 2010 valuation).
Medical plan of future retirees (ASM only)	Currently receiving pay in Euro currency – Euro Plan Currently receiving pay in currency other than Euro – Dollar Plan
Coverage of spouses (ASM only)	85 percent of male and 55 percent of female retirees have a spouse who elects coverage in the Basic Medical Insurance Plan (same as in 2010 valuation). Wives are assumed to be four years younger than their male spouse.
Proportion of future deaths and disablements attributable to performance of official duties (CPRF** only)	10.00 percent of deaths and 4.00 percent of disablements (same as in 2010 valuation)
Nature of disablements (CPRF only)	All disablements are assumed to be total and permanent
Eligibility of benefits offsets (CPRF only)	Deaths or disablements under CPRF are assumed to receive UNJSPF benefits
Benefits excluded due to lack of materiality (CPRF only)	Preparation of remains and funeral expenses; children's benefit for future deaths and disablements, etc.
Benefits excluded due to inclusion in other valuations (CPRF only)	Medical and hospital expenses Return transportation of the deceased and family members
Members receiving repatriation benefits (OSRB*** only)	80 percent of those who retire or withdraw from service (same as in 2010 valuation)
Repatriation grant (OSRB only)	Repatriation benefits were assumed to be payable to 80.00 percent of those staff members who retire or withdraw from service (same in 2010 valuation). 80.00 percent of eligible males were assumed to be married and 50.00 percent of female staff members were assumed to be married.
Repatriation travel and removal costs (OSRB only)	US$11,242 for unmarried staff and US$15,970 for married staff in 2012, growing with inflation thereafter. (In 2010 valuation was US$10,968 for unmarried staff and US$15,580 for married staff).
Accrued leave payable at separation (OSRB only)	Average accrued leave benefit was assumed to be 26 days' pay (same as in 2010 valuation)
Actuarial method	After-Service Medical Plan, 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. (One-year term cost for Staff Compensation Plan). Other Separation-Related Payments Schemes: For accrued leave, projected unit credit with all liability attributed to past service. For other benefits, included in the valuation, projected unit credit with an attribution period from the entry on duty date to separation.
Value of assets	Funding - Market value Accounting - Plans treated as unfunded

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

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

2.11.5.2 Reconciliation of Defined Benefit Obligation

	After-Service Medical Plan	Other separation-related payment schemes	Separation payments scheme	Staff compensation plan	Total
	US$ millions				
Net defined benefit obligation at 31 December 2010	**240.1**	**47.5**	**21.1**	**5.4**	**314.1**
Service cost for 2011	16.3	3.3	1.9	0.2	21.7
Interest cost for 2011	11.9	2.3	1.0	0.3	15.5
(Actual gross benefit payments for 2011)	(3.4)	(3.5)	(1.2)	(0.5)	(8.6)
Participant contributions	1.1	-	-	-	1.1
Exchange rate movements	(2.9)	(0.1)	(0.4)	-	(3.4)
Other actuarial loss	0.7	10.1	2.3	0.4	13.5
Defined benefit obligation at 31 December 2011	**263.8**	**59.6**	**24.7**	**5.8**	**353.9**

2.11.5.3 Annual Expense for Calendar Year 2011

	After-Service Medical Plan	Other separation-related payment schemes	Separation payments scheme	Staff compensation plan	Total
	US$ millions				
Service cost	16.3	3.3	1.9	0.2	21.7
Interest cost	11.9	2.3	1.0	0.3	15.5
(Gain)/loss amortization	0.9	10.1	-	-	11.0
Total expense recognized in 2011	**29.1**	**15.7**	**2.9**	**0.5**	**48.2**

2.11.5.4 Reconciliation of Present Value of Defined Benefit Obligation

	After-Service Medical Plan	Other separation-related payments schemes	Separation payments scheme	Staff compensation plan	Total
	US$ millions				
Defined benefit obligation					
Inactive	80.3	-	-	4.3	84.6
Active	183.5	59.6	24.7	1.5	269.3
Total	**263.8**	**59.6**	**24.7**	**5.8**	**353.9**
(Surplus)/deficit	263.8	59.6	24.7	5.8	353.9
Unrecognized gain/(loss)	(33.3)	-	(0.4)	0.2	(33.5)
Net balance sheet (asset)/ liability	**230.5**	**59.6**	**24.3**	**6.0**	**320.4**

2.11.5.5 After-Service Medical Plan - Sensitivity Analysis

111. Three of the principal assumptions in the valuation of the After-Service Medical Plan are: i) the rate at which medical costs are expected to increase in the future; ii) the exchange rate between the U.S. dollar and the Euro; and iii) the discount rate used to determine the present value of benefits that will be paid from the plan in the future.

112. In the 2011 valuation, it was assumed that medical costs will increase at 4.00 percent from 2012 to 2014 and 5.00 percent each year thereafter. It was also assumed that the future exchange rates between the Euro and US dollar will average about 1.292 US dollars per Euro, which was the United Nations operational rate of exchange at 31 December 2011. Further assumed was a discount rate of 4.30 percent, the spot discount rate at 31 December 2011.

113. A sensitivity analysis was undertaken to determine the impact of the above assumptions on the liability and service cost under IPSAS 25. The results indicate that claims costs and premium rates would increase by the same percentage as the medical inflation, but that all other assumptions would be unaffected. For the exchange rate, the sensitivity analysis reflects the impact of a 10-cent increase in the value of the Euro in US dollars. For medical inflation and the discount rates, the sensitivity analysis reflects the impact of 1.00 percent changes.

114. For the liability sensitivity analysis, an exchange rate of 1.292 US dollars per Euro, discount rate of 4.30 percent and inflation rate of 5.00 percent per year resulted in a gross defined benefit obligation of US$263.8 million. For the service cost sensitivity analysis and using the same principal assumptions used for the liability sensitivity analysis, the service cost for 2011 was calculated at US$17.9 million.

2.11.5.6 Expected Costs during 2012

115. The expected contribution of WFP in 2012 to the defined benefits plans is US$9.4 million which is determined based on expected benefit payments for that year.

2.11.6 United Nations Joint Staff Pension Fund

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

117. The actuarial method adopted for the UNJSPF is the Open Group Aggregate method to determine whether the present and estimated future assets of the Fund will be sufficient to meet its present and estimated future liabilities, using various sets of assumptions as to future economic and demographic developments. The actuarial study is carried out at least once every three years; a review of the 2011 annual report of the UNJSPF reveals that an actuarial valuation has been carried out every two years from as early as 1997. The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the United Nations Joint Staff Pension Board on the audit every two years.

The most recent actuarial valuation at the time of preparing these accounts was the one carried out at 31 December 2009.

118. Paragraph 52 of the 2009 actuarial valuation indicates that in order to assist the UNJSPF Board in its assessment of the position of the Fund on a current rather than a projected basis, a calculation was made of the actuarial value of accrued benefits on the valuation date (i.e., the liabilities of the Fund for the benefits which have already been earned by present active and retired participants). This value represents the amount of assets which the Fund would have to have on hand in order to meet its present obligations. These obligations consist of: i) the continuation of the existing pensions to current pensioners and beneficiaries, and ii) the establishment of the necessary reserve to meet benefit payments on behalf of present participants on the assumption that they would terminate employment on the valuation date and select the available option (as between a withdrawal settlement, a deferred retirement benefit, an early retirement benefit, or a retirement benefit) most valuable to them (i.e., with the highest actuarial cost).

119. At 31 December 2009 and as outlined under paragraph 57 of the same actuarial valuation report, the funded ratio assuming zero pension adjustments was 139.6 percent (146.9 percent in the 2007 valuation) while the funded ratio that takes rates of pension adjustment into account, the ratios based on a real interest rate (i.e. net of nominal interest assumption and assumed rate of pension adjustment) of 3.5 percent was 91.0 percent (95.3 percent in the 2007 valuation). In addition, based on the results of the latest actuarial valuation as of 31 December 2009, the UNJSPF Committee of Actuaries and the Consulting Actuary were of the opinion that the present contribution rate of 23.70 percent of pensionable remuneration is sufficient to meet the benefit requirements under the UNJSPF Plan (7.9 percent for the Participants and 15.8 percent for the member organizations).

120. The UNJSPF publishes quarterly reports on its investments and these can be viewed by visiting the UNJSPF at www.unjspf.org.

121. 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 the participants and 15.8 percent for member organizations, respectively, of the applicable pensionable remuneration, together with its share of any actuarial deficiency payments under Article 26 of the Regulations of the Pension Fund.

122. Such deficiency payments are payable only if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date. At the time of this report, the United Nations General Assembly had not invoked this provision.

123. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations, with the result that there is no consistent and reliable basis for allocating the obligation, or plan assets to participating organizations in the plan. WFP, as well as other participating organizations, is not in a position to identify its share of the underlying financial position and performance of the

plan with sufficient reliability for accounting purposes, and hence has accounted for this plan as if it were a defined contribution plan in line with IPSAS 25, Employee Benefits.

124. During 2011, contributions paid to UNJSPF amounted to US$60.4 million (US$58.4 million in 2010). Expected contributions due in 2012 are US$62.8 million.

2.11.7 Social Security Arrangements for Employees under Service Contracts

125. 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 2.12: Long-Term Loan

	2011	2010
	US$ millions	
Current portion of long-term loan	5.8	-
Non-current portion of long-term loan	107.1	112.3
Long-term loan	**112.9**	**112.3**

126. 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 US$164.1 million, of which US$106.0 million was used to purchase food commodities against a long-term loan contract with a government agency of the donor country.

127. The loan is payable over 30 years and interest on the loan is at the rate of 2 percent per year for the first ten years and 3 percent per year on the declining balance each year thereafter. The current portion of the long-term loan includes an annual principal amount of US$5.3 million, repayment of which will commence in 2012 and an amortization cost of US$0.5 million using the effective interest method. Investment 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 US$106.0 million.

128. The loan is reflected at amortized cost using the effective interest rate of 2.44 percent. At 31 December 2011, total amortized cost was US$112.9 million (US$112.3 million at 31 December 2010). Interest paid for the year is US$2.1 million.

129. Interest expense during 2011 totalled US$2.7 million (US$2.7 million at 31 December 2010) as reflected in the Statement of Financial Performance, of which US$2.1 million represents the annual interest paid in May 2011 and US$0.6 million represents the amortized cost resulting from the recognition of the long-term loan to its net present value.

130. In the Statement of Cash Flow, interest expense paid during the year in the amount of US$2.1 million is presented under financing activities while amortized interest of US$0.6 million is presented under operating activities.

Note 2.13: Financial Instruments

2.13.1 Nature of Financial Instruments

131. Details of the significant accounting policies and methods adopted, including the criteria for recognition and derecognition, 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.

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

	2011	2010
	US$ millions	
Financial assets at fair value through surplus or deficit	986.5	776.5
Held-to-maturity investments	88.3	85.8
Loans and receivables	2 433.5	3 058.4
Available-for-sale financial assets	202.6	164.5
Subtotal	**3 710.9**	**4 085.2**
Non-financial assets	1 081.5	970.8
Total	**4 792.4**	**5 056.0**

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

2.13.2 Credit Risk

134. WFP's credit risk 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 AAA/AA+ and the long-term investments have credit quality at year end of AA-.

135. 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.

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

2.13.3 Interest Rate Risk

137. WFP is exposed to interest rate risk through short-term investments and long-term bonds. At 31 December 2011, the effective interest rates of these two investment portfolios were 0.76 percent and 3.23 percent respectively (0.75 percent and 2.35 percent respectively in 2010). A measurement of interest rate sensitivity indicates that the effective duration is 0.54 years for the short-term investments and 5.30 years for the long-term bonds (0.44 years and 5.94 years respectively in December 2010). Fixed income derivatives are used by external investment managers to manage interest rate risk under strict investment guidelines.

2.13.4 Foreign Currency Risk

138. At 31 December 2011, 88 percent of cash, cash equivalent and investments are denominated in the US dollar base currency and 10 percent are denominated in Euros and remaining 2 percent in other currencies (91 percent in the US dollar base currency and 9 percent in Euros at 31 December 2010). Non-US dollar holdings have the primary objective of supporting operating activities. In addition, 69 percent of contributions receivable is denominated in the US dollar base currency, 11 percent is denominated in Euros, 8 percent in Pounds Sterling and 12 percent is denominated in other currencies (83 percent in the US dollar base currency, 7 percent in Euros and 10 percent in other currencies at 31 December 2010).

139. 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 2011, 12 contracts were settled at a realized loss of US$1.9 million (12 contracts were settled during the year ended 31 December 2010 at a realized loss of US$4.9 million). In addition, a new hedging strategy was implemented for 2012, in which WFP entered into 12 foreign exchange forward contracts to purchase Euro 6.2 million on a monthly basis at a fixed exchange rate. At 31 December 2011, the 12 contracts had a notional value of US$103 million and an unrealized loss of US$8.5 million using the forward rate at 31 December 2011. Both the realized and unrealized losses are included in currency exchange differences presented in the Statement of Financial Performance.

2.13.5 Price Risk

140. WFP is subject to market price risk through equities held as part of the long-term investments. The equity investments track the MSCI All Country World Index, a recognized index of stocks of all world markets.

Note 2.14: Fund Balances and Reserves

	2011					2010
	Programme category funds (fund balance)	Bilateral operations and trust funds (fund balance)	General Fund and Special Accounts		Total	
			(fund balance)	Reserves		
	US$ millions					
Opening balance at 01 January, 2011	**3 051.1**	**402.8**	**380.8**	**259.4**	**4 094.1**	**4 058.1**
Surplus (deficit) for the year	**(564.7)**	**(77.9)**	**361.9**	**-**	**(280.7)**	**28.5**
Subtotal	**2 486.4**	**324.9**	**742.7**	**259.4**	**3 813.4**	**4 086.6**
Movements during the year:						
Advances to projects	166.3	-	-	(166.3)	-	-
Repayments by projects	(112.0)	-	(23.1)	135.1	-	-
Approved Board allocations	-	-	28.8	(28.8)	-	-
Repayments of unspent Board allocations	-	-	(13.7)	13.7	-	-
Replenishments	-	-	(40.1)	40.1	-	-
Surplus of ISC revenue over PSA expenses	-	-	15.9	(15.9)	-	-
Transfers between funds	295.3	-	(295.3)	-	-	-
Net unrealized gains on long-term investments	-	-	(25.9)	-	(25.9)	7.5
Total movements during the year	**349.6**	**-**	**(353.4)**	**(22.1)**	**(25.9)**	**7.5**
Closing balance at 31 December 2011	**2 836.0**	**324.9**	**389.3**	**237.3**	**3 787.5**	**4 094.1**

141. 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.

142. 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.

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

	2011				
	2.14.1 Operational Reserve (OR)	2.14.2 Immediate Response Account (IRA)	2.14.3 PSA Equalization Account (PSAEA)	Total	2010
	US$ millions				
Opening balance at 01 January, 2011	**66.6**	**47.4**	**145.4**	**259.4**	**266.1**
Advances to projects	-	(166.3)	-	(166.3)	(164.9)
Repayments by projects	26.3	108.8	-	135.1	131.3
Approved Board allocations	-	-	(28.8)	(28.8)	(37.4)
Repayments of unspent EB allocations	-	-	13.7	13.7	-
Replenishments	-	40.1	-	40.1	33.5
Surplus of ISC revenue over PSA expenses	-	-	(15.9)	(15.9)	30.8
Closing balance at 31 December 2011	**92.9**	**30.0**	**114.4**	**237.3**	**259.4**

144. Reserves are established by the Board as facilities for funding and/or financing specific activities under specific circumstances. During 2011, WFP had 3 active reserves: i) Operational Reserve; ii) Immediate Response Account; and the iii) PSA Equalization Account.

145. The DSC Advance Facility Reserve was transferred to the Operational Reserve in 2010 where, at the 2010 Second Regular Session, the Board approved the increase of the Working Capital Financing Facility ceiling from US$180.0 million to US$557.0 million and authorized the transfer of the DSCAF reserve of US$35.9 million to the Operational Reserve of US$57.0 million, creating a single advance financing reserve of US$92.9 million (Decision 2010/EB.2/7, paragraphs i and ii). This financing reserve is used to manage the risk associated with the increased Working Capital Financing Facility.

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

2.14.1 Operational Reserve

147. Financial Regulation 10.5 calls for the maintenance of an Operational Reserve for the purpose of ensuring the continuity of operations in the event of a temporary shortfall of resources. The Operational Reserve was initially established at a level of US$57.0 million. In November 2010, the established level was increased to US$92.9 million as a result of the transfer of the DSCAF reserve to the Operational Reserve.

148. During 2011, the actual Operational Reserve balance reached the established level of US$92.9 million as a result of repayments of outstanding DSCAF advances of US$26.3 million. At 31 December 2011, US$5.5 million were repaid by the projects and US$20.8 million of advances to projects from the DSCAF were reclassified from DSCAF to the Working Capital Facility.

2.14.2 Immediate Response Account

149. 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.

150. In 2011, the IRA received US$40.1 million in replenishments. Advances made to projects totalled US$166.3 million of which US$108.8 million was repaid during 2011. The IRA balance at 31 December 2011 is US$30.0 million which is below the target level of US$70.0 million. Outstanding advances to projects made by the IRA at 31 December 2011 totalled US$265.9 million (US$207.8 million in 2010).

2.14.3 Programme Support and Administrative Budget Equalization Account

151. The PSAEA is a reserve set up to record the difference between Indirect Support Costs revenue and PSA expenses for the financial period.
During the Second Regular Session of the Board in November 2009, the Board approved one-time capacity investments from PSAEA (Decision 2009/EB.2/5 v)) totalling US$25.9 million of which US$14.0 million was allocated from PSAEA as at 31 December 2010 and US$11.3 million was allocated as at 31 December 2011. During the Annual Session in June 2010, the Board approved the use of PSAEA (Decision 2010/EB.A/6 iv)) as the source of funding to cover expenditures totalling US$38.9 million for field security upgrades of which US$23.4 million was allocated from PSAEA as at 31 December 2010 and US$10.2 million was allocated from PSAEA as at 31 December 2011. During the First Regular Session of the Board in February 2011, the Board approved supplementary expenditures of US$10.2 million from PSAEA for the field security upgrades (Decision 2011/EB.1/3) of which US$6.6 million was allocated from PSAEA as at 31 December 2011. During the Second Regular Session of the Board in November 2011, the Board approved one-time investments from PSAEA (Decision 2011/EB.2/4 v)) totalling US$22.2 million of which US$0.7 million was advanced to the Logistics Execution Support System pilot project as at 31 December 2011.

152. Of the total amount of US$28.8 million that has been allocated from the PSAEA, US$6.6 million was allocated to the Security Emergency Fund meant for the required on-site support, measures to ensure premises compliance, office relocation (where needed) and security equipment. US$10.2 million were allocated to the United Nations Security Management System. US$11.3 million pertains to allocations made to cluster leadership, learning and development, IT initiatives that aim to modernize WFP's IT capability, leverage technology to focus on core business and implementation of the SMCA project to enhance internal control and the Enterprise Risk Management framework. The remaining balance of US$0.7 million was allocated to the Logistics Execution Support System pilot project.

153. US$13.7 million of the unspent balances pertaining to allocations approved by the Board from PSAEA in the previous biennium period 2008–2009 was returned back to PSAEA as at 31 December 2011. Of the total amount of US$13.7 million that has been returned to PSAEA, US$12.5 million pertains to the unspent balances under Security Emergency Fund and remaining US$1.2 million pertains to the unspent balances under cluster leadership, learning and development and strategic plan implementation programmes.

154. The deficit of ISC revenue over PSA expenses totalling US$15.9 million was transferred to PSAEA (US$30.8 million surplus in 2010). The PSAEA balance at 31 December 2011 is US$114.4 million.

NOTE 3: REVENUE

		2011	2010
		US$ (millions)	
3.1	**Monetary contributions**		
	Contributions for direct costs	2 804.5	3 316.0
	ISC contributions	235.8	266.2
	Subtotal	**3 040.3**	**3 582.2**
	Less:		
	Refunds, reprogrammes and reductions in contribution revenue	(61.3)	(35.5)
	Total monetary contributions	**2 979.0**	**3 546.7**
3.2	**In-kind contributions**		
	Commodities in-kind contributions	587.8	548.5
	Service in-kind contributions	34.6	27.7
	Subtotal	**622.4**	**576.2**
	Add (deduct):		
	Increase (decrease) in contribution revenue	(4.9)	6.9
	Total in-kind contributions	**617.5**	**583.1**
3.3	**Currency exchange differences**	**(0.5)**	**7.3**
3.4	**Return on investments**		
	Net realized gains (losses) on investments	0.9	(10.4)
	Net unrealized gains on investments	1.4	11.5
	Interest earned	25.2	21.5
	Total return on investments	**27.5**	**22.6**
3.5	**Other revenue**		
	Revenue generated from special accounts activities	89.3	84.2
	Miscellaneous revenue	23.3	22.3
	Total other revenue	112.6	106.5
	Total revenue	**3 736.1**	**4 266.2**

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

156. In-kind contributions represent confirmed contributions of food commodities or services during the year.

157. During 2011, revenue generated from special accounts activities totalled US$89.3 million (US$84.2 million at 31 December 2010) and included mainly air operations, provisions of goods and services by the United Nations Humanitarian Response Depot and Field Emergency Support office. Miscellaneous revenue of US$23.3 million (US$22.3 million at 31 December 2010) included proceeds from sale of damaged commodities and other unserviceable properties.

NOTE 4: EXPENSES

		2011	2010
		US$ (millions)	
4.1	**Cash and vouchers distributed**	**120.7**	**60.3**
4.2	**Food commodities distributed**	**2 061.2**	**2 254.6**
4.3	**Distribution and related services**	**532.9**	**659.0**
4.4	**Wages, salaries, employee benefits and other staff costs**		
	International and national staff	571.0	545.8
	Consultants	39.3	38.3
	United Nations volunteers	5.2	6.6
	Temporary staff	46.0	35.0
	Other personnel costs	18.9	20.7
	Total wages, salaries, employee benefits and other staff costs	**680.4**	**646.4**
4.5	**Supplies, consumables and other running costs**		
	Telecommunications and Information Technology	8.9	17.2
	Equipment	77.6	75.2
	Office supplies and consumables	35.8	26.8
	Utilities	6.3	8.0
	Vehicle maintenance and running costs	19.5	25.3
	Total supplies, consumables and other running costs	**148.1**	**152.5**
4.6	**Contracted and other services**		
	Air operations	148.4	147.0
	ODOC contracted services	14.5	15.5
	Other contracted services	140.4	136.3
	Telecommunications/IT related services	26.5	28.9
	Security and other services	31.0	24.4
	Leases	26.4	22.2
	Total contracted and other services	**387.2**	**374.3**
4.7	**Finance Costs**	**2.7**	**2.7**
4.8	**Depreciation and amortization**	**37.1**	**25.1**
4.9	**Other expenses**		
	Maintenance services	3.8	4.6
	Insurance	12.4	9.2
	Bank charges/investment manager and custodian fees	3.3	3.1
	Doubtful accounts and impairment	6.2	25.5
	Trainings and meetings	19.0	17.0
	Other	1.8	3.4
	Total other expenses	**46.5**	**62.8**
	Total expenses	**4 016.8**	**4 237.7**

158. During 2011, cash and vouchers distributed totalled US$120.7 million (US$60.3 million at 31 December 2010).

159. During 2011, food commodities and non-food items distributed totalled US$2,061.2 million, as reported in the Statement of Financial Performance (US$2,254.6 million at 31 December 2010).

160. 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 US$5.6 million (US$12.9 million at 31 December 2010) (Note 9).

161. Given WFP's accounting policy to expense when food is handed over to the co-operating partner (CP), at 31 December 2011, there remains food commodities of US$92.8 million (150,471 mt) that have yet to be distributed to beneficiaries.

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

163. Wages, salaries, employee benefits and other staff costs are for WFP staff, consultants and service contracts. Other personnel costs include employee and consultant travel, training and staff workshops, and incentives.

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

165. Other expenses include maintenance of facilities, insurance, meeting related costs, allowances for doubtful accounts and inventory impairment.

NOTE 5: STATEMENT OF CASH FLOW

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

167. WFP's budget and financial statements are prepared using a different basis. 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.

168. As required under IPSAS 24, 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.

169. Explanations of material differences between the original budget and final budget and, final budget and the actual amounts are presented under the Financial and Budget Analysis section of the Executive Director's Statement and form part of these financial statements.

170. 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.

171. 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.

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

173. 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.

174. 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 2011 is presented below:

	2011			
	Operating	**Investing**	**Financing**	**Total**
	US$ millions			
Actual amount on comparable basis (Statement V)	**(3 753.4)**	**-**	**-**	**(3 753.4)**
Basis differences	681.6	(318.4)	(2.1)	361.1
Presentation differences	3 667.2	-	-	3 667.2
Entity differences	(165.8)	-	-	(165.8)
Actual amount in the Statement of Cash Flow (Statement IV)	**429.6**	**(318.4)**	**(2.1)**	**109.1**

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

176. Budget amounts have been presented on a functional classification basis in accordance with the Biennial Management Plan (2010–2011) which presents a breakdown of the budget by year for purposes of the above comparison.

NOTE 7: SEGMENT REPORTING

Note 7.1: Statement of Financial Position by Segment

	2011					
	Programme Category Funds	**General Fund and Special Accounts**	**Bilateral Operations and Trust Funds**	**Inter-Segment Transac-tions**	**Total**	**2010**
	(US$ millions)					
ASSETS						
Current Assets						
Cash and short-term investments	1 065.3	367.4	223.2	-	1 655.9	1 329.1
Contributions receivable	1 342.7	146.1	136.9	-	1 625.7	2 352.6
Inventories	725.9	42.4	8.3	-	776.6	700.2
Other receivables	69.0	310.3	5.2	(262.5)	122.0	186.4
	3 202.9	**866.2**	**373.6**	**(262.5)**	**4 180.2**	**4 568.3**
Non-current Assets						
Contributions receivable	31.2	168.2	-	-	199.4	117.9
Long-term investments	-	281.1	-	-	281.1	248.2
Property, plant and equipment	71.7	27.4	1.8	-	100.9	85.1
Intangible assets	0.5	30.2	0.1	-	30.8	36.5
	103.4	**506.9**	**1.9**	**-**	**612.2**	**487.7**
TOTAL ASSETS	**3 306.3**	**1 373.1**	**375.5**	**(262.5)**	**4 792.4**	**5 056.0**
LIABILITIES						
Current Liabilities						
Payable and accruals	466.1	284.1	47.5	(262.5)	535.2	522.0
Provisions	4.2	0.5	3.1	-	7.8	19.0
Employee benefits	-	19.9	-	-	19.9	22.2
Current portion of long-term loan	-	5.8	-	-	5.8	-
	470.3	**310.3**	**50.6**	**(262.5)**	**568.7**	**563.2**
Non-current Liabilities						
Employee benefits	-	329.1	-	-	329.1	286.4
Long-term loan	-	107.1	-	-	107.1	112.3
	-	**436.2**	**-**	**-**	**436.2**	**398.7**
TOTAL LIABILITIES	**470.3**	**746.5**	**50.6**	**(262.5)**	**1 004.9**	**961.9**
NET ASSETS	**2 836.0**	**626.6**	**324.9**	**-**	**3 787.5**	**4 094.1**
FUND BALANCES AND RESERVES						
Fund balances	2 836.0	389.3	324.9	-	3 550.2	3 834.7
Reserves	-	237.3	-	-	237.3	259.4
TOTAL FUND BALANCES AND RESERVES, 31 December 2011	**2 836.0**	**626.6**	**324.9**	**-**	**3 787.5**	**4 094.1**
TOTAL FUND BALANCES AND RESERVES, 31 December 2010	**3 051.1**	**640.2**	**402.8**	**-**	**4 094.1**	

Note 7.2: Statement of Financial Performance by Segment

	2011					2010
	Programme Category Funds	General Fund and Special Accounts	Bilateral Operations and Trust Funds	Inter-Segment Transactions	Total	
	(US$ millions)					
REVENUE						
Monetary contributions	2 210.4	688.6	80.0	-	2 979.0	3 546.7
In-kind contributions	603.1	4.6	9.8	-	617.5	583.1
Currency exchange differences	16.5	(16.9)	(0.1)	-	(0.5)	7.3
Return on investments	-	27.0	0.5	-	27.5	22.6
Other revenue	64.1	153.0	(2.3)	(102.2)	112.6	106.5
TOTAL REVENUE	**2 894.1**	**856.3**	**87.9**	**(102.2)**	**3 736.1**	**4 266.2**
EXPENSES						
Cash and vouchers distributed	117.1	-	3.6	-	120.7	60.3
Food commodities distributed	1 996.1	22.8	59.4	(17.1)	2 061.2	2 254.6
Distribution and related services	523.7	1.2	8.3	(0.3)	532.9	659.0
Wages, salaries, employee benefits and other staff costs	363.2	273.3	51.8	(7.9)	680.4	646.4
Supplies, consumables and other running costs	121.5	25.0	18.1	(16.5)	148.1	152.5
Contracted and other services	276.3	135.1	19.1	(43.3)	387.2	374.3
Finance costs	-	2.7	-	-	2.7	2.7
Depreciation and amortization	20.6	15.9	0.6	-	37.1	25.1
Other expenses	40.3	18.4	4.9	(17.1)	46.5	62.8
TOTAL EXPENSES	**3 458.8**	**494.4**	**165.8**	**(102.2)**	**4 016.8**	**4 237.7**
DEFICIT FOR THE YEAR, 2011	**(564.7)**	**361.9**	**(77.9)**	**-**	**(280.7)**	**28.5**
SURPLUS FOR THE YEAR, 2010	**(152.1)**	**64.8**	**115.8**	**-**	**28.5**	

177. Cash and cash equivalents are presented as separate line items from short-term investments 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.

	2011	2010
	US$ millions	
Cash and cash equivalents	659.6	550.5
Short-term investments	996.3	778.6
Total cash and cash equivalents and short-term investments	**1 655.9**	**1 329.1**

178. Some internal activities lead to accounting transactions that create 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.

179. During the year ended 31 December 2011, activities have created inter-segment balances in the amount of US$262.5 million in the Statement of Financial Position and US$102.2 million in the Statement of Financial Performance.

180. Of the total PP&E of US$100.9 million at 31 December 2011 (US$85.1 million at 31 December 2010), US$44.2 million relates to acquisitions, net of disposals in 2011 (US$56.3 million at 31 December 2010).

181. Contributions for operations and other activities are recognized as revenue when these contributions are confirmed in writing. Expenses are incurred gradually over time according to projects and beneficiaries needs.

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

NOTE 8: COMMITMENTS AND CONTINGENCIES

Note 8.1: Commitments

8.1.1 Property Leases

	2011	2010
	US$ millions	
Obligations for property leases:		
Under 1 year	25.2	24.7
1–5 years	28.0	34.9
Beyond 5 years	11.6	6.4
Total property leases obligations	**64.8**	**66.0**

183. At 31 December 2011, property lease obligations for the WFP Headquarters building in Rome represent 26 percent of the total obligations under the 1 year category and 2 percent under the 1 to 5 years category (32 percent and 22 percent, respectively, at 31 December 2010). 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

184. At 31 December 2011, WFP had commitments for the acquisition of food commodities, transportation, cash and vouchers, services, non-food items, and capital commitments contracted but not delivered as follows:

	2011	2010
	US$ millions	
Food commodities	305.5	314.4
Transportation - Food commodities	149.9	110.8
Cash and vouchers	24.9	28.1
Services	58.0	77.6
Non-food items	43.0	45.2
Capital commitments	10.4	7.8
Total open commitments	**591.7**	**583.9**

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

Note 8.2: Legal or Contingent Liabilities and Contingent Assets

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

187. There is one material contingent asset resulting from an arbitration award in 2010. In 2005, cases of fraud by two WFP employees were discovered in the WFP regional bureau in the Republic of South Africa. The loss was estimated at US$6.0 million. A criminal trial began in 2008 and is expected to be completed in 2012. As part of the criminal proceedings, the employees' known assets, reportedly valued at approximately US$5.0 million at 31 December 2011 were placed under restraint order at the request of the Prosecuting Authority.

188. In parallel to the criminal proceedings, WFP initiated arbitration against the two employees (the defendants) under the terms of their employment contracts, seeking recovery of the misappropriated funds. This action was pursued in order 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. The total award amounted to approximately US$6.0 million, plus interest and costs. Following the required waiver by the United Nations and the FAO of WFP's immunity, WFP filed an application with the High Court of South Africa to have

the arbitral award made an order of court for the purpose of enforcement in South Africa.

189. In October 2011 the High Court issued a judgment in favour of WFP, ordering that the arbitral award be made an order of court. The defendants appealed against this decision. Meanwhile, procedural steps are being taken by WFP to attach the assets under restraint pending conclusion of the criminal proceedings. Recovery cannot occur until the criminal process has been completed. In the event that the defendants are convicted and a confiscation order is granted, WFP will intervene under the relevant sections of the Prevention of Organized Crime Act to seek recovery. In the event that they are acquitted, WFP will seek to enforce the civil judgment. In the event of an appeal, the process may take up to two years from conviction until final determination.

NOTE 9: LOSSES, EX-GRATIA PAYMENTS AND WRITE-OFFS

190. 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."

191. The following table details the ex-gratia payments and losses of cash, food commodities and other assets for 2011.

	2011	**2010**
	US$ millions	
Ex-gratia payments	-	0.2
Food commodity losses	9.0	12.9
Non-food item losses	-	-
Other assets and cash losses	1.0	1.0
	In Metric Tonnes	
Commodity losses (quantity)	12 677	31 727

192. The ex-gratia payments mainly pertain to medical costs of WFP staff who were victims of the 2009 bombing of a WFP country office. The food commodity losses occurred after the related food arrived at the recipient country. The other assets and cash losses related mainly to write-offs of receivables from customers and service providers.

193. Fraud in 2011 comprised of theft and misappropriation of food commodities, non-food items, and cash involving WFP staff and third parties valued at US$38,951, of which nil has been recovered (US$382,458 and US$50,200 respectively in 2010).

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	Pension and health plans	Total remuneration	Outstanding advances against entitlements	Outstanding loans
			US$ millions					
Key management personnel, 2011	6	5	1.1	0.4	0.2	1.7	0.2	-
Key management personnel, 2010	6	5	1.0	0.4	0.2	1.6	0.2	-

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

195. The table above details the number of key management personnel positions and the number of key management staff who held these positions over the course of the year. The Executive Board consists of 36 Member States without personal appointment.

196. The aggregate remuneration paid to key management personnel includes: net salaries, post adjustment, entitlements such as representation allowance and other allowances, assignment and other grants, rental subsidy, personal effect shipment costs, and employer pension and current health insurance contributions.

197. Key management personnel also qualify for post-employment benefits (Note 2.11) at the same level as other employees. These benefits cannot be reliably quantified.

198. Key management personnel are ordinary members of the UNJSPF.

Note 10.2: Other Senior Management

	Number of individuals	Number of positions	Compensation and post adjustment	Entitlements	Pension and health plans	Total remuneration	Outstanding advances against entitlements	Outstanding loans
			US$ millions					
Other senior management, 2011	**29**	**25**	**4.6**	**1.5**	**1.1**	**7.2**	**0.9**	**0.1**
Other senior management, 2010	**28**	**24**	**4.2**	**1.7**	**1.0**	**6.9**	**0.9**	**0.1**

199. In addition to key management personnel whose remuneration, advances and loans which are required to be disclosed under IPSAS 20, 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.

200. The table above details the number of other senior management positions and the number of other senior management staff who held these positions over the course of the year.

201. During 2011, compensation provided to close members of the family of other senior management amounted to US$0.2 million (US$0.2 million in 2010).

202. Advances are those made against entitlements in accordance with staff rules and regulations.

203. Loans granted to other senior management are those granted under staff rules and regulations. Included are car loans, house rental advances and salary loans. These were granted free of interest and are recovered either in lump sum or in instalments through salary deductions.

204. Advances against entitlements and loans are widely available to all WFP staff.

NOTE 11: THIRD-PARTY AGREEMENTS

Third- party agreements reconciliation	2011		2010	
	US$ millions			
Opening balance at 01 January		**10.4**		**9.9**
New third-party agreements set up in the year	62.4		56.9	
Less: receipts/additions during the year	(45.8)	16.6	(83.3)	(26.4)
Third-party agreements payables during the year	(86.8)		(71.3)	
Less: disbursements/deductions during the year	76.4	(10.4)	98.2	26.9
Total TPA receivables (Note 2.5)		16.6		10.4
Allowance for doubtful account		(0.3)		-
Closing balance at 31 December		**16.3**		**10.4**

205. 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.

206. The above table shows the movement of TPA transactions during 2011 showing a net receivable from third parties of US$16.3 million (US$10.4 million at 31 December 2010).

NOTE 12: EVENTS AFTER REPORTING DATE

207. WFP's reporting date is 31 December 2011. 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.

ANNEX I

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 Avenue Norwalk Connecticut 06850 United States
Principal Bankers	Citibank N.A.	Via dei Mercanti, 12 20121 Milan, Italy
	Intesa SanPaolo S.p.A.	Piazza San Carlo 156, 10121 Turin, Italy
	Standard Chartered Plc	6th Floor, 1 Basinghall Avenue London, EC2V 5DD, U.K.
External Auditor	Office of the Comptroller and Auditor General of India	9, Deen Dayal Upadhyay Marg,New Delhi 110124

SECTION II

भारत के नियंत्रक - महालेखापरीक्षक
COMPTROLLER & AUDITOR GENERAL OF INDIA

सत्यमेव जयते

VINOD RAI

No. 1635/IR6-2011
April 17, 2012

Dear Ms Josette Sheeran,

Audit Report of the External Auditor on the Financial Statements of the World Food Programme for the year ended 31 December 2011

Please find enclosed the above report which may kindly be transmitted to the Executive Board. All the findings contained in the report have been communicated to the appropriate staff and management of the Organization.

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

Yours sincerely,

V Rai

Vinod Rai
Comptroller and Auditor General of India
External Auditor

Ms Josette Sheeran
Executive Director
World Food Programme
Via Cesare Giulio Viola, 68/70
00148 Rome,
Italy

9, Deen Dayal Upadhayay Marg, New Delhi - 110124
Tel. No. : ++91 11 23235797 • Fax : ++91 11 23233618 • e-mail · cag@cag.gov.in

INDEPENDENT AUDITOR'S REPORT

To

The Executive Board

World Food Programme

Report on the Financial Statements

We have audited the accompanying financial statements of the World Food Programme (WFP), which comprise the statement of financial position at 31 December 2011, and the statement of financial performance, statement of changes in net assets, statement of cash flow, statement of comparison of budget and actual amounts for the year ended 31 December 2011 and notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the World Food Programme as at 31 December 2011, and its financial performance and of its cash flows for the year ended 31 December 2011 in accordance with IPSAS.

Report on Other Legal and Regulatory Requirements.

Further, in our opinion, the transactions of the World Food Programme that have come to our notice or which we have tested as part of our audit have, in all significant respects, been in accordance with the WFP Financial Regulations.
In accordance with the Regulation 14.4 of the Financial Regulations, we have also issued a long-form Report on our audit of the World Food Programme.

Vinod Rai
Comptroller and Auditor General of India
External Auditor

New Delhi, India
17 April 2012

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

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

For further information please contact:

Ms. Rebecca Mathai
Director of External Audit
World Food Programme
Via Cesare Giulio Viola, 68/70
00148 Rome,
Italy.
Tel : 0039-06-65133071
Email: rebecca.mathai@wfp.org

Report of the External Auditor on the Financial Statements

World Food Programme

For the year ended December 2011

सत्यमेव जयते

RESULTS OF AUDIT

I. We have audited the financial statements of the World Food Programme (WFP) for the year ended 31 December 2011 in accordance with the Financial Regulations and in conformity with International Standards on Auditing.

II. We observed that the financial statements present fairly in all material respects the financial position of the WFP as on 31 December 2011 and of its financial performance during the period from 1 January 2011 to 31 December 2011. WFP has followed the provisions of International Public Sector Accounting Standards (IPSAS) in preparation and presentation of the financial statements.

OUR PROGRAMME OF WORK

III. Our programme of work 2011–2012 was presented to the November session of the Executive Board. The reports summarising our performance audit work are:

- Report on Management of Human Resources in WFP
- Report on Emergency Preparedness for IT Support in WFP

IV. These above reports have been prepared for the June 2012 session of the Executive Board as scheduled in the Work Plan.

V. In addition to these performance audit reports, our work programme included field visits to eight country offices of WFP and three regional bureaux. We reviewed the operations in these field offices and also undertook substantive testing of transactions, sampled on the basis of a risk assessment in each of the field audits. At the end of each audit, we issued Management Letters to the Secretariat with our findings and recommendations.

CURRENT REPORT

VI. The current report is on the financial audit work at WFP Headquarters and field visits to the regional bureaux and offices. Our Report contains an assessment of performance of WFP on key operational and financial parameters and comments on the financial statements. We have made six recommendations in the Report. We also reviewed the progress made in implementation of the External Auditor's recommendations on financial audit of the previous years.

Summary of recommendations

Recommendation 1: A framework for cash forecasting, leveraging on the functionalities in WINGS II, should be developed to enhance the quality of decisions on cash management in WFP.

Recommendation 2: WFP should consider the integration of a resource plan into the planning processes, including Management Plan, and potentially project planning.

Recommendation 3: WFP must streamline the procedure for collection of timely distribution reports from the co-operating partners and enhance the quality of reconciliation of data on undistributed food lying with the partners.

Recommendation 4: WFP should lay down a clearly articulated policy for accounting of undistributed food with government partners that also distribute food. This policy should be consistent with the policy on expensing of aid (food, cash and vouchers).

Recommendation 5: We recommend a consolidation to capture and catalogue on one platform all the recommendations flowing from the different streams: internal audit, external audit and evaluation reports.

Recommendation 6: A six-monthly review of the action taken to implement the recommendations and consultations with the External Auditor may be institutionalised.

I OUR AUDIT

1. The main objectives of the audit were to verify that the annual financial statements:

- *Present fairly in all material respects the financial position of WFP as on 31 December 2011 and of the financial performance of WFP during the year 2011;*
- *Are prepared in accordance with the Financial Regulations of WFP and the accounting policies of WFP;*
- *Are in conformity with International Public Sector Accounting Standards (IPSAS).*

2. The audit involved examination of the financial statements with supporting documents and information available in two IT systems:

- WINGS II, a SAP IT application used for accounting purposes, and
- Commodity Movement Processing and Analysis System (COMPAS) an IT application for tracking inventory.

3. Test check of selected accounting and operating transactions was carried out both by drilling down from the balances indicated in the financial statements and by checking the aggregation of figures from basic records.

4. Important findings impacting the integrity of financial transactions observed during the field audits of eight country offices of WFP[1] and three regional bureaux were also considered during this audit. The views of the management received at various stages of audit were considered while finalizing this report.

II RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

5. WFP is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

III RESPONSIBILITY OF THE EXTERNAL AUDITOR

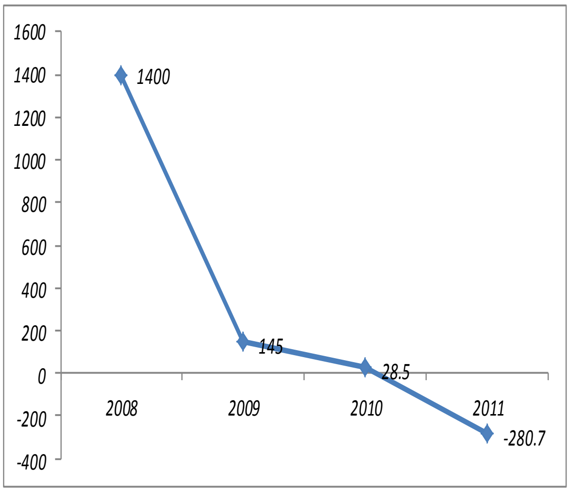
6. Our responsibility as the External Auditor is to express an opinion on these financial statements based on the examination of records and information provided by the WFP management. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. The terms of reference of the External Auditor included in the Financial Regulations of WFP have been kept in mind while carrying out the audit.

[1] The country offices audited were Niger, Guatemala, Côte d'Ivoire, Colombia, The Sudan, Occupied Palestinian Territory, Senegal, Egypt. The 3 regional bureaux in Panama, Dakar and Cairo were also covered in our field audit

IV PERFORMANCE AGAINST KEY INDICATORS

A Operating surplus/deficit

7. The surplus/deficit is the difference between the income of WFP during the year and the committed expenses. The downward trend in operating surplus continued in 2011 when for the first time, the WFP has reported an operating deficit. The operating deficit for 2011 was US$280.7 million against a surplus of US$28.5 million in 2010.



Deficit

8. Under IPSAS, WFP recognizes a contribution as income when it is confirmed through an agreement. Expenses are recognized when goods and services are received or when food commodities are delivered. There is an inherent time-lag between the recognition of income and the recognition of expense. Thus the deficit could arise from many factors: the timing of income and expenses; bunching of multi-year contributions in the previous years; fall in income or a surge in expenses.

9. We found that the deficit was mainly a consequence of an over 12 *per cent* dip in income in 2011 as compared to 2010.

10. Further analysis of the deficit across different segments is tabulated. There is an increasing trend in the deficit in programme category funds over the years with the dip in 2011 being 3.7 times the level in 2010.

(figures in millions of US$)

Segments	**2009**	**2010**	**2011**
I Programme category funds			
Income	3556	3577	2894
Expenditure	3692	3729	3459
Deficit	(-)136	(-)152	(-)565
Surplus/Deficit in other segments			
II General Fund and Special Accounts	315	65	362
III Bilateral Operations and Trust Funds	(-)34	116	(-)78
Total surplus/deficit	**145**	**29**	**(-)281**

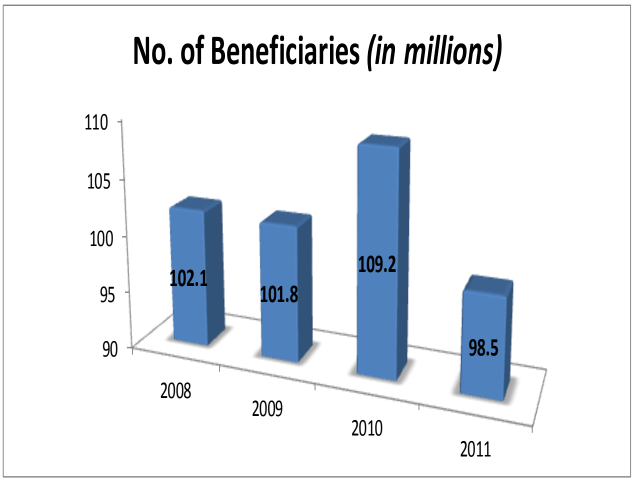
11. The deficit in programme category funds was partially offset by a surplus in General Fund and Special Accounts. The surplus in this segment in 2011 was on account of: (i) multi-year contributions confirmed and recognised as income in 2011 but would be allocated to projects to be implemented in subsequent years: US$184 million and (ii) multilateral[2] contributions of US$204 million of which US$178 million was programmed to specific projects.

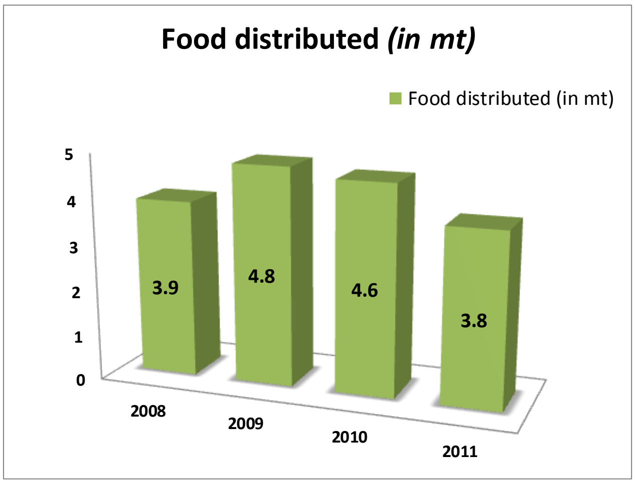
Income

12. The emergencies of Haiti in 2010 and of the Horn of Africa in 2011 mobilised good response from the donors. However, the general trend is of decline in contributions since 2008. WFP faces a challenge in raising resources in the context of the global economic crisis: it will have to find innovative solutions to enthuse donor support and diversify the donor base. The top 10 donors account for 76 *per cent* of the total contributions in 2011. The private sector's share is small but is growing. The consolidated contribution from private donors was on a steady rise over the years but dipped from 3.4 *per cent* in 2010 to 2.5 *per cent* of the total contribution in 2011.

Expenses

13. There was a 5 *per cent* reduction in expenses in 2011 as compared to the figures of 2010. The aid component (US$2,182 million): food commodities as well as cash and vouchers; accounted for 54 *per cent* of WFP's expenditure. The second largest component is the staff costs which contributed 17 *per cent* of the expenditure in 2011. The commodity expenses went down in 2011 as compared to 2010 despite an increase in food prices. The reach of WFP as measured by the number of beneficiaries and the tonnage of food distributed, shows a downward trend over the recent years as shown in the charts below. The dip in the food distribution by the order of US$193 million from the 2010 level was complemented in part by an increase in distribution of cash and vouchers by US$60 million.





[2] WFP characterizes its contributions mainly into two categories: (i) Multilateral: where WFP determines the projects on which the contribution will be used, (ii) Directed Multilateral: A contribution earmarked to a specific country by the donor.

14. The resources available for expense in any one year therefore include both the fund balances at the end of the previous year (cash, contributions confirmed but not received, food stocks, etc.) and new contributions confirmed in writing during the year. Our analysis led us to conclude that the deficit does not currently pose a threat to operations of WFP, backed as they are by an accumulated surplus (fund balances) of US$3,550 million to fund future operations.[3] However, if there is a continuing trend of deficits in future years, it could erode the surplus and jeopardise the flow of operations.

B Fund balances and reserves

15. The reserves of WFP stood at US$237.3 million on 31 December 2011 registering an 8.52 *percent* reduction as compared to figures of the previous year. These reserves are not tied to any donor in particular and are at WFP's disposal, primarily to fund non-project liabilities.

16. The fund balances and reserves, as on 31 December 2011, were US$3,787.5 million. Open commitments of US$592 million (for goods and services contracted but not received as at the end of 2011) are thus adequately covered by the fund balances.

C Management of cash and investments

17. The value of cash and investments increased from US$1.58 billion at 31 December 2010 to US$1.94 billion as at 31 December 2011.

18. As against US$22.6 million in 2010, the income from investments in 2011 stood at US$27.5 million. This was because of an increase in the quantum of investments (US$1.6 billion in 2010: US$1.9 billion in 2011). The return on investments over the period remained at 1.4 per cent in 2011 as in 2010.

19. Cash and cash equivalents consist of cash and bank balances, money market and deposit accounts and balances with investment managers. The balances increased from US$550.5 million at the end of 2010 to US$659.6 million in 2011. The notes to accounts state that the cash required for 'immediate' disbursement is maintained in the cash and bank accounts. Balances in the money market and deposit accounts are available at "short notice". The management clarified that 'immediate' would stand for approximately one day while "short notice" would be for within two business days.

20. WFP aims to contain cash balances kept in field offices on the premise that cash kept in bank accounts of field offices are generally exposed to higher risks: counterparty risk, foreign exchange risk and country risk. An important mechanism to centralise cash payments is the use of Zero Balance Accounts (ZBAs) which allows 41 field offices access to funds with cash balances held on the Headquarters Master Accounts.

21. We sampled two months, November & December 2011 and found that the daily cash and bank balances in the Headquarters ranged between US$49 million to US$181 million. The average daily cash disbursements was US$14 million, the highest being US$29 million. Thus the cash balances maintained in Headquarters are high in proportion to the needs. The Secretariat informed that the balances represent disbursement needs in the range of 3 days to 12 days which is not particularly high given the uncertainties impacting cash inflows and outflows. It may be noted that in addition to the cash and bank balances to

[3] Subject to such restrictions as may be imposed by the respective donors.

meet immediate needs, WFP has "quick" access to cash in money market and deposit accounts. Thresholds for cash and bank balances would be factored on the availability of liquidity across this spectrum. The Secretariat clarified that there was no opportunity loss from keeping these funds in Headquarters bank accounts instead of money markets funds, as the return on both were currently extremely low.

22. While in the current situation there would be no opportunity loss, we feel that WFP would be well served with a systematised framework for cash forecasting that could support decision-making on availability of funds for investment. Contributions are received after discussions with donors and would lend themselves to forecasting; expenditure outflows would likewise follow the schedules of commitments (payroll/contracts, etc.) of WFP.

Recommendation 1: A framework for cash forecasting, leveraging on the functionalities in WINGS II, should be developed to enhance the quality of decisions on cash management in WFP.

D Value-added tax receivable

23. By virtue of being a body of the United Nations, WFP is exempt from taxes such as value-added tax (VAT). In 35 of the 96 countries, WFP pays VAT on goods and services and recovers the VAT from the host governments. As on 31 December 2011, VAT receivable was around US$53.6 million, of which nearly US$26.8 million pertained to the year 2007 and earlier periods. These VAT receivables are covered substantially by a provision of US$48.9 million. VAT receivables from the Sudan were US$43.3 million accounting for 80 *per cent* of the total VAT receivables. The Secretariat informed us that five instalments amounting to US$2.6 million were collected from the Government of the Sudan. We were also assured that vigorous efforts were being made to recover the receivables.

E Budget

24. WFP prepares Statement V of Comparison of Budget and Actual Amounts as a requirement of IPSAS Standard 24. The final budget of 2011 was US$5,988.4 million against which the actual expenditure was US$3,753.4 million. The variance is large, but the comparative analysis does not lend itself for use as a parameter to assess the performance of WFP in utilising the authorised resources.

25. This is borne out of the voluntary funding model in WFP. The Programme prepares a budget that is essentially a work plan on which it seeks the authorisation of the Executive Board. It is aspirational and prepared on the assumption that all the identified beneficiaries will be supported. On the other hand, the project implementation would depend on the funds resourced for the project.

26. IPSAS Standard 24 places budget as a key tool for financial management and control. Salient issues raised in the standard are:
    - An approved budget reflects the anticipated revenues or receipts expected to arise in the budget period and the anticipated expenditures authorised by the legislative body. *The approved budget establishes the expenditure authority* for the specified items.

- Presentation in the financial statements of the original and final budgets and actual amounts on a comparable basis with the budget that is made *publically available*, will *complete the accountability cycle* by enabling users of the financial statement to identify whether resources were obtained and used in accordance with the approved budget

27. The budget in WFP assumes that all the projects covering all the targeted beneficiaries occupy equal priority. In the situation that funds resourced always fall short (in some countries, the unmet needs are significant), the field manager decides the priorities. An implementation plan aligned with the funds resourced is not prepared. The performance of the field manager depends substantially on the extent to which the needs for funds to meet project deliverables are met. But the primary or sole responsibility for raising resources is not of the field managers; the risk of unmet funding needs jeopardising the project goals cannot be placed on the field manager. It is in this context that we had recommended in the Performance Audit Report on "Management of Projects" that multiple scenario budgeting should guide the implementation of projects.

28. The uncertainties in funding have widespread impact on various aspects of the Programme: not only on the ability to implement projects but also in planning and raising human resources to support the projects. WFP is working towards improving the monitoring and evaluation of its projects; in the current framework, it is difficult to accurately assess the impact of the funding shortfalls on achievement of its project goals.

29. We are of the opinion that a resource plan must be prepared along with the work plan. This will make the budgetary exercise comprehensive and more meaningful.

Recommendation 2: WFP should consider the integration of a resource plan into the planning processes, including Management Plan, and potentially project planning.

V AUDIT FINDINGS AND RECOMMENDATIONS ON FINANCIAL STATEMENTS

30. During the course of the audit, we pointed out and WFP carried out, 19 modifications mainly relating to disclosures to improve the quality of financial reporting. Few of the significant changes are listed in the Annexure. On those issues that merited action over a long term, we were assured of due consideration.

31. We noted that WFP has put in place internal controls to ensure the integrity of information in the financial statements. The guidelines issued for preparation of financial statements outlined the activities that must be undertaken to provide a reasonable basis for managers in making their assertions on the integrity of financial transactions on their areas of responsibility. Letters of Representation (LORs) received from reporting officers formed the basis for quality assurance at higher levels. Specific closure-related tasks were also outlined. The regional finance officer provides oversight and tools such as the financial dashboard and the Minimum Monthly Closure (MMC) facilitate regular monitoring. In addition, the six month accounts were subject to scrutiny by internal audit.

32. Our predecessors, the National Audit Office (NAO) of the United Kingdom had recommended in 2009 that WFP should prepare the Statement on Internal Control (SIC). We are happy to note that WFP implemented this recommendation in 2011. We view SIC as an effective means of ensuring accountability to all the stakeholders. It is also an important vehicle for messaging to the functional managers, their roles and responsibilities with regard to internal controls. We draw comfort from the process of

preparation of SIC whereby sufficient assurances from the senior management and the internal audit were collated to confirm that internal controls are operating effectively.

33. We would like to point out that the External Auditor is not required to provide a specific opinion on the Statement on Internal Control although we would usually report any material inconsistency between the Statement and our own assessment of the internal control environment.

34. In the course of our audit, we identified some areas that in our view, would require enhancement of controls, which are highlighted in the following paragraphs.

A Food Inventory

35. In most countries, WFP works in close collaboration with co-operating partners (CPs) who assist it in identification of beneficiaries and distribute food commodities (and cash and vouchers) to the beneficiaries. The CPs report on the actual aid distribution to WFP through the Monthly Distribution Report (MDR).

36. In accordance with WFP's stated accounting policy, food commodities are expensed when distributed directly by WFP or once they are handed over to the CP for distribution. We had recommended in our report on the financial statements of 2010 and WFP had accepted that the value and volume of food inventories lying undistributed with the CPs must be disclosed in the Notes to Accounts. The disclosure was also to provide the reader of the financial statements, an accurate picture of the food actually distributed to the beneficiaries.

37. WFP made a disclosure of US$92.8 million (150,471 mt) as food pending distribution by CPs as on 31 December 2011 in Note 4 Statement I. We selected a sample of 68 CPs and found that as on the date of audit, 27 CPs had not submitted the MDR; in such cases, WFP estimated the figures for undistributed food. In fact, getting timely distribution reports from CPs has historically been a challenge for WFP. We also found differences in the figure aggregated for the Notes to Accounts and the figures reported in the MDR, in the case of 6 CPs. We concluded that the controls to ensure accurate reporting of distribution of food would need to be improved.

Recommendation 3: WFP needs to streamline the procedure for collection of timely distribution reports from the co-operating partners and enhance the quality of reconciliation of data on undistributed food lying with the partners

38. While commodities are expensed (and inventories reduced) at the time of issue of commodities to the CPs, treatment of undistributed commodities differ, as under:
   - undistributed food lying with CPs is disclosed in the Notes to Accounts;
   - food lying undistributed with host governments is added back to inventory; and
   - undistributed cash and vouchers with CPs is also reckoned as a receivable.

39. The accounts do not disclose the above policy of differing treatments. This practice creates confusion on the treatment of undistributed commodities with those host government agencies that also distribute food and hence take the colour of a CP. WFP did not have a clear policy prescribing the key parameters that would identify a host government as a CP, leading to divergent approaches. 45,028 mt of food stock (US$23 million) lying with a government agency in Ethiopia (Disaster Risk Management

and Food Sector) as on 31 December 2011, was first treated as government stocks and later, through an adjustment, reduced from the inventory and treated as CP food stocks. On the other hand, undistributed food commodities (31,206 mt; US$21 million) with the Government of the Democratic People's Republic of Korea (DPRK) that also distributes food, was treated as government stock and added back to the inventory.

40. WFP informed that in respect of DPRK, the food was added back to the inventory because WFP retained control over the food stocks. Such control was in the form of clauses in the agreements with these governments that give WFP the right to draw down food, access to the warehouses to conduct verification, etc. However, WFP is in a position to exercise such control over CP held stocks also. The country offices are not barred from physical verification of stock held in CP warehouses; in fact, the WFP offices do conduct such verification. The distribution of food by CPs is according to a distribution plan prepared by WFP. We concluded that the differing treatments of undistributed inventory are not adequately supported in substance.

Recommendation 4: WFP should lay down a clearly articulated policy for accounting of undistributed food with government partners that also distribute food. This policy should be consistent with the policy on expensing of aid (food, cash and vouchers).

B Other issues: low risk

- WFP has a special account for the global food security cluster created in December 2010. WFP is the co-lead authority of the cluster together with FAO and is responsible to resource and manage the cluster budget at the global level. The aim of the cluster is to enhance surge capacity, predictability, speed, effectiveness and appropriateness of international humanitarian response. The relevant circular laid down that a Joint Directive would be issued providing detailed instruction and guidance on the administration, accounting and reporting for this special account. During 2011, there were expenses worth US$1.02 million from this special account. However, the directive was yet to be issued. In the meanwhile, transactions relating to the cluster are being governed by WFP's general accounting procedures.
- Intangible assets include internally and externally generated software, licenses and rights, and intangible assets under construction. The financial statements for 2011 reported additions of US$2.3 million in the intangible assets. We found that estimation of the useful life of different classes of intangible assets was not supported by an analysis of each class of item against the laid down parameters that guide such estimation. There was also no documentation to indicate when the estimation was last reviewed.
- Few assets and items of expendable inventory (although not material) were misclassified as intangible assets. There are two corporate systems for recording assets – WINGS II and the Asset Management Database (AMD). The mistake occurred because the AMD does not have a field to capture intangible assets. WFP assured us that the controls would be further strengthened to detect such misclassification.
- IPSAS Standard 17 requires that there should be a disclosure on - (a) the existence and amounts of restrictions on title for property, plant and equipment pledged as securities for liabilities; (b) the amount of commitments for the acquisition of property, plant and equipment. We were told that there exist no restrictions on the title of any of the assets appearing in the financial statements. We found that there was no laid down process to capture any restrictions on assets. WFP assured us that the equipment module of

WINGS II would replace the AMD. We were also told that an assurance will be taken from the country offices in this regard.

VI PROGRESS ON IMPLEMENTATION OF RECOMMENDATIONS OF THE EXTERNAL AUDITOR

41. As a matter of good audit practice, we reviewed the overall progress made by the Secretariat in responding to audit recommendations presented to the Executive Board on our report on financial statements of 2010 and that of our predecessor for the year 2009. We are happy to confirm the positive steps taken by the Secretariat, in particular, with regard to the following areas:

- The preparation of the Statement of Internal Control in 2011 was an important achievement, for achievement of which the Secretariat engaged with the field units for training and messaging its significance;
- The terms of reference of the Audit Committee were revised to clarify its responsibilities and authority;
- WFP disclosed the value of food: in mt and in US dollars, of undistributed food commodities lying with the co-operating partners. This report recommends steps to ensure accuracy and consistency in the figures reported in the Notes to Accounts;
- A more detailed testing for measurement of current replacement cost of inventory has been put in place;
- The Secretariat has strengthened the reconciliation process of the control figures for food inventory in the two IT systems, COMPAS and WINGS II;[4] the difference was brought down from 12,047 mt in 2010 to 4,898 mt in 2011. The implementation of the Logistics Execution Support System (LESS) would provide a permanent fix to the problem. We were told that the LESS pilots in two country offices were ongoing and under evaluation.
- The process of reconciliation of internal loans and borrowings between projects has been reconciled through a technical solution in November 2011.

42. The SIC while providing an assurance on the adequacy of internal controls, also identifies areas in which the controls have to be strengthened. The recommendations contained in the internal audit, external audit and evaluation reports together will provide a framework for assessment of the gaps in controls and validate the assertions in the Letters of Representation received from field units.

[4] WINGS II records transactions up to the stage of expensing of inventory. Information thereafter is captured in COMPAS, the batch processing system. The data migration is facilitated between the two systems by a SAP-COMPAS Interface; errors in migration lead to differences in the control figures in the two IT systems.

Recommendation 5: We recommend a consolidation to capture and catalogue on one platform all the recommendations flowing from the different streams: internal audit, external audit and evaluation reports.

43. The verification of implementing action taken in respect of other past reports including that of our predecessor will be integrated into future audit. The recent reports on which the Secretariat's actions on the recommendations are pending verification, are reports on:

- WFP Operations in Somalia
- Procurement of landside transport, storage and handling contracts
- Management of Projects

44. A six-monthly review of the action taken to implement the recommendations and consultations with the External Auditor will help the Secretariat to make timely interventions to assure that the steps meet the spirit of the recommendations. It would also help the internal and external audit to structure their audits in order to validate those recommendations that have been implemented.

Recommendation 6: A six-monthly review of the action taken to implement the recommendations and consultations with the External Auditor may be institutionalised.

Acknowledgement

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

Vinod Rai
Comptroller and Auditor General of India
External Auditor
17 April 2012

Annexure

Significant modifications made in the financial statements by WFP at the instance of External Audit

1. Property, Plant and Equipment – Para 20

Original

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. Depreciation is provided for PP&Es 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:

Modified

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 revenue.* Depreciation is provided for PP&Es 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:

2. Intangible Assets – Para 23

Original

Intangible assets are measured initially at cost. Subsequently, intangible assets are carried at historical cost less accumulated amortization and any impairment losses.

Modified

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 revenue.*

3. Revenue – Note 3.5

Original

3.5	Other revenue	112.6	106.5

Modified

Revenue generated from special accounts activities	89.3	84.2
Miscellaneous revenue	23.3	22.3
Total other revenue	112.6	106.5

4. Para 158

Original

Other revenue relates mainly to special accounts activities including air operations, provision of goods and services by the United Nations Humanitarian Response Depot, Field Emergency Support Office, service fees from third-party agreements as well as proceeds from sale of damaged commodities and other unserviceable properties.

Modified

During 2011, revenue generated from special accounts activities totalled US$89.3 million (US$84.2 million at 31 December 2010) and included mainly air operations, provisions of goods and services by the United Nations Humanitarian Response Depot and Field Emergency Support office. *Miscellaneous revenue of US$23.3 million (US$22.3 million at 31 December 2010) included proceeds from sale of damaged commodities and other unserviceable properties.*

5. Third-Party Agreements – Note 11

Original

Third-party agreements (TPA) reconciliation	**2011**			**2010**	
	US$ millions				
Opening balance at 01 January		**10.4**			**9.9**
New third-party agreements set up in the year	62.4			56.9	
Less: receipts/additions during the year	(45.8)	(16.6)		(83.3)	(26.4)
Third-party agreements payables during the year	(86.8)			(71.3)	
Less: disbursements/deductions during the year	76.4	(10.4)		98.2	26.9
Total TPA receivables (Note 2.5)		16.6			10.4
Allowance for doubtful account		(10.3)			-
Closing balance at 31 December		**16.3**			**10.4**

Modified

Third-party agreements reconciliation	**2011**			**2010**	
	US$ millions				
Opening balance at 01 January		**10.4**			**9.9**
New third-party agreements set up in the year	62.4			56.9	
Less: receipts/additions during the year	(45.8)	16.6		(83.3)	(26.4)
Third-party agreements payables during the year	(86.8)			(71.3)	
Less: disbursements/deductions during the year	76.4	(10.4)		98.2	26.9
Total TPA receivables (Note 2.5)		16.6			10.4
Allowance for doubtful account		(0.3)			-
Closing balance at 31 December		**16.3**			**10.4**

6. Contribution Receivable – Note 2.3 – Para 54

Original

The allowance for doubtful accounts is estimated at the following percentages of outstanding contributions receivable:

Contributions receivable outstanding for:	**%**
More than 4 years	75
Between 3 and 4 years	25
Between 2 and 3 years	5
Between 0 and 1 year	0

Modified

The allowance for doubtful accounts is estimated at the following percentages of outstanding contributions receivable. *The percentages have changed from 2010 to reflect the experience of actual write-offs in 2011.*

Contributions receivable outstanding for:	**%**
More than 4 years	75
Between 3 and 4 years	25
Between 2 and 3 years	5
Between 0 to 2 years	0

ACRONYMS USED IN THE DOCUMENT

AMD	Asset Management Database
ASM	After-Service Medical Plan
BMIP	Basic Medical Insurance Plan
CAG	Comptroller and Auditor General of India
CO	country office
COMPAS	Commodity Movement Processing and Analysis System
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CP	co-operating partner
CPRF	Compensation Plan Reserve Fund
DBO	defined benefit obligation
DPRK	Democratic People's Republic of Korea
DSC	direct support costs
DSCAF	Direct Support Cost Advance Facility
EMC	Executive Management Council
EPRP	Emergency Preparedness and Response Package
ERMC	Executive Risk Management Committee
FAO	Food and Agriculture Organization of the United Nations
FRMM	Financial Resource Management Manual
HLCM	High-Level Committee on Management
HR	Human Resources Division
IFRS	International Financial Reporting Standard
IPSAS	International Public Sector Accounting Standards
IRA	Immediate Response Account
ISC	indirect support costs
LESS	Logistics Execution Support System
M&E	monitoring and evaluation
MDR	Monthly Distribution Report
MSCI	Morgan Stanley Capital International
ODOC	other direct operational costs
OR	Operational Reserve
OSRB	other separation-related benefits
PACE	Performance and Competency Enhancement Programme
PP&E	property, plant and equipment
PREP	Preparedness and Response Enhancement Programme
PSA	Programme Support and Administrative (budget)
PSAEA	PSA Equalization Account
RB	regional bureau
RMP	Performance and Accountability Management Division
SIC	Statement on Internal Control
SMCA	Strengthening Managerial Control and Accountability
STRIPS	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
VAT	value-added tax
WINGS II	WFP Information Network and Global System