May 2018 FC 171/2

E

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

منظمة
الأغذية والزراعة
للأمم المتحدة

FINANCE COMMITTEE

Hundred and Seventy-first Session
Rome, 29 - 31 May 2018
Audited Annual Accounts, 2017

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

Mr Nicholas Nelson
Director, Finance and Treasury Division
World Food Programme
Tel: +39 06 6513 6410

This document can be accessed using the Quick Response Code on this page;
an FAO initiative to minimize its environmental impact and promote greener communications.
Other documents can be consulted at www.fao.org

MW216e

FC171

EXECUTIVE SUMMARY

- The WFP Secretariat is pleased to submit the Audited 2017 Financial Statements together with the Audit Opinion and the Report by the External Auditor. The financial statements have been prepared using International Public Sector Accounting Standards (IPSAS). The External Auditor has completed the audit in accordance with the International Standards of Auditing, and has provided an unqualified audit opinion.
- This document is submitted to the Executive Board in accordance with General Regulation XIV.6 (b) and Financial Regulations 13.1 and 14.8, which provide for the submission to the Executive Board of the audited financial statements of WFP and an associated report of the External Auditor. The statements and the report are presented in one document.
- In addition, for the seventh consecutive year, the Statement on Internal Control (SIC) has been issued with the annual financial statements. The SIC provides specific assurance on the effectiveness of internal control in WFP.
- Since 2008, the WFP Secretariat has presented its responses to the External Auditor's recommendations included in the annual accounts documents at the same session at which the External Auditor's report is presented. These responses are contained in the "Report on the Implementation of the External Auditor Recommendations" (FC171/11).

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to endorse WFP's "Audited Annual Accounts, 2017" for approval by the Executive Board.

Draft Advice

- **In accordance with Article XIV of the General Regulations of WFP, the FAO Finance Committee advises the WFP Executive Board to approve the "Audited Annual Accounts, 2017".**

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

Executive Board
Annual session
Rome, 18–22 June 2018

Distribution: General
Date: 11 May 2018
Original: English

Agenda item 6
WFP/EB.A/2018/6-A/1
Resource, financial and budgetary matters
For approval

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

Audited annual accounts, 2017

The Secretariat is pleased to submit the Audited 2017 Financial Statements together with the Audit Opinion and the Report of the External Auditor. The Financial Statements have been prepared under International Public Sector Accounting Standards. The External Auditor has completed the audit in accordance with the International Standards of Auditing, and has provided an unqualified audit opinion.

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

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

The Secretariat's responses to the External Auditor's recommendations are contained in "Report on the implementation of the External Auditor's recommendations" (WFP/EB.A/2018/6-I/1).

Focal points:

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

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

Mr N. Nelson
Director
Finance and Treasury Division
tel.: 066513-6410

Draft decision*

The Board:

i) approves the 2017 Annual Financial Statements of WFP, together with the Report of the External Auditor, pursuant to General Regulations XIV.6 (b);

ii) approves, in accordance with the Financial Regulation 10.6, the replenishment of the Operational Reserve from the General Fund in the amount of USD 2.2 million, relating to a drawdown from the Operational Reserve based on a forecast contribution that did not materialize;

iii) notes the funding from the General Fund of USD 8,442,914 during 2017 for the write off of receivables and commodities;

iv) notes post-delivery losses of commodities during 2017 forming part of operating expenses for the same period.

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

Section I

Executive Director's Statement

Introduction

1. In accordance with Article XIV.6 (b) of the General Regulations and Financial Regulation 13.1, I have the honour to submit for the approval of the Executive Board (the Board) the financial statements of the World Food Programme (WFP), prepared in accordance with the International Public Sector Accounting Standards (IPSAS), for the year ended 31 December 2017. The External Auditor has given his opinion and report on the 2017 financial statements, both of which are also submitted to the Board as required by Financial Regulation 14.8 and the Annex to the Financial Regulations.

Operational context

2. The World Food Programme was established in 1961 by the United Nations General Assembly and Food and Agriculture Organization of the United Nations (FAO) Conference as the United Nations system's food aid organization. WFP's Strategic Plan for 2017–2021 aligns the organization's work to the 2030 Agenda's global call to action, which prioritizes efforts to end poverty, hunger and inequality, encompassing humanitarian as well as development efforts. Responding to emergencies and saving lives and livelihoods – either through direct assistance, or by strengthening country capacities – remains at the heart of WFP's operations, especially as humanitarian needs become increasingly complex and protracted. At the same time, WFP supports countries in ensuring no one is left behind by continuing to build resilience for food security and nutrition and addressing the growing challenges posed by climate change and rising inequality. WFP has more than 16,000 staff worldwide of whom over 88 percent are based in the countries where the agency provides assistance. WFP is governed by a 36-member Executive Board which provides intergovernmental support, direction and supervision of WFP's activities.

3. The financial year 2017 represents the first year of implementation of the 2017–2021 Strategic Plan, which aligns WFP's work with the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs) endorsed by the United Nations in 2015. The year 2017 was characterized by a continuation of the record number of emergencies witnessed the previous year, primarily stemming from conflict. Six Level 3 and five Level 2 emergencies were active at year-end, including the four potential famines, which alone left 20 million people in Yemen, Somalia, South Sudan and Nigeria at risk. In 2017, WFP responded to food security and nutrition needs in the context of conflict, climate change, corruption and poor governance, along with the breakdown of food systems.

4. In 2017, WFP's contribution revenue was at a record level of USD 6.0 billion. However, total requirements were also higher than ever, standing at USD 9.8 billion. As a result of this USD 3.8 billion funding gap, WFP has had to prioritize geographically, between households, and across activities. However, WFP was able to achieve significant results. Given the contributions received, and in partnership with national governments, United Nations agencies, and over 1,000 non-governmental organization (NGO) partners, WFP was able to directly reach 88.9 million people in 82 countries. While emergency response remained a focus in 2017 – with the Level 3 and Level 2 emergencies accounting for 68 percent of the total final programme of work – WFP's response in nutrition, work with smallholders, collaboration with national governments, and role in providing common services, among

others were significant. It is also worth noting that WFP continues to be one of the largest distributors of cash and commodity vouchers in the humanitarian system, disbursing USD 1.4 billion in 2017, an increase from USD 882 million in 2016.

Integrated Road Map

5. The year 2017 also witnessed the beginning of the roll-out of the Integrated Road Map, including 12 countries which have begun implementation of their country strategic plans.

6. The four components of the Integrated Road Map (IRM) – the Strategic Plan (2017–2021), the policy on country strategic plans (CSPs), the Financial Framework Review, and the Corporate Results Framework – were approved by the Executive Board at the 2016 Second Regular Session. The Integrated Road Map represents the transformative organizational change required to meet the demands of the 2030 Agenda and operate within today's humanitarian-development-peace nexus. The design and implementation of holistic and coherent portfolios – in close engagement with partners – will enhance the transparency, effectiveness, efficiency and sustainability of WFP's response.

7. The Financial Framework Review delivered the country portfolio budget structure, mainstreamed resource-based implementation planning, and harmonized financial and results frameworks. The architecture consolidates all of a country's operations and resources[1] into a single structure for improved funds management and oversight. Critically, it creates a clear line of sight from WFP strategic goals through activities to resources for better performance reporting and accountability.

8. The first two waves of CSPs and interim country strategic plans (ICSPs) with country portfolio budgets were approved by the Executive Board at the 2017 first regular and annual sessions.[2] Of the fourteen plans approved, twelve country offices[3] transitioned to the country strategic planning framework in 2017. The financial information on the twelve CSPs pilot countries is presented in the Financial Statement V. Lessons learned over the course of the year have served to refine the IRM framework and informed the development of guidance and simplification of processes.

9. On 1 January 2018, an additional 53 country offices transitioned to the new framework. The 65 country offices operating under the IRM framework represent approximately 64 percent of WFP's annual 2018 programme of work. All country offices are expected to transition to the new framework no later than January 2019.

10. The WFP Information Network and Global System (WINGS) accommodates and manages both the current project system and the new IRM framework until the implementation phase is complete. Financial Statement V clearly indicates the original and final budget information and the framework that it applies to.

Financial analysis

Summary

11. WFP's primary source of revenue is voluntary contributions from donors. WFP recognizes contribution revenue when confirmed in writing and where the contributions are stipulated for the current financial year. Contributions stipulated by donors for use in future periods

---

[1] With the exception of service level and third-party agreements that are incidental to WFP's programme of work and pass-through activities.

[2] Wave 1A CSPs include: Bangladesh, China, Colombia, Ecuador, El Salvador, Indonesia, Lao People's Democratic Republic and Zimbabwe. Wave 1B includes CSPs for Cameroon, Lebanon, Mozambique, Namibia and the United Republic of Tanzania and the ICSP for the Sudan.

[3] CSPs for Cameroon and Lebanon went live on 1 January 2018.

are recorded as deferred revenue. 2017 was a record year for both contribution revenue recognized in 2017 and revenue deferred to future financial periods.

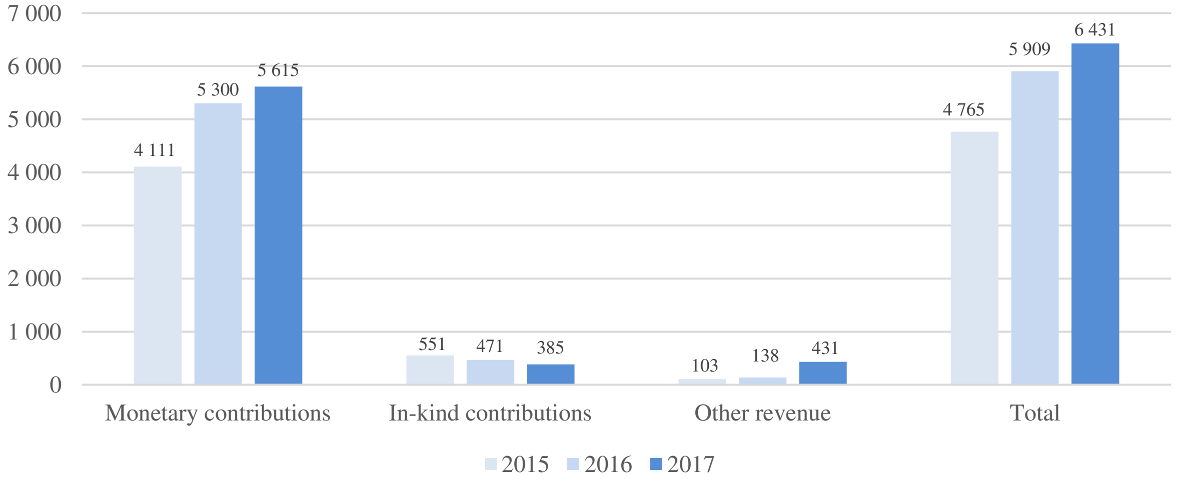
12. WFP's primary expenses are for food commodities distributed and cash-based transfers. Expenses are recognized when food commodities are delivered or cash-based transfers are distributed. There is an inherent time lag between the recognition of revenue and the recognition of expenses. Expenses in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

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

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

Financial performance

Figure 1. Revenue
(in USD million)



15. Total revenue in 2017 was USD 6,430.9 million, an increase of USD 522 million or 9 percent from the revenue of USD 5,908.9 million in 2016.

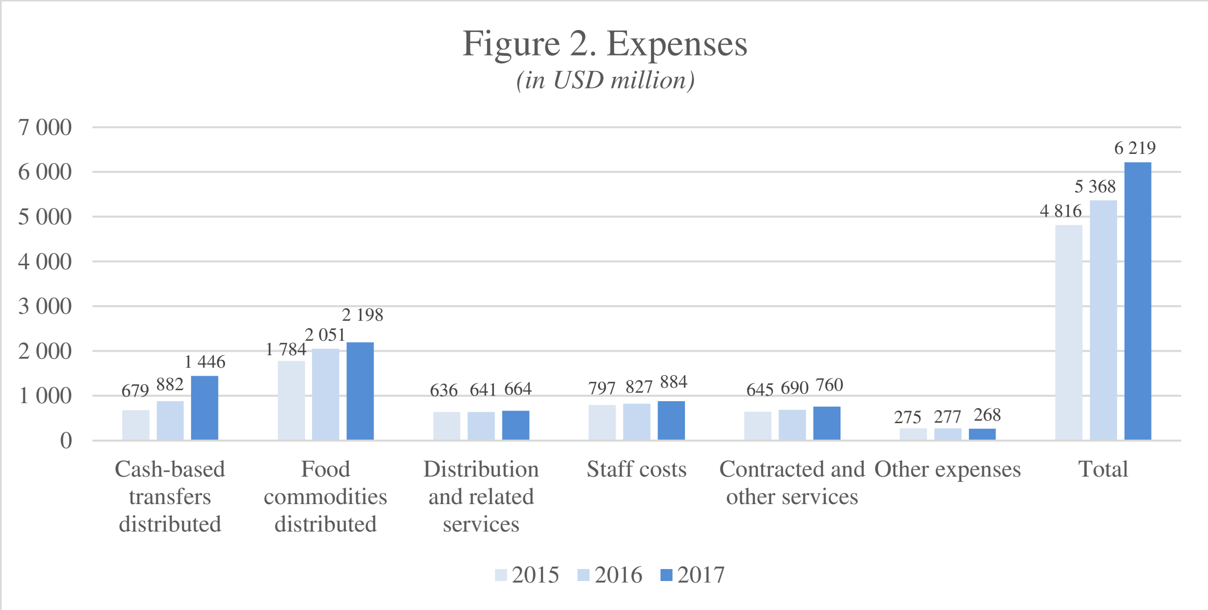
16. This increase in revenue in 2017 stems primarily from increased monetary contributions received from major donors for the programmatic response to the Syrian Arab Republic and Syrian refugees emergency and to potential famines in four countries (South Sudan, Nigeria, Somalia, and Yemen).

17. The elements of other revenue amounting to USD 431.0 million in 2017 comprised:

    a. currency exchange differences – USD 231.0 million gain;

    b. return on investments – USD 51.0 million gain; and

    c. other revenue, generated from provision of goods and services – USD 149.0 million.



18. In 2017, WFP expenses were USD 6,219.2 million, an increase of USD 851.7 million or 16 percent from 2016.

19. Cash-based transfers distributed expense increased to USD 1,446.1 million from USD 882.3 million in 2016. This 64 percent increase is largely due to the increase of the cash-based transfers distributed in the response to the Syrian Arabic Republic and Syrian refugees emergency and Somalia crisis.

20. Food commodities distributed in 2017 increased to 3.9 million mt from the 2016 level of 3.7 million mt with the corresponding value of USD 2,197.5 million, a 7 percent increase from the previous year value of USD 2,051.1 million. 61 percent of the food commodities distributed in tonnage and 57 percent in value are attributable to WFP's large-scale operations in the Syrian Arabic Republic and Syrian refugees emergency, Yemen, Ethiopia, South Sudan, Malawi, Nigeria and Uganda.

21. Staff costs increased by 7 percent to USD 884.0 million. The increase in staff costs is mainly due to an increase in the number of international professionals, national staff, and consultants.

22. Contracted and other services increased to USD 759.5 million from USD 689.5 million in 2016, a 10 percent increase mainly due to the increase in expenses related to the services rendered by cooperating partners in response to the Syrian Arabic Republic and Syrian refugees emergency as well as due to South Sudan and Nigeria operations.

23. Other expenses category in Figure 2 above is composed of:

a. Supplies, consumables and other running costs – USD 174.4 million;

b. Depreciation and amortization costs – USD 47.7 million;

c. Other expenses – USD 43.7 million; and

d. Finance costs – USD 1.9 million.

Surplus

24. In 2017, the surplus of revenue over expenses was USD 211.7 million compared to a surplus of USD 541.4 million in 2016. The decrease of USD 329.7 million reflects the timing of revenue and expense recognition and the increase in spending of USD 851.7 million from USD 5,367.5 million in 2016 to USD 6,219.2 million in 2017. This increase mainly reflects

increased distribution to WFP beneficiaries (an increase in both cash-based transfers (CBTs) and commodities distributed).

Financial position

TABLE 1. SUMMARY OF FINANCIAL POSITION AT 31 DECEMBER 2017
(USD million)

	2017	2016 (restated)
Current assets	6 840.4	5 481.3
Non-current assets	1 139.1	1 140.7
Total assets	**7 979.5**	**6 622.0**
Current liabilities	2 253.8	1 065.2
Non-current liabilities	1 291.8	1 272.2
Total liabilities	**3 545.6**	**2 337.4**
Net assets	**4 433.9**	**4 284.6**
Fund balances	4 053.5	3 954.9
Reserves	380.4	329.7
Total fund balances and reserves	**4 433.9**	**4 284.6**

Total assets

25. Total assets increased in 2017 by USD 1,357.5 million or 20 percent from USD 6,622.0 million at the end of 2016 to USD 7,979.5 million at the end of 2017. The increase in total assets is mainly due to an increase in the current assets, namely an increase in cash, cash equivalents, short-term investments and in current portion of contributions receivable.

26. Total cash, cash equivalents, and short-term investments of USD 2,475.2 million increased by USD 521.1 million or 27 percent from USD 1,954.1 million in 2016. The increase is mainly due to a 63 percent increase in cash and cash equivalents because of the increased donor contributions. WFP's cash, cash equivalents and short-term investments included in the Programme Category Funds segment of USD 1,573.4 million cover three months of operational activity (four months in 2016).

27. Total contributions receivable of USD 3,902.0 million increased by USD 656.7 million or 20 percent from USD 3,245.3 million in 2016. The increase is in the current portion of the contributions receivable and is due to a significant increase in donor contributions in 2017.

28. The value of WFP's food commodity inventory at the end of 2017 of USD 689.6 million increased by USD 62.8 million or 10 percent from the 2016 value mainly due to an increase in stocks held of 0.1 million mt or 10 percent from the 2016 stocks (1.0 million mt in 2016 compared to 1.1 million mt in 2017). Using the historical average of commodities distributed, the 1.1 million mt of food commodity in inventory represents three months of operational activity.

Total liabilities

29. Total liabilities increased by USD 1,208.2 million or 52 percent from USD 2,337.4 million in 2016 to USD 3,545.6 million in 2017, primarily due to the increase in deferred revenue of USD 942.0 million and employee benefits liabilities of USD 175.5 million.

30. Deferred revenue reflects contributions revenue stipulated for future years. Deferred revenue in 2017 increased by USD 942.0 million or 96 percent from USD 986.2 million at the end of 2016 to USD 1,928.2 million at the end of 2017. Of the total deferred revenue of USD 1,928.2 million, USD 1,550.0 million is stipulated for use in 2018, and the remaining balance of USD 378.2 million is stipulated for use from 2019 and beyond.

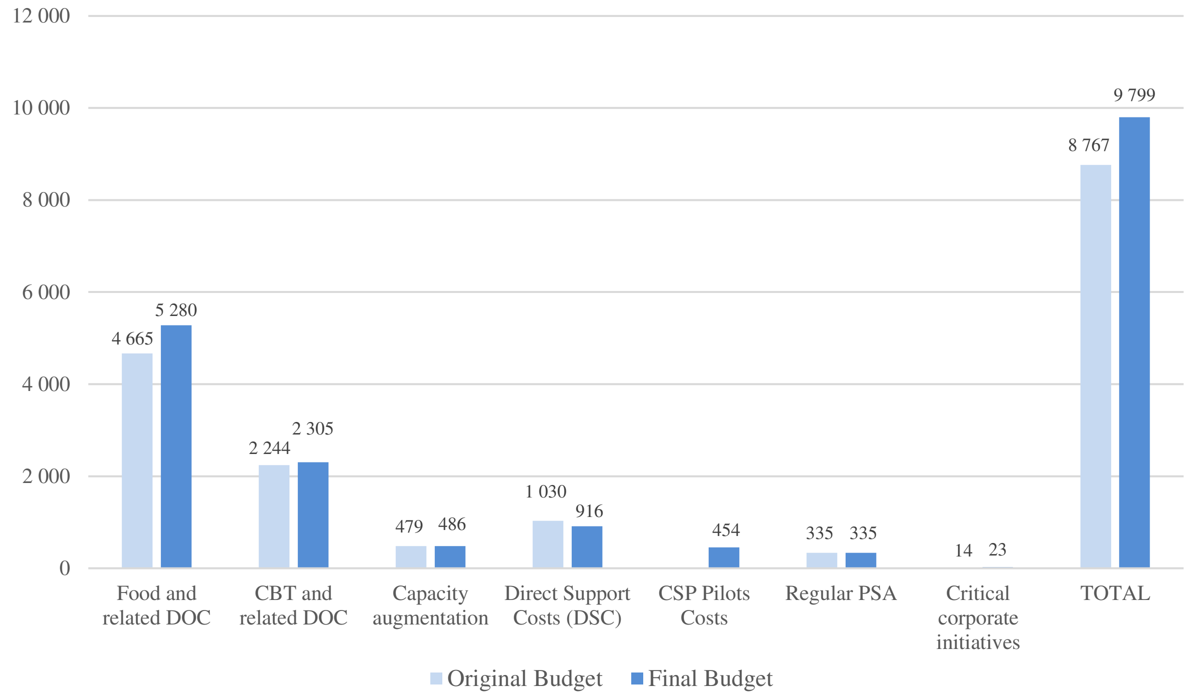
Net assets

31. Net assets represent the difference between WFP's total assets and total liabilities. At 31 December 2017, WFP's net assets totalled USD 4,433.9 million, confirming a healthy overall financial position. Of these net assets (Fund Balances and Reserves), USD 3,692.8 million relate to the Programme's projects, representing approximately five months of operational activity (same as in 2016). The balance pertains to the General Fund, Special Accounts, Reserves, Bilateral Operations and Trust Funds. Operational fund balances relate to donor support primarily directed to specific programmes in different stages of implementation, with expenses and related reduction in fund balance only recognized when food commodities are delivered and cash-based transfers are distributed. The increase in Reserves in 2017 was due to a USD 44.4 million increase in the Programme Support and Administrative (PSA) Equalization Account, and a USD 8.5 million increase in the Immediate Response Account partly offset by a USD 2.2 million decrease in the Operational Reserve.

Budgetary analysis

Basis of the budget

Figure 3. Budget for the period ended 31 December 2017
(in USD million)



32. The budget figures for direct project costs, CSP pilot costs and indirect costs (PSA budget) disclosed in Financial Statement V – Statement of Comparison of Budget and Actual Amounts are derived from the Programme of Work in the Management Plan (2017–2019) and are broadly needs-based. Resources are made available for direct project costs when contributions are confirmed by donors for approved projects and through advances from

the internal project lending facility. Resources are made available to meet indirect costs through the approval of the Management Plan.

33. The 2017–2019 Management Plan, which was approved by the Board in November 2016, presented the 2017 Programme of Work amounting to USD 8,766.8 million. This is disclosed in Financial Statement V as "Original budget". By the end of 2017, the final Programme of Work included the unforeseen needs. The final 2017 Programme of Work was 12 percent higher at USD 9,799.2 million, an increase of USD 1,032.4 million. This is disclosed in Financial Statement V as "Final budget".

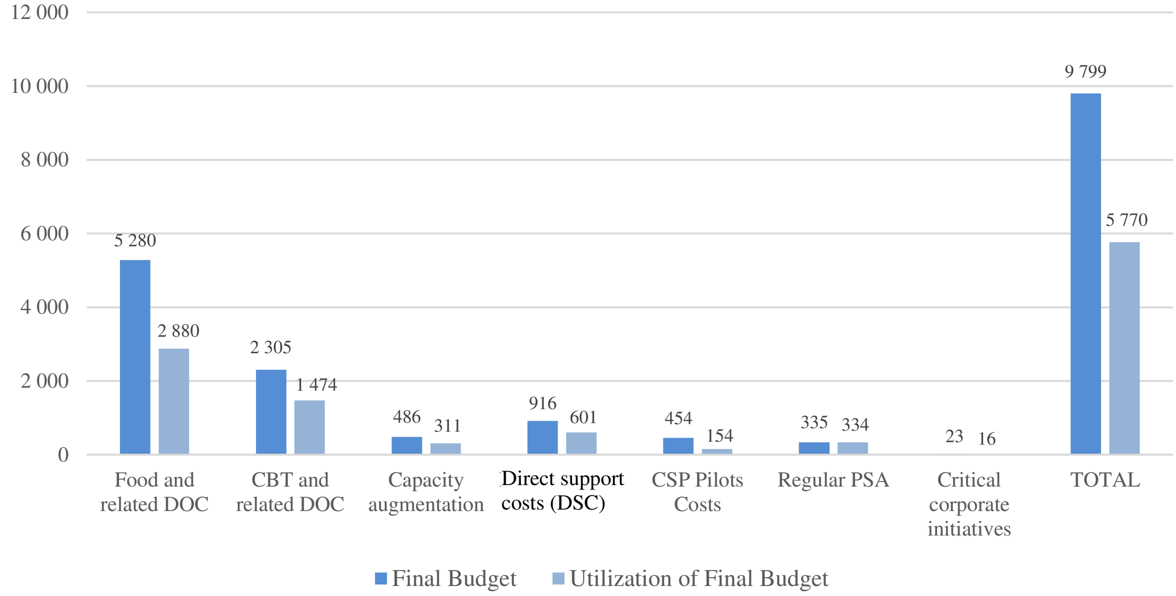
34. The increase of USD 1,032.4 million is primarily the result of unforeseen requirements in Nigeria and Somalia (USD 616 million, due to the conflict related emergencies that affected both countries), followed by an increase in Uganda requirements (USD 123 million to cater for the growing South Sudanese refugee response) and an increase in requirements for the emergencies in South Sudan and Yemen (for the total of USD 183 million).

35. Additionally, L3 emergencies declared in 2017, as in the case for Bangladesh and the Democratic Republic of the Congo (DRC), have also contributed to the increase in requirements, where in Bangladesh, requirements increased by 57 percent to USD 56 million – and in DRC by 18 percent to USD 37 million.

36. Final requirements have seen some significant decreases as well, as in the example for Ethiopia, which showed the highest decrease at USD 239 million. This was primarily because of increased involvement on the part of the Government, which allocated more resources to areas where WFP operates, therefore reducing WFP's coverage.

Utilization of the budget

Figure 4. Utilization of the Final Budget for the period ended 31 December 2017 *(in USD million)*



37. WFP can use resources when contributions are confirmed to approved projects or CSPs, or funds are provided through advance financing activities. Purchase of commodities from the Global Commodity Management Facility can be made by projects using both sources. Budgetary utilization within the year is constrained by the amount, timing and predictability of contributions, as well as inherent operational constraints. In 2017, WFP's final direct

project and CSP pilots' costs budget was USD 9,440.4 million. Utilization of the final budget in 2017 was 59 percent (same as in 2016).

38. This utilization rate was reflected across the various budget components utilization rates as outlined below.

- food and related direct operational costs (DOC) at 55 percent;
- cash-based transfers and related DOC at 64 percent;
- capacity augmentation at 64 percent;
- direct support costs (DSC) at 66 percent;
- country strategic plan (CSP) pilots' costs at 34 percent.

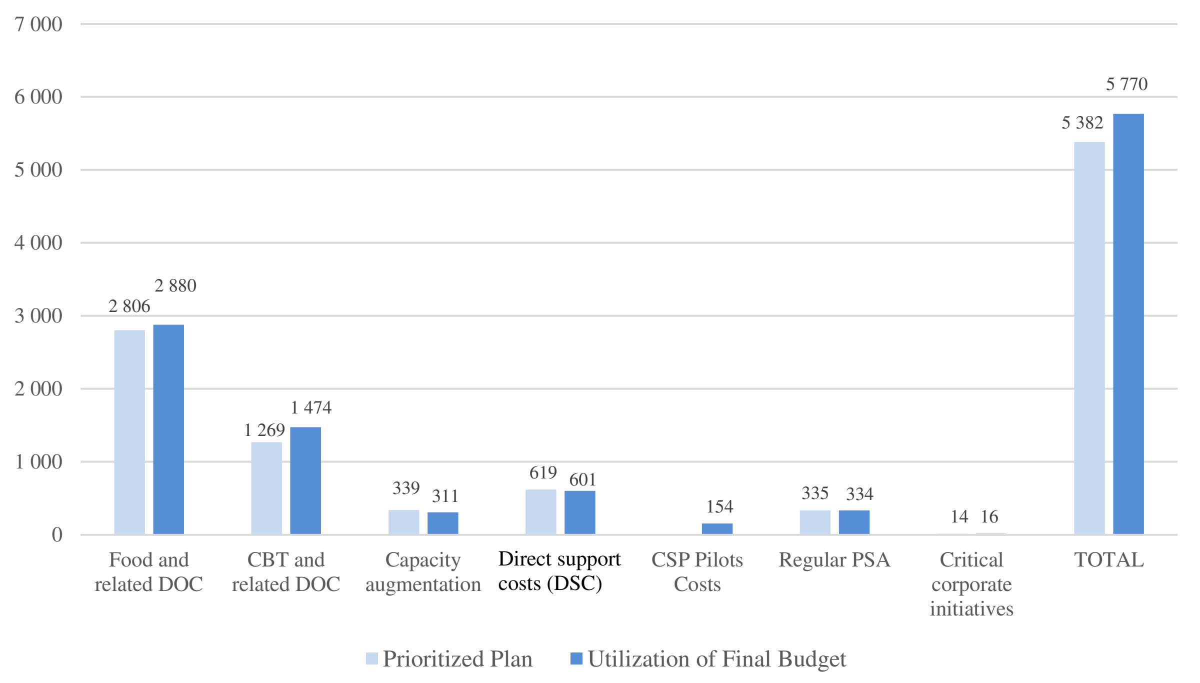
39. Following the approval of the Strategic Plan (2017–2021), the first CSPs under the country portfolio budgets were approved by the Board and piloted by WFP in 2017. The final budget and actual figures for CSP pilots' costs are disclosed in Financial Statement V – Statement of Comparison of Budget and Actual Amounts by strategic results (SRs).

40. Cash-based transfers represented 26 percent of the original budget and 24 percent of the final budget, while food transfers represented 53 percent of the original budget and 54 percent of the final budget. The largest CBT budget is attributable to the programmatic response for the Syrian Arab Republic and Syrian refugees, mainly in Turkey and Lebanon, while the largest operations of food were seen in Yemen and the Syrian Arab Republic.

41. The final PSA budget consisted of USD 335.4 million for regular expenditure and USD 23.4 million for critical corporate initiatives. Of the final approved regular PSA budget of USD 334.1 million (99.6 percent) was utilized by 31 December 2017. Of the final approved critical corporate initiatives totalling USD 23.4 million, USD 15.7 million (67 percent) was utilized at 31 December 2017.

Prioritized plan and actual utilization of final budget

Figure 5. Comparison of Prioritized Plan and Actuals for the period ended 31 December 2017 *(in USD million)*



42. The actual costs are greater than the Prioritized Plan due to higher than expected contributions revenue, driven by the increase in operational requirements to cope with increased needs for relief operations in response to the Syrian refugee crisis, contributing to the increase in CBTs and in countries like Yemen and the Syrian Arab Republic, contributing to the increase in food transfers.

Enhancing transparency and accountability

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

44. To ensure continued compliance with IPSAS, WFP assesses the impact and applies new IPSAS standards and changes accounting policies when changes in IPSAS require. WFP continues to work closely with other United Nations system organizations, through the High-Level Committee on Management (HLCM) task force on IPSAS. This task force provides a platform for discussion of IPSAS issues, with a view to achieving consistency in the application of IPSAS developments and enhancing comparability of financial reporting. In 2017 the IPSAS Task Force meeting was hosted by WFP in its headquarters, Rome.

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

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

47. The Assistant Executive Director, Resource Management and Chief Financial Officer a) serves as steward for the internal control framework and monitors its implementation through annual assurance statements from global management and oversight recommendation follow-up, analysis and reporting; and b) ensures that a clear action plan exists for addressing internal control issues raised in the annual Statement on Internal Control. This Statement on Internal Control is issued with the annual financial statements and provides specific assurance on the effectiveness of internal control.

48. As an important component of internal control, the Secretariat ensures effective follow-up of the recommendations of the independent and external oversight bodies and reports regularly to the EMG and the WFP Audit Committee on priority themes from oversight findings, with emphasis on outstanding recommendations and action to address high-risk recommendations.

49. WFP has adopted clear policies related to the public disclosure of the results of independent evaluations, audits and inspections. Evaluation reports and the accompanying management responses dating back to 2000 can be found on WFP's public website. Since late 2012

internal audit and inspection reports are posted on WFP's public website within thirty days of their publication. In addition, annual updates to the Executive Board on Joint Inspection Unit recommendations are available on the Executive Board's public website.

Financial risk management

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

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

52. In 2017, WFP continued its efforts to minimize and mitigate the potential financial risks surrounding CBT operations. Building on the CBT related financial management, accounting and procedural guidelines released in 2016 – which promoted and reinforced compliance with the corporate Internal Control Framework, in 2017 WFP took an interdisciplinary approach to enhance or streamline those existing CBT procedures, tools and key assessments. To further heighten the organization's ability to identify and manage the potential financial risks surrounding CBT operations, 2017 also saw the launch of the Global CBT Risk and Internal Control review. With the objective of performing an in-depth assessment of existing as well as emerging CBT risks, controls and risk mitigating activities, the review gathered its first set of risk relevant data in 2017. Moving forward, this initial set of data, coupled with the information collected throughout 2018 will be aggregated and serve as the foundation for further updates of CBT-relevant governance practices, policy and guidelines as well as dissemination of global lessons learned and best practices, guiding the organization towards a risk ready CBT future.

53. WFP's employee benefit liabilities were USD 878.1 million at 31 December 2017. WFP sets aside assets for the long-term employee benefit liabilities in the form of cash and long-term investments (bonds and equities). In accordance with the current funding plan approved by the Board in 2010, an incremental annual funding of USD 7.5 million is included in the standard staff cost over a 15-year period starting in 2011, with a view towards achieving a full funded status of the long-term employee benefit liabilities in 2025. WFP determines the funding level based on the long-term employee benefit liabilities. As at 31 December 2017, the level of assets set aside (USD 573.1 million) for the funding of the long-term employee benefit liabilities (USD 841.2 million) represents a 68 percent funding level. This is an increase from the 66 percent funding level in 2016 and is primarily due to an increase in return on assets, which rose to 18.2 percent for the year on the back of a significant rise in equity markets and resilient fixed income markets in 2017, partially offset by the growth in the employee benefit liabilities. Based on the actuarial valuation results of this year, it is projected that the fully funded status will be achieved in 2027. In early 2018, the asset-liability study undertaken by the Secretariat will be finalized, and the outcomes of the study will be used to evaluate the appropriateness of the current funding policy.

54. At the United Nations system level, the issue of the significant level of after-service health insurance (ASHI) liabilities and the related funding was recognized. Pursuant to the General Assembly (GA) resolution 68/244, in which the GA requested the Secretary-General (SG) to undertake a survey of current healthcare plans for active and retired staff in the United Nations system, the SG submitted a report on managing after-service health insurance liabilities to the GA at its seventieth session (A/70/590). The report was largely

informed by the work of a United Nations inter-agency Working Group on ASHI, of which WFP is an active member, and it explored options to increase efficiency of the health insurance plans and contain the related costs. During the period since the its seventieth session of the GA, the Working Group prioritized the recommendations endorsed by the GA in relation to which its work stands to produce the greatest impact on ASHI liabilities in the short term. Updates on previous recommendations and additional recommendations of the Working Group were reviewed by the Advisory Committee on Administrative and Budgetary Questions, requesting the SG to maintain the Working Group and report its finding to the GA during its seventy-third session.

Sustainability

55. WFP's financial statements are prepared on a going-concern basis. In making this determination, WFP has considered the consequences of any potential significant reduction in contributions and whether this would lead to a consequential reduction in the scale of operations and number of people assisted. Having considered WFP's projected activities and the corresponding risks, I am confident that WFP has adequate resources to continue to operate in the medium term.

56. My statement on sustainability is supported by: i) the requirements I put forward in the WFP Management Plan (2018–2020); ii) the Strategic Plan (2017–2021) approved by the Executive Board in 2016; iii) the net assets held at the end of the period and contributions received in 2017; iv) the projected contributions levels for the year 2018; and v) the trend in donor support that has been sustaining WFP's mandate since its inception in 1963.

Administrative matters

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

Responsibility

58. 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 2017.

Statement I Statement of Financial Position at 31 December 2017

Statement II Statement of Financial Performance for the year ended 31 December 2017

Statement III Statement of Changes in Net Assets for the year ended 31 December 2017

Statement IV Statement of Cash Flow for the year ended 31 December 2017

Statement V Statement of Comparison of Budget and Actual amounts for the year ended 31 December 2017

Notes to the Financial Statements

David M. Beasley

Executive Director Rome, 22 March 2018

Statement on Internal Control

Scope of responsibility and purpose of internal control

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

2. The system of internal control is designed to reduce and manage – rather than eliminate - the risk of failure to achieve WFP's aims and objectives. It can provide reasonable but not absolute assurance that WFP's objectives will be achieved. It is based on a continuous process designed to identify the principal risks to the achievement of objectives, to evaluate the nature and extent of those risks and to manage them effectively, efficiently and economically.

WFP's operating environment

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

4. Internal control is an important role of management and an integral part of the overall process of managing operations. It is the responsibility of WFP management at all levels to:

   - establish a control environment and culture that promotes effective internal control, prevents and deters abusive conduct, and sexual exploitation and abuse;
   - identify and assess risks that may affect the achievement of objectives, including the risk of fraud and corruption;
   - specify and propose policies, plans, operating standards, procedures, systems and other control activities to minimize, mitigate and/or limit the risks associated with exposures identified;
   - ensure an effective flow of information and communication so that all WFP personnel have the information they need to fulfil their responsibilities; and
   - monitor the effectiveness of internal control.

The internal control framework and enterprise risk management

5. In 2015, WFP revised its internal control framework to reflect guidance issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. The then Executive Director issued a circular on the internal control framework in four languages. The revised framework is supported by guidance and tools to help managers assess the effectiveness of internal control in their offices.

6. Following the 2015 approval of the revised Enterprise Risk Management Policy by the Executive Board, WFP updated its Risk Appetite Statement in 2016, setting out the vision for how risks are viewed within the organization and incorporating themes and issues that emerged from operational risk analyses as well as quarterly Executive Management Group meetings. WFP offices manage their respective risk registers, escalating risks as required in line with existing managerial structures. Corporate risks reflect the challenges that WFP

encounters in achieving its mandate globally. Revisions to The Corporate Risk Register consider WFP's role in contributing to the achievement of Sustainable Development Goals, as well as using oversight and evaluation findings as a foundation to design and improve risk mitigation measures. The Corporate Risk Register is shared with the WFP Audit Committee and is used as a basis for briefings to the Executive Board.

7. WFP, and the United Nations in general, monitors the security situation in each country in which it operates, taking strategic decisions where necessary to adapt WFP's operations and limit the risk exposure of its personnel.

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

9. In 2016, WFP introduced a mandatory ethics training programme entitled "Ethics and Standards of Conduct at WFP," the objective of which is to ensure that all WFP personnel understand standards of conduct as expressed in the Charter of the United Nations, the Standards of Conduct for the International Civil Service, the Staff Regulations and Rules, the WFP Code of Conduct, and other administrative issuances. WFP released part two of the mandatory ethics e-learning series in December 2017. This course, entitled, "Ethics and Standards of Conduct at WFP: A Focus on our Practical Obligations," applies the foundational principles covered in part one to inform staff actions.

10. In line with its commitment to a proactive approach to countering fraud, WFP mainstreamed the use of proactive integrity reviews (PIRs) in 2017 as a tool to examine WFP's business processes or operations to assess their susceptibility to fraud, corruption and/or other wrongdoings. Through the two PIRs conducted in 2017, WFP identified several weaknesses in internal controls, all of which have been addressed. In December 2017, the Office of the Inspector General issued a Proactive Integrity Review manual, which is intended to be a practical guide for individuals conducting PIRs.

11. In 2017, WFP created a new Enterprise Risk Management division within the Resource Management department. This new division recognizes WFP's evolving contextual environment and programme of work, which requires additional focus on risk management and internal control to provide the strongest possible assurances to donors and other stakeholders on the achievement of organizational objectives. The establishment of this new division brought into a single management structure the risk management function of the Performance Management and Monitoring division and the internal control and management-side oversight analysis, follow-up and reporting functions of the Finance and Treasury division. The responsibilities of the newly created division include two new areas: management-side anti-fraud anti-corruption activities and centralized coordination of donor reviews. A Chief Risk Officer is leading the new division.

12. In 2018, WFP will update its Enterprise Risk Management Policy and Risk Appetite statement, organizational risk taxonomy and other best practices, including COSO's recently updated Enterprise Risk Management framework. The revised policy will also include guidelines on risk escalation and de-escalation.

13. The newly established management-side anti-fraud anti-corruption function complements the Inspector General's independent anti-fraud anti-corruption activities. Following the completion of a comprehensive fraud risk assessment by the Office of the Inspector General in 2018, WFP will prepare an action plan to further integrate anti-fraud controls into organizational frameworks and operational management.

Review of the effectiveness of internal control

14. The review of the effectiveness of WFP's internal controls is informed by managers within WFP who have the responsibility for the identification and maintenance of the internal controls in their areas of responsibility. Explicit assurance is derived from:

    a) **Statements of assurance on the effectiveness of internal control** signed by 135 senior WFP managers including the Deputy Executive Director; Assistant Executive Directors; Chief of Staff; regional directors; country directors; directors of WFP Offices; and directors of headquarters divisions. This is a 100 percent compliance rate. Submissions were subject to at least one higher level of review. As in previous years, managers were required to provide comments in support of "yes" as well as "no" answers to facilitate a more refined global analysis of responses. The 2017 assurance statement included a new question on the WFP Security Management Policy and Framework of Accountability, as well as updated questions on ethics, staff handovers, annual performance planning, risk assessment, change management and internal communication.

    b) **The 2017 Assurance Opinion from the Office of the Inspector General**, is based primarily on the results of their internal audits, advisory assurance assignments and follow-up reviews. These results did not disclose any significant weaknesses in the internal control, governance and risk management processes in place across WFP that would seriously compromise the achievement of WFP's objectives.

    c) **Other evidence** includes oversight recommendations and agreed actions from Internal Audit, External Audit and the United Nations Joint Inspection Unit; corporate risk register and global risk profile reports; and meetings of the Audit Committee, which advises on the effectiveness of WFP's internal control systems, including risk management and internal governance practices.

Significant risk and internal control matters

Issues arising in 2017

15. Two significant risk and internal control issues arose during 2017:

    a) **Beneficiary management.** Notwithstanding improvements to the management of beneficiary data in the SCOPE beneficiary information management system during 2017, it became evident following the November 2017 internal audits of beneficiary management and SCOPE general and application controls that major improvements are required in beneficiary management controls, while minor improvements are required in SCOPE controls. This priority oversight area is now receiving Executive Management Group attention. The Office of Inspector General's beneficiary management and SCOPE audits highlighted a disconnect between corporate commitment and resourcing for SCOPE scale-up. This disconnect represents a risk to WFP's credibility and reputation if not resolved, since WFP relies on SCOPE to achieve its beneficiary management objectives.

b) **IT governance, controls and cybersecurity.** Another issue that received Executive Management Group's attention in 2017 is that of IT governance, controls and cybersecurity. During their information technology related assurance work, the Office of the Inspector General identified several improvement areas, including user and role management, segregation of duties and governance frameworks. WFP has recently approved and made significant investments in strengthening cybersecurity, recognizing that strong internal controls and technical solutions are essential to prevent and detect unauthorized access, and to safeguard the confidentiality, integrity and availability of data and programmes.

Issues reported in the 2016 Statement on Internal Control

16. The 2016 Statement on Internal Control drew attention to four improvement areas. Progress has been made in a number of areas; however, further work is needed.

a) **The impact of a high number of complex Level 3 and Level 2 emergencies, in conjunction with the transition to the IRM.** During 2017, WFP continued to respond to multiple, prolonged and simultaneous Level 3 or Level 2 emergencies. 2017 saw the activation and/or extension of Level 3 or Level 2 emergency responses in the Central African Republic, the Democratic Republic of the Congo, the Horn of Africa, Iraq, Libya, Mali, Myanmar/Bangladesh, Nigeria, South Sudan, the Syrian Arab Republic and Syrian refugees, and Yemen. The emergency workload has remained at exceptionally high levels. Some senior managers have drawn attention to the risk of a reduction in the level of internal controls caused in part by the limited availability of properly trained and experienced personnel.

The risk of the inability of WFP to meet its humanitarian commitments, due to a proliferation of crises in recent years, continues to feature on the Corporate Risk Register.

Similarly, the Office of the Inspector General also reported in their 2017 Assurance Opinion on the impact on internal controls of stretched resources in field offices due to the unprecedented and sustained number of Level 3 emergencies, in conjunction with managing initiatives such as the IRM. The Office of the Inspector General has highlighted this as its main concern as the capacity of the organization to meet its other ambitious objectives, absorb additional funding, manage the activities of implementing partners, and address identified initiatives remains a challenge.

During 2018, WFP will continue to monitor the impact of the unprecedented high level of prolonged emergency activities across WFP on the effectiveness of internal control and take necessary remedial actions to ensure that appropriate levels of internal control are maintained.

WFP has also developed a comprehensive plan to address staffing requirements in emergencies and build a surge team capacity.

In 2018, to ensure adequate management oversight and support to country offices across regions, WFP will conduct a comprehensive regional bureaux scoping review to review gaps and determine critical activities, which will determine what activities are necessary to strengthen risk management and internal controls in regional bureaux.

b) **Enterprise risk management and management oversight.** WFP's internal management systems and oversight mechanisms are in place to uphold high standards of integrity, operational efficiency and effectiveness. It became evident during 2016 that considering the tightening risk environment in which WFP operates, it was necessary to strengthen enterprise risk management and oversight.

The Office of the Inspector General highlighted the need to develop key risk indicators to analyse and monitor WFP's exposure to risks in key areas.

In March 2017, a global management meeting took place, the focus of which was on strengthening enterprise risk management and WFP's internal control culture. 2017 also saw the establishment of a new Enterprise Risk Management Division. The new division will coordinate a number of activities under the umbrella of strengthening enterprise risk management and internal control, funded as critical corporate initiatives. The division has recently developed a standard risk taxonomy reflecting key risk areas across WFP's global portfolio of operations, enabling WFP to systematically identify and monitor trends in key risk areas, strengthen decision-making and support sharing of risk information with stakeholders and partners.

c) **Improving operational monitoring and review systems.** The 2016 statement reported on progress of the global rollout of the corporate country office tool for managing effectively (COMET). During 2017, WFP modified COMET in line with the approved IRM processes. The new Corporate Results Framework, which is being rolled out as part of the IRM, guides the planning, implementation and monitoring of WFP's programmes. COMET assists programme management in country offices by supporting the process of the design of CSPs and applying the Corporate Results Framework in support of WFP's IRM. WFP also developed third party monitoring guidance, already available in English and being translated in other United Nations languages, and WFP's Corporate Monitoring Strategy (2018–2021), which is pending final release. Most of the components of the monitoring tool kit were aligned with IRM. The Indicator Compendium was updated twice in 2017, to complete or refine the indicator methodologies.

WFP will continue to prioritize this area during 2018. To address identified process control weaknesses in the management of beneficiary lists, WFP will review and strengthen guidance and systems for verification of distribution activities, distribution reports and supporting evidence; this process will continue to build upon and enhance the rollout of existing programme management tools such as COMET.

An internal audit of monitoring, including a review of COMET, is planned for 2018.

d) **Talent management and workforce planning.** Another issue that arose in 2016, reflecting the persisting level of Level 3 and Level 2 emergencies, was the need to improve talent management and workforce planning. WFP's 2014 People Strategy, which is a blueprint for how WFP intended to reinforce, build, retain, and recruit its workforce, has not fully addressed the staffing needs throughout the organization. Some country offices classified as hardship duty stations continue to experience challenges in attracting and retaining qualified staff, particularly in conflict areas. In other cases, inadequate staff skills were attributed to lack of training due to insufficient funds. Reliance on short-term staff resulted in high turnover and gaps in knowledge retention.

The Office of the Inspector General has highlighted that the need for workforce planning, alignment of workforce structures to strategies, assessing and sourcing the right skills remains, especially as countries are rolling out the IRM.

WFP is piloting a workforce planning approach in one headquarters division and will use feedback collected to refine the model before piloting it in a country office. Workforce planning concepts are part of the IRM organizational readiness Human Resources toolkit for country offices, and serve to address organizational, skill and talent gaps as they arise. As part of the IRM implementation, WFP is systematically assessing workforce composition at the country level.

17. Apart from the issues noted above, the assurance statements received from WFP directors and the managerial oversight process provided assurance on the effectiveness and strength of WFP's internal controls during 2017. During 2018, WFP management will emphasize oversight for these internal control issues, as well as other issues identified by the Office of the Inspector General in their 2017 Assurance Opinion: a) IRM implementation related issues; b) controls in the CBTs area; and c) issues related to vendors and NGO partners.

Statement

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

19. 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 2017 in line with COSO's Internal Control – Integrated Framework (2013).

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

David M. Beasley

Executive Director Rome, 22 March 2018

WORLD FOOD PROGRAMME
STATEMENT I
STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017
(USD million)

	Note	2017	2016 (restated)
Assets			
Current assets			
Cash and cash equivalents	2.1	1 268.9	777.5
Short-term investments	2.2	1 206.3	1 176.6
Contributions receivable	2.3	3 523.8	2 756.9
Inventories	2.4	704.8	643.2
Other receivables	2.5	136.6	127.1
		6 840.4	**5 481.3**
Non-current assets			
Contributions receivable	2.3	378.2	488.4
Long-term investments	2.6	626.9	506.3
Property, plant and equipment	2.7	128.4	140.3
Intangible assets	2.8	5.6	5.7
		1 139.1	**1 140.7**
Total assets		**7 979.5**	**6 622.0**
Liabilities			
Current liabilities			
Payables and accruals	2.9	654.9	557.8
Deferred revenue	2.10	1 550.0	486.9
Provisions	2.11	6.3	7.0
Employee benefits	2.12	36.9	7.8
Loan	2.13	5.7	5.7
		2 253.8	**1 065.2**
Non-current liabilities			
Deferred revenue	2.10	378.2	499.3
Employee benefits	2.12	841.2	694.8
Loan	2.13	72.4	78.1
		1 291.8	**1 272.2**
Total liabilities		**3 545.6**	**2 337.4**
Net assets		**4 433.9**	**4 284.6**
Fund balances and reserves			
Fund balances	2.15	4 053.5	3 954.9
Reserves	2.15	380.4	329.7
Total fund balances and reserves		**4 433.9**	**4 284.6**

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

WORLD FOOD PROGRAMME

STATEMENT II

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2017

(USD million)

	Note	2017	2016 (restated)
Revenue			
Monetary contributions	3.1	5 614.8	5 300.4
In-kind contributions	3.2	385.1	470.7
Currency exchange differences	3.3	231.0	(31.3)
Return on investments	3.4	51.0	20.3
Other revenue	3.5	149.0	148.8
Total revenue		**6 430.9**	**5 908.9**
Expenses			
Cash-based transfers distributed	4.1	1 446.1	882.3
Food commodities distributed	4.2	2 197.5	2 051.1
Distribution and related services	4.3	664.4	641.4
Wages, salaries, employee benefits and other staff costs	4.4	884.0	826.7
Supplies, consumables and other running costs	4.5	174.4	170.8
Contracted and other services	4.6	759.5	689.5
Finance costs	4.7	1.9	2.1
Depreciation and amortization	4.8	47.7	48.3
Other expenses	4.9	43.7	55.3
Total expenses		**6 219.2**	**5 367.5**
Surplus for the year		**211.7**	**541.4**

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 2017

(USD million)

	Note	Accumulated surplus/fund	Surplus (deficit)	Reserves	Total net assets
Total net assets at 31 December 2016 (restated)		**3 413.5**	**541.4**	**329.7**	**4 284.6**
Allocation of the surplus for 2016		541.4	(541.4)	-	-
Movements in fund balances and reserves in 2017					
Transfer from/to reserves	2.15	(50.7)	-	50.7	-
Net unrealized gains on long-term investments	2.6/2.15	58.0	-	-	58.0
Actuarial gains (losses) on employee benefit liabilities	2.12	(120.4)	-	-	(120.4)
Surplus for the year		-	211.7	-	211.7
Total movements during the year		**(113.1)**	**211.7**	**50.7**	**149.3**
Total net assets at 31 December 2017		**3 841.8**	**211.7**	**380.4**	**4 433.9**

	Note	Accumulated surplus/fund balances	Surplus (deficit)	Reserves	Total net assets
Total net assets at 31 December 2015		**3 543.3**	**(50.9)**	**278.2**	**3 770.6**
Change in Accounting Policy	1	23.5	-	-	23.5
Total net assets at 31 December 2015 (restated)		**3 566.8**	**(50.9)**	**278.2**	**3 794.1**
Allocation of the deficit for 2015		(50.9)	50.9	-	-
Movements in fund balances and reserves in 2016 (restated)					
Transfer from/to reserves	2.15	(51.5)	-	51.5	-
Net unrealized gains on long-term investments		14.8	-	-	14.8
Actuarial gains (losses) on employee benefit liabilities		(65.7)	-	-	(65.7)
Surplus for the year		-	541.4	-	541.4
Total movements during the year		**(102.4)**	**541.4**	**51.5**	**490.5**
Total net assets at 31 December 2016 (restated)		**3 413.5**	**541.4**	**329.7**	**4 284.6**

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 2017
(USD million)

	Note	2017	2016 (restated)
Cash flows from operating activities:			
Surplus for the year		211.7	541.4
Adjustments to reconcile surplus to net cash flows from operating activities			
Depreciation and amortization	2.7/2.8	47.7	48.3
Unrealized (gain) loss on short-term investments	2.2	0.5	(0.8)
Unrealized (gain) on long-term investments	2.6	(8.8)	(0.3)
(Increase) in amortized value of long-term investments	2.2/2.6	(3.7)	(3.9)
(Decrease) in amortized value of long-term loan	2.13	(0.4)	(0.5)
Interest expense on long-term loan	2.13	2.3	2.6
(Increase) decrease in inventories	2.4	(61.6)	6.9
(Increase) in contributions receivable	2.3	(656.7)	(975.4)
(Increase) in other receivables	2.5	(8.7)	(16.4)
(Increase) in property, plant and equipment (donated in kind)	2.7	(1.5)	(8.2)
Increase in payables and accruals	2.9	97.1	44.0
Increase in deferred revenue	2.10	942.0	747.6
(Decrease) increase in provisions	2.11	(0.7)	1.3
Increase in employee benefits net of actuarial gain/loss on post-employment benefits	2.12	55.1	47.9
Net cash flows from operating activities		**614.3**	**434.5**
Cash flows from investing activities:			
(Increase) in short-term investments	2.2	(22.7)	(350.9)
(Increase) in accrued interest receivable	2.5	(0.8)	(1.3)
(Increase) in long-term investments	2.6	(57.5)	(32.7)
(Increase) in property, plant and equipment	2.7	(33.0)	(34.6)
(Increase) in intangible assets	2.8	(1.2)	(1.8)
Net cash flows from investing activities		**(115.2)**	**(421.3)**
Cash flows from financing activities:			
Interest paid on loan	2.13	(2.4)	(2.6)
Repayment of annual principal on loan	2.13	(5.3)	(5.3)
Net cash flows from financing activities		**(7.7)**	**(7.9)**
Net increase in cash and cash equivalents		**491.4**	**5.3**
Cash and cash equivalents at beginning of the year	2.1	**777.5**	**772.2**
Cash and cash equivalents at end of the year	2.1	**1 268.9**	**777.5**

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

WORLD FOOD PROGRAMME

STATEMENT V

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS[1]

FOR THE YEAR ENDED 31 DECEMBER 2017

(USD million)

	Note	Budget amount				
Project costs	6	**Original budget**	**Final budget**	**Actual on comparable basis**	**Difference: final budget and actual**	**Prioritized plan**
Food and related DOC		4 665.3	5 279.8	2 880.1	2 399.7	2 806.0
Cash-based transfers and related DOC		2 243.9	2 304.8	1 473.8	831.0	1 269.0
Capacity augmentation		479.1	485.7	310.8	174.9	339.0
Direct support costs		1 029.6	916.3	601.3	315.0	619.0
Subtotal direct project costs		**8 417.9**	**8 986.6**	**5 266.0**	**3 720.6**	**5 033.0**
CSP pilots' costs[2]						
SR.1 Everyone has access to food		-	278.2	87.3	190.9	-
SR.2 No one suffers from malnutrition		-	60.6	17.7	42.9	-
SR.3 Smallholders have improved food security and nutrition		-	7.5	1.7	5.8	-
SR.4 Food systems are sustainable		-	40.4	15.7	24.7	-
SR.5 Countries have strengthened capacities to implement the SDGs		-	14.3	3.4	10.9	-
SR.7 Developing countries access a range of financial resources for development investment		-	0.2	0.3	(0.1)	-
SR.8 Sharing of knowledge, expertise and technology, strengthen global partnership support to country efforts to achieve the SDGs		-	22.6	14.7	7.9	-
Adjusted direct support costs		-	30.0	13.3	16.7	-
Subtotal CSP pilots		**-**	**453.8**	**154.1**	**299.7**	**-**
Regular programme support and administrative costs		335.4	335.4	334.1	1.3	335.4
Critical corporate initiatives		13.5	23.4	15.7	7.7	13.5
Subtotal indirect costs		**348.9**	**358.8**	**349.8**	**9.0**	**348.9**
Total		**8 766.8**	**9 799.2**	**5 769.9**	**4 029.3**	**5 381.9**

The accompanying notes form an integral part of these financial statements

[1] Prepared on a commitment basis.

[2] At the time of 2017–2019 Management Plan approval, Original Budget and Implementation Plan amounts covered all countries, including those that moved to the CSPs in 2017. The CSP framework and list of CSP pilots are presented in the IRM section (paragraphs 5–10) of the Executive Director's Statement.

Notes to the Financial Statements at 31 December 2017

Note 1: Accounting policies

Basis of preparation

1. The financial statements of WFP have been prepared on the accrual basis of accounting in accordance with IPSAS using the historic cost convention, modified by the inclusion of investments at fair value. Where an IPSAS does not address a particular issue, the appropriate International Financial Reporting Standard (IFRS) has been applied.
2. The Cash Flow Statement (Statement IV) is prepared using the indirect method.
3. The functional and reporting currency of WFP is the United States dollar. Transactions in currencies other than the US dollars are translated into US dollars at the prevailing United Nations Operational Rates of Exchange (UNORE) at the time of transaction. Assets and liabilities in currencies other than US dollars are translated into US dollars at the prevailing UNORE year-end closing rate. Resulting gains or losses are accounted for in the Statement of Financial Performance.

Cash and cash equivalents

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

Financial instruments

6. Financial instruments are recognized when WFP becomes a party to the contractual provisions of the instrument until such time as when the rights to receive cash flows from those assets have expired or have been transferred and WFP has transferred substantially all the risks and rewards of ownership.
7. Financial assets that are held for trading are measured at fair value and any gains or losses arising from changes in the fair value are accounted for through surplus or deficit and included within the Statement of Financial Performance in the period in which they arise. The short-term investments are classified within this category since they are held to support WFP operations and therefore may be divested of in the short term which may generate trading gains or losses. Derivatives are also classified as held for trading.
8. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. Loans and receivables comprise contributions receivable in cash, other receivables and cash and cash equivalents. Loans and receivables are stated at amortized cost.
9. Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that WFP has the intention and ability to hold to maturity. Held-to-maturity investments comprise the United States Treasury Separate Trading of Registered Interest and Principal of Securities (STRIPS) held within the long-term investment portfolio and are stated at amortized cost.

10. Available-for-sale financial assets are non-derivative financial assets that are not designated within any other category. Available-for-sale assets comprise the long-term investments other than the United States Treasury STRIPS. They are carried at fair value, with value changes recognized in the Statement of Changes in Net Assets. Gains and losses are reclassified from net assets to surplus or deficit when the assets are derecognized.

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

Inventories

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

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

Contributions receivable

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

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

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

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

Property, plant and equipment

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

[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.

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

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

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

Intangible assets

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

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

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

Employee benefits

23. WFP recognizes the following categories of employee benefits:

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

Change in accounting policy

24. In July 2016, the new standard IPSAS 39, *Employee Benefits* was issued, replacing IPSAS 25, with an effective application date for annual financial statements covering periods beginning on or after 1 January 2018. WFP adopted IPSAS 39 in its 2017 annual financial statements.

25. The main differences between IPSAS 39 and previous IPSAS 25 are in the recognition and presentation of actuarial gains and losses arising from the defined benefit plans. IPSAS 39 requires disclosure for defined benefit plans according to the characteristics and risks associated with them.

26. Under IPSAS 25, the corridor approach, used by WFP, allowed actuarial gains and losses for post-employment benefits which are up to 10 percent of the defined benefit obligation not to be recognized, and gains and losses over 10 percent of the defined benefit obligation to be amortized over the average remaining service of active staff. Under IPSAS 39 the corridor approach is not permitted, and actuarial gains and losses on post-employment benefits are recognized in full in the Statement of Changes in Net Assets.

27. In accordance with the IPSAS 39 transitional provisions, the new standard has been applied retrospectively, resulting in the restatement of the comparative financial statements for 2016 (opening balances as at 1 January 2016). The impact of the change in accounting policy is an increase in opening balance of net assets as at 1 January 2016 of USD 23.5 million, the decrease of closing balance of net assets as at 31 December 2016 by USD 42.5 million and an increase of employee benefit liabilities for the same amount. Statements I, II, III and IV were restated, Note 2.12 discloses opening and closing balances for employee benefits liabilities, Statement III and Note 2.15 disclose the impact on fund balances.

United Nations Joint Staff Pension Fund

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

29. The Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the plan. WFP and the UNJSPF, in line with the other participating organizations in the Fund, are not in a position to identify WFP's respective proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence WFP has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 39, Employee Benefits. WFP's contributions to the Fund during the financial period are recognized as expenses in the Statement of Financial Performance.

Provisions and contingent liabilities

30. 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.

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

Contributions revenue

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

Food commodities and cash-based transfers distributed

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

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

Fund accounting and segment reporting

35. 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.

36. 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.

37. Following the approval of the Strategic Plan (2017–2021), the first CSPs under the country portfolio budgets were approved by the Board and piloted by WFP in 2017. These CSPs with the country portfolio budgets applied new programmatic and financial framework, which necessitates amendments to the WFP General Rules and Financial Regulations. Pending normative amendments, the Board authorized the temporary application to the pilot country portfolio budgets of provisions of the WFP General Rules and Financial Regulations referring to existing programme categories as if they referred to CSPs.[2]

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

39. 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.

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

40. 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.

41. 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.

42. WFP may enter into third-party agreements (TPAs) to undertake activities which, while consistent with the objectives of WFP, are outside WFP's normal activities. TPAs are not reported as WFP revenue and expenses. At the year end, the net balance owing to or from third parties is reported as a payable or receivable in the Statement of Financial Position under the General Fund. Service fees charged on TPAs are included within other revenue.

Budget comparison

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

44. The Board approves budgets for the direct costs of operations either directly or through its delegated authority. It also approves the annual Management Plan, including the appropriations for programme support and administrative costs, and critical corporate initiatives. Budgets may be subsequently amended by the Board or through the exercise of delegated authority.

45. 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.

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

Interest in other entities

47. In 2017, WFP applied new standards that became effective on 1 January 2017: IPSAS 34 Separate Financial Statements, IPSAS 35 Consolidated Financial Statements, IPSAS 36 Investments in Associates and Joint Ventures, IPSAS 37 Joint Arrangements and IPSAS 38 Disclosure of Interests in Other Entities. These five IPSASs establish requirements for how an entity should account for its interests in other entities. The application of new standards did not result in changes to measurement, valuation or presentation of amounts in the financial statements but has resulted in additional disclosures of joint arrangements provided in Note 12.

Note 2.1: Cash and cash equivalents

	2017	2016
	USD million	
Cash and cash equivalents		
Bank and cash at headquarters	110.4	178.3
Bank and cash at regional bureaux and country offices	62.7	53.4
Money market and deposit accounts at headquarters	398.0	218.6
Cash and cash equivalents held by investment managers	697.8	327.2
Total cash and cash equivalents	**1 268.9**	**777.5**

48. 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

	2017	2016
	USD million	
Short-term investments		
Short-term investments	1 198.9	1 169.1
Current portion of long-term investments (Note 2.6)	7.4	7.5
Total short-term investments	**1 206.3**	**1 176.6**

49. Short-term investments are divided into two portfolio tranches with distinct investment horizons and specific investment guidelines and restrictions. The risk profile of short-term investments did not materially change in 2017 and remained at very low levels in the context of a market environment of low absolute yields.

50. Short-term investments were valued at USD 1 198.9 million at 31 December 2017 (USD 1 169.1 million at 31 December 2016). Of this amount, USD 647.4 million pertains to bonds issued or guaranteed by governments or government agencies (USD 565.2 million at 31 December 2016); USD 315.4 million pertains to corporate bonds (USD 373.3 million at 31 December 2016) and USD 236.1 million pertains to asset-backed securities (USD 230.6 million at 31 December 2016). 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.

51. At 31 December 2017, derivatives usage in short-term investments was limited to bond futures and derivatives exposure was considered not to be material. The notional amount of the derivatives financial instruments held in the investment portfolio is USD 1.3 million (USD 6.6 million at 31 December 2016).

	2016	Net additions/ (deductions)	Interest received/ amortized	Net realized gains/ (losses)	Net unrealized gains/(losses)	2017
	USD million					
Short-term investments	1 169.1	16.7	16.7	(3.1)	(0.5)	1 198.9
Current portion of long-term investments	7.5	(0.5)	0.4	-	-	7.4
Total short-term	**1 176.6**	**16.2**	**17.1**	**(3.1)**	**(0.5)**	**1 206.3**

52. During 2017, short-term investments increased by USD 29.8 million. This increase includes net unrealized loss of USD 0.5 million presented in the reconciliation of surplus to operating cash flows in the Statement of Cash Flow and amortized interest on the current portion of the long-term investment of USD 0.4 million, also presented in the reconciliation as part of the increase in amortized value of the long-term investment of USD 3.7 million. The remaining balance, net of reclassification from long-term to short-term of USD 7.1 million, amounting to USD 22.7 million is presented in the Statement of Cash Flow under investing activities.

Note 2.3: Contributions receivable

	2017	2016
	USD million	
Composition:		
Current	3 523.8	2 756.9
Non-current	378.2	488.4
Total net contributions receivable	**3 902.0**	**3 245.3**
Monetary contributions receivable	3 825.2	3 165.5
In-kind contributions receivable	208.4	206.9
Total contributions receivable before allowance	**4 033.6**	**3 372.4**
Allowance for reduction in contribution revenue	(124.2)	(111.6)
Allowance for impairment	(7.4)	(15.5)
Total net contributions receivable	**3 902.0**	**3 245.3**

53. Current contributions receivable are for confirmed contributions that are due within 12 months while non-current contributions receivable are those that are due after 12 months from 31 December 2017.

54. 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.

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

	2017		2016	
	USD million	***%***	***USD million***	***%***
Aging				
2017	3 286.1	83		
2016	555.6	14	2 760.3	80
2015	80.1	2	522.5	15
2014 and earlier	56.1	1	180.9	5
Subtotal	**3 977.9**	**100**	**3 463.6**	**100**
Revaluation adjustments (non-USD contributions receivable)	55.7	-	(91.2)	-
Total contributions receivable before allowance	**4 033.6**	**100**	**3 372.4**	**100**

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

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

58. The change in the allowance for reductions in contribution revenue during 2017 is as follows:

	2016	Utilization	Increase/ (decrease)	2017
	USD million			
Total allowance for reduction in contribution revenue	**111.6**	**(128.9)**	**141.5**	**124.2**

59. During 2017, the reductions in contributions receivable amounted to USD 128.9 million. These reductions are recorded as a utilization of the allowance for reductions in contribution revenue and reported in the Statement of Financial Position. At 31 December 2017, the estimated final allowance required is USD 124.2 million. Accordingly, an increase of USD 141.5 million was recorded as an adjustment to monetary contribution revenue for the period and is reported in the Statement of Financial Performance.

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

61. The change in the allowance for impairment during 2017 is as follows:

	2016	Utilization	Increase/ (decrease)	2017
	USD million			
Total allowance for impairment	**15.5**	**(1.4)**	**(6.7)**	**7.4**

62. During 2017, write-offs of USD 1.4 million are recorded as a utilization of the allowance for impairment and reported in the Statement of Financial Position. At 31 December 2017, the estimated final allowance for impairment required is USD 7.4 million. Accordingly, a decrease of USD 6.7 million was recorded as an adjustment for the period and is reported in the Statement of Financial Performance.

Note 2.4: Inventories

63. 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.

	2017	2016
	USD million	
Food on hand	503.1	490.0
Food in transit	190.3	140.2
Subtotal food	**693.4**	**630.2**
Less: allowance for impairment – food	(3.8)	(3.4)
Total food	**689.6**	**626.8**
Non-food items	15.8	16.6
Less: allowance for impairment – non-food	(0.6)	(0.2)
Total non-food items	**15.2**	**16.4**
Total inventories	**704.8**	**643.2**

Food reconciliation	**2017**	**2016**
	USD million	
Opening inventory	626.8	631.5
Add back: impairment allowance	3.4	3.2
Food purchased	1 443.2	1 304.2
In-kind commodities received	400.0	419.8
Transport and related costs	411.0	315.2
Total inventory available for distribution	**2 884.4**	**2 673.9**
Less: Food distributed	(2 191.0)	(2 043.7)
Less: Allowance for impairment	(3.8)	(3.4)
Total food	**689.6**	**626.8**

64. For 2017, food and non-food items distributed totalled USD 2 197.5 million (USD 2 051.1 million in 2016), as reported in the Statement of Financial Performance. Of this amount, USD 2 191.0 million relates to food commodities and USD 6.5 million relates to non-food items (USD 2 043.7 million and USD 7.4 million, respectively, in 2016).

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

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

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

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

69. Food commodity stocks at 31 December 2017 were 1.1 million mt, valued at USD 693.4 million. At 31 December 2016, stocks were 1.0 million mt valued at USD 630.2 million.

70. An allowance for impairment has been made for possible loss or damage to inventories under WFP's custody. The allowance is based on past experience and has been set at 0.55 percent of total food and 3.65 percent for non-food items (in 2016, the allowance for food was 0.54 percent and the allowance for non-food items was 1.23 percent). Inventories are valued net of any impairments or obsolescence. During 2017, USD 1.3 million representing the total value of non-food items impaired are recorded as a utilization of the allowance for impairment in the Statement of Financial Position. As at 31 December 2017, the estimated final allowance for impairment required is USD 4.4 million. Accordingly, an increase in the allowance for impairment of USD 2.1 million is reported in the Statement of Financial Performance.

71. The change in the allowances for impairment during 2017 is as follows:

	2016	Utilization	Increase/ (decrease)	2017
		USD million		
Allowance for impairment – food	3.4	-	0.4	3.8
Allowance for impairment – non-food	0.2	1.3	1.7	0.6
Total allowance	**3.6**	**1.3**	**2.1**	**4.4**

Note 2.5: Other receivables

	2017	2016
	USD million	
Advances to vendors	38.8	38.0
Advances to staff	27.1	26.5
TPA receivables	6.2	3.4
Miscellaneous receivables	96.0	96.3
Total other receivables before allowance	**168.1**	**164.2**
Allowance for impairment	**(31.5)**	**(37.1)**
Total net other receivables	**136.6**	**127.1**

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

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

74. 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.

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

76. Other receivables are reviewed to determine whether any allowance for doubtful accounts is required. As at 31 December 2017, the estimated allowance required is USD 31.5 million, of which USD 29.7 million is for value-added tax receivable and USD 1.8 million is for other receivables (USD 36.0 million for value-added tax receivable and USD 1.1 million for other receivables in 2016).

77. The change in the allowance for impairment during 2017 is as follows:

	2016	Utilization	Increase/ (decrease)	Revaluation adjustment	2017
			USD million		
Total allowance for	**37.1**	**-**	**9.7**	**(15.3)**	**31.5**

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

79. As at 31 December 2017, the estimated allowance required is USD 31.5 million. Accordingly, an increase of USD 9.7 million was recorded as an expense for the period and is reported in the Statement of Financial Performance.

Note 2.6: Long-term investments

	2017	2016
	USD million	
US Treasury STRIPS	65.2	69.1
Current portion (Note 2.2)	(7.4)	(7.5)
Long-term portion, US Treasury STRIPS	**57.8**	**61.6**
Bonds	281.6	212.7
Equities	287.5	232.0
Total bonds and equities	**569.1**	**444.7**
Total long-term investments	**626.9**	**506.3**

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

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

82. Changes in market value of the investment in STRIPS are not recognized. At 31 December 2017, the market value of this investment was USD 78.4 million (USD 84.1 million at 31 December 2016).

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

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

85. The increase in the value of the long-term bond and equity investments of USD 124.4 million resulted from the increased value of invested assets and from the investment of cash into bonds and equities of amounts charged to funds and projects in relation to the employee benefit liabilities. The cash transfer of USD 40.0 million is invested in line with the WFP asset allocation policy of investing 50 percent in global bonds and 50 percent in global equities of funds set aside to meet employee benefit liabilities. These investments are stated at fair value based on valuation provided by the independent custodian bank responsible for the administration and safekeeping of the securities.

86. The movement of long-term investments accounts during 2017 is as follows:

	2016	Additions/ (deductions)	Interest received/ amortized	Net realized gains/ (losses)	Net unrealized gains/ (losses)	2017
			USD million			
Bonds and equities	**444.7**	40.0	5.4	12.1	66.9	**569.1**
Investment in STRIPS	**61.6**	(7.1)	3.3	-	-	**57.8**
Total long-term investment	**506.3**	**32.9**	**8.7**	**12.1**	**66.9**	**626.9**

87. During 2017, long-term investments increased by USD 120.6 million. Long-term bonds and equities are treated as available-for-sale financial assets except the investment in derivative financial instruments (USD 49.9 million) which are treated as held for trading financial assets. Accordingly, under IPSAS, the net unrealized gains of USD 58.0 million related to those financial assets treated as available-for-sale are transferred to net assets and presented in the Statement of Changes in Net Assets. The net unrealized losses of USD 0.9 million related to derivative financial instruments and the net unrealized gains of USD 9.7 million related to foreign exchange differences on monetary items are presented in the Statement of Financial Performance. The amortized interest on the investment in STRIPS of USD 3.3 million is presented in the reconciliation of surplus to operating cash flows in the Statement of Cash Flow as part of the increase in amortized value of the long-term investment of USD 3.7 million. The remaining balance, net of a reclassification from long-term to short-term of USD 7.1 million, amounting to USD 57.5 million is presented in the Statement of Cash Flow under investing activities.

Note 2.7: Property, plant and equipment

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

	Cost				Accumulated depreciation				Net carrying amount
	At 31 Dec 2015	Additions	Disposal/ transfers	At 31 Dec 2016	At 31 Dec 2015	Depreciation expense	Disposal/ transfers	At 31 Dec 2016	At 31 Dec 2016
					USD million				
Buildings									
Permanent	23.0	2.2	(0.1)	25.1	(2.7)	(0.6)	-	(3.3)	21.8
Temporary	85.3	12.6	(1.8)	96.1	(49.1)	(12.8)	1.4	(60.5)	35.6
Computer equipment	10.9	1.1	(0.2)	11.8	(9.3)	(1.1)	0.2	(10.2)	1.6
Office equipment	25.9	3.0	(0.7)	28.2	(20.5)	(3.5)	0.6	(23.4)	4.8
Office fixtures and fittings	0.4	0.2	-	0.6	(0.2)	(0.1)	-	(0.3)	0.3
Security and safety equipment	5.5	0.3	-	5.8	(4.5)	(0.7)	-	(5.2)	0.6
Telecommunication equipment	9.2	1.1	(0.2)	10.1	(6.7)	(1.4)	0.1	(8.0)	2.1
Motor vehicles	161.0	18.4	(5.3)	174.1	(94.0)	(23.5)	4.7	(112.8)	61.3
Workshop equipment	6.8	0.3	(0.1)	7.0	(4.3)	(1.0)	-	(5.3)	1.7
Leasehold improvements	19.7	3.0	(1.8)	20.9	(14.8)	(2.3)	1.7	(15.4)	5.5
Fixed assets under construction	2.9	4.2	(2.1)	5.0	-	-	-	-	5.0
Total	**350.6**	**46.4**	**(12.3)**	**384.7**	**(206.1)**	**(47.0)**	**8.7**	**(244.4)**	**140.3**

88. In 2017 and 2016, major additions to PP&E were for temporary buildings and motor vehicles. Net acquisitions (after disposals) for the period ended 31 December 2017 totalled USD 13.9 million (USD 34.1 million at 31 December 2016) of which USD 1.5 million relate to donated in-kind property, plant and equipment (USD 8.2 million at 31 December 2016). Net carrying amount of PP&E is reported in the Statement of Financial Position and the depreciation expense for the year of USD 46.4 million is reported in the Statement of Financial Performance (USD 47.0 million in 2016).

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

90. Assets are reviewed annually to determine if there is any impairment in their value. The review that was undertaken in 2017 did not result in any of the PP&E being impaired in value.

Note 2.8: Intangible assets

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

	Cost				Accumulated depreciation				Net carrying amount
	At 31 Dec 2015	**Additions**	**Disposal/ transfers**	**At 31 Dec 2016**	**At 31 Dec 2015**	**Amortization expense**	**Disposal/ transfers**	**At 31 Dec 2016**	**At 31 Dec 2016**
	USD million								
Internally generated software	54.0	0.8	-	54.8	(49.1)	(1.1)	-	(50.2)	4.6
Externally acquired software	2.8	-	-	2.8	(2.7)	(0.1)	-	(2.8)	-
Licenses and rights	0.7	-	-	0.7	(0.6)	(0.1)	-	(0.7)	-
Intangible asset under construction	0.1	1.0	-	1.1	-	-	-	-	1.1
Total intangible assets	**57.6**	**1.8**	**-**	**59.4**	**(52.4)**	**(1.3)**	**-**	**(53.7)**	**5.7**

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

92. Net carrying amount of intangible assets is reported in the Statement of Financial Position while the amortization expense for the year of USD 1.3 million is reported in the Statement of Financial Performance.

Note 2.9: Payables and accruals

	2017	2016
	USD million	
Vendor payables	157.5	101.0
Donor payables	27.2	25.9
Miscellaneous	67.7	65.6
Subtotal payables	**252.4**	**192.5**
Accruals	402.5	365.3
Total payables and accruals	**654.9**	**557.8**

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

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

95. 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.

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

Note 2.10: Deferred revenue

	2017	2016
	USD million	
Composition:		
Current	1 550.0	486.9
Non-current	378.2	499.3
Total deferred revenue	**1 928.2**	**986.2**

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

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

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

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

	2017	2016
	USD million	
Contribution year		
2021	17.2	10.3
2020	111.4	55.7
2019	249.6	139.0
2018	1 550.0	294.3
2017	-	486.9
Total deferred revenue	**1 928.2**	**986.2**

Note 2.11: Provisions

	2017	2016
	USD million	
Provision for refunds to donors	**6.3**	**7.0**

101. The provision for refunds to donors estimates the level of refunds that are expected to be given back to donors for unspent cash contributions to the project. The provision is based on historical experience.

102. The change in the provision for refunds to donors during 2017 is as follows:

	2016	Utilization	Increase/ (decrease)	2017
	USD million			
Provision for refunds to donors	**7.0**	**(17.4)**	**16.7**	**6.3**

103. During 2017, refunds made to donors totalled USD 17.4 million. These refunds are recorded as a utilization of the provision for refunds to donors and reported in the Statement of Financial Position. At 31 December 2017, the estimated final provision required is USD 6.3 million. Accordingly, an increase of USD 16.7 million was recorded as an adjustment to monetary contribution revenue for the period and is reported in the Statement of Financial Performance.

Note 2.12: Employee benefits

	2017	2016 restated
	USD million	
Composition:		
Current	36.9	7.8
Non-current	841.2	694.8
Total employee benefits liabilities	**878.1**	**702.6**

104. The adoption of IPSAS 39 as described in Note 1 has resulted in the removal of the corridor approach, permitted under IPSAS 25 for post-employment benefits, and the full recognition of the actuarial gains and losses arising from the defined benefit plans. In line with IPSAS 39 requirements, WFP restated 2016 opening and closing post-employment benefits amounts to increase the employee benefit liabilities under these plans in the Statement of Financial Position, and to recognize actuarial gains and losses arising from the post-employment benefit plans in the Statement of Changes in Net Assets.

	2017			2016 restated
	Actuarial valuation	WFP valuation	Total	
	USD million			
Short-term employee benefits	3.0	33.9	36.9	7.8
Post-employment benefits	766.0	1.5	767.5	595.1
Other long-term employee benefits	68.6	5.1	73.7	99.7
Total employee benefits liabilities	**837.6**	**40.5**	**878.1**	**702.6**

2.12.1 Short-term employee benefits

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

2.12.2 Post-employment benefits

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

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

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

109. The Compensation Plan Reserve Fund is a plan that provides compensation to all staff members, employees and dependents in case of death, injury or illness attributable to the performance of official duties and, in certain circumstances, to supplement the disability and survivors' pensions paid by the UNJSPF.

2.12.3 Other long-term employee benefits

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

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

2.12.4 Valuation of employee benefit liabilities

112. Employee benefit liabilities are measured by professional actuaries or calculated by WFP. At 31 December 2017, total employee benefit liabilities amounted to USD 878.1 million, of which USD 837.6 million were calculated by the actuaries and USD 40.5 million were calculated by WFP (USD 690.6 million and USD 12.0 million, respectively, at 31 December 2016 restated).

113. Of the total employee benefit liabilities of USD 878.1 million, the amount of USD 516.9 million has been charged against relevant funds and projects (USD 455.2 million at 31 December 2016 restated). The balance of liabilities in the amount of USD 361.2 million has been allocated against the General Fund (USD 247.5 million at 31 December 2016 restated).

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

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

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

116. Post-employment benefits and other separation-related benefits liabilities which are calculated by actuaries totalled USD 834.6 million at 31 December 2017 (USD 687.8 million in 2016 restated), of which USD 580.1 million pertains to staff members who are in the professional category and general service in headquarters (USD 508.4 million in 2016 restated) and USD 254.5 million pertains to the benefits for locally recruited staff members (USD 179.4 million in 2016 restated).

117. Under IPSAS 39, the annual expense for post-employment benefits liabilities as determined by the actuaries does not include amortization of actuarial gains/(losses) applied in previous valuations under the corridor approach permitted under IPSAS 25. The full amount of actuarial gains/(losses) for post-employment benefits is recognized instead in the Statement of Changes in Net Assets. The actuarial gains/(losses) for other separation-related benefits continue to be recognized as an expense in the Statement of Financial Performance for the year in which they arise.

2.12.5.1 Actuarial assumptions and methods

118. 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 2017 valuation, the assumptions and methods used are described in the following table which also indicates the assumptions and methods used for the 2016 valuation.

119. The assumptions and methods adopted for the 2017 actuarial valuation, together with plan experience since the prior valuation date, resulted in an increase in the post-employment and other separation-related benefits net liabilities in the total amount of USD 146.8 million (USD 116.9 million in 2016 restated).

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

121. 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 2017.

Discount rate	2.7 percent for accounting and funding based on yield curve approach for plans provided to staff members in professional category and general service category in headquarters (3.0 percent in 2016 valuation) 4.0 percent based on yield curve approach for plans provided to locally recruited staff members (4.7 percent in 2016 valuation)
Medical cost increases (ASMP only)	BMIP – 4.6 percent per year during 2018, decreasing 0.1 percent every two years to 4.0 percent in 2030, and then decreasing 0.1 percent each year to 3.7 percent for 2033 and every year thereafter (5.0 percent per year during 2017, decreasing 0.1 every two years to 4.4 percent in 2029, and then decreasing 0.1 percent every three years to 4.0 in 2041 and beyond) MICS – 9.2 percent from 2018, decreasing by 0.3 percent each year to 7.1 percent in 2025, then decreasing by 0.2 percent each year to 5.1 percent in 2035, and then decreasing by 0.1 percent each year until it reaches 4.0 percent in 2046 and beyond (same as in 2016 valuation)
Annual salary scale	3.5 percent plus merit component
Annual cost of living increases	1.9 percent for the International Staff and 2.2 percent for the National Staff (2.5 percent for the 31 December 2016 valuation)
Future exchange rates	United Nations rates at 31 December 2017
Mortality rates	Mortality rates match the 31 December 2017 valuation of the UNJSPF
Disability rates	Disability rates match the 31 December 2017 valuation of the UNJSPF
Withdrawal rates	Based on a study of WFP's withdrawal rates from 2009 to 2013
Retirement rates	Based on a study of WFP's withdrawal rates from 2009 to 2013
Actuarial method	After-Service Medical Plans, Separation Payments Scheme, and Staff Compensation Plan: Projected unit credit with an attribution period from the entry on duty date to the date of full eligibility for benefits. Other Separation-Related Payments Schemes: For accrued leave, projected unit credit with an attribution period from the entry on duty date to separation. In 2016 valuation, Accrued leave used projected unit credit with all liability attributed to past service. For repatriation travel and removal, projected unit credit with an attribution period from the entry on duty date to separation. For repatriation grant and death grant, projected unit credit with an attribution based on the actual benefit formula

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

2.12.5.2 Reconciliation of defined benefit obligation

	After-Service Medical Plans	Other separation-related benefits	Separation Payments Scheme	Compensation Plan Reserve Fund	Total
			USD million		
Defined benefit obligation at 31 December 2016 (restated)	**561.3**	**94.3**	**20.1**	**12.1**	**687.8**
Service cost for 2017	36.1	3.8	1.6	0.5	42.0
Interest cost for 2017	19.6	2.9	0.6	0.4	23.5
Actual gross benefit payments for 2017	(5.1)	(7.4)	(2.8)	(0.5)	(15.8)
Participant contributions	1.7	-	-	-	1.7
Change in accrued leave attribution	-	(21.6)	-	-	(21.6)
Exchange rate movements	36.0	0.3	2.8	-	39.1
Other actuarial (gains) losses	80.0	(3.7)	0.6	1.0	77.9
Defined benefit obligation at 31 December 2017	**729.6**	**68.6**	**22.9**	**13.5**	**834.6**

2.12.5.3 Annual expense for calendar year 2017

	After-service medical plans	Other separation-related benefits	Separation payments scheme	Compensation plan reserve fund	Total
			USD million		
Service cost	36.1	3.8	1.6	0.5	42.0
Interest cost	19.6	2.9	0.6	0.4	23.5
Actuarial (gains) losses	-	(3.4)	-	-	(3.4)
Total expense	**55.7**	**3.3**	**2.2**	**0.9**	**62.1**

2.12.5.4 Reconciliation of present value of defined benefit obligation

	After-service medical plans	Other separation-related benefits	Separation payments scheme	Compensation plan reserve fund	Total
			USD million		
Defined benefit obligation					
Inactive	203.9	-	-	10.5	214.5
Active	525.7	68.6	22.9	3.0	620.1
Total	**729.6**	**68.6**	**22.9**	**13.5**	**834.6**
(Gain) loss on defined benefit obligation	116.0	(3.4)	3.4	1.0	117.0

2.12.6 Employee benefits liability – sensitivity analysis

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

	After-Service Medical Plans	Other separation-related benefits	Separation payments scheme	Staff Compensation Plan	Total
Defined benefit obligation			***USD million***		
Current discount rate assumption minus 1%	951.3	74.8	25.0	16.4	1 067.5
Current discount rate assumption	729.6	68.6	22.9	13.5	834.6
Current discount rate assumption plus 1%	570.3	63.1	21.0	11.4	665.8

2.12.6.1 After-Service Medical Plans – sensitivity analysis

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

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

Exchange rate	Discount rate	Long-term medical inflation per year		
		2.7%	**3.7%**	**4.7%**
		USD million		
1.095 USD per EUR	3.7%	289.7	359.8	453.2
1.195 USD per EUR	3.7%	307.2	381.6	480.6
1.295 USD per EUR	3.7%	324.7	403.4	508
1.095 USD per EUR	2.7%	361.8	456.7	584.8
1.195 USD per EUR	2.7%	383.7	484.3	620.1
1.295 USD per EUR	2.7%	405.6	512.0	655.6
1.095 USD per EUR	1.7%	460.4	591.0	769.8
1.195 USD per EUR	1.7%	488.2	626.8	816.4
1.295 USD per EUR	1.7%	516.1	662.6	863.00

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

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

Discount rate	Long-term medical inflation per year		
	3.0%	**4.0%**	**5.0%**
	USD million		
5.0%	148.0	188.7	243.5
4.0%	190.0	245.3	321.3
3.0%	247.0	324.6	431.7

2.12.7 Expected costs during 2018

128. The expected contribution of WFP in 2018 to the defined benefits plans is USD 14.1 million which is determined based on expected benefit payments for that year.

	After-Service Medical Plans	**Other separation-related benefits**	**Separation payments scheme**	**Staff Compensation Plan**	**Total**
	USD million				
Expected organization contributions during 2018	5.4	6.6	1.7	0.4	14.1

2.12.8 United Nations Joint Staff Pension Fund

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

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

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

132. The roll forward of the participation data as of 31 December 2013 to 31 December 2016 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 150.1 percent (127.5 in the 2013 valuation). The funded ratio was 101.4 percent (91.2 percent in the 2013 valuation) when the current system of pension adjustments was taken into account.

133. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2016, for deficiency payments under Article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of Article 26.

134. Should Article 26 be invoked due to an actuarial deficiency, either during the ongoing operation or due to the termination of the UNJSPF pension plan, deficiency payments required from each member organization would be based upon the proportion of that member organization's contributions to the total contributions paid to the UNJSPF during the preceding three years (2014, 2015 and 2016) amounted to USD 6,751.0 million, of which 4 percent was contributed by WFP.

135. During 2017, WFP's contributions paid to the UNJSPF amounted to USD 97.5 million. Expected contributions due in 2018 are USD 100.7 million.

136. Membership of the Fund may be terminated by decision of the United Nations General Assembly, upon the affirmative recommendation of the Pension Board. A proportionate share of the total assets of the Fund at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Fund. The amount is determined by the UNJSPF Board based on

an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets which are in excess of the liabilities are included in the amount.

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

2.12.9 Social security arrangements for employees under service contracts

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

Note 2.13: Loan

	2017	**2016**
	USD million	
Current portion of loan	5.7	5.7
Non-current portion of loan	72.4	78.1
Total loan	**78.1**	**83.8**

139. In December 2000, an agreement was reached between a major donor and WFP regarding a scheme to facilitate the provision of food assistance to two country projects. Under the scheme, the donor gave a contribution in cash of USD 164.1 million, of which USD 106.0 million was used to purchase food commodities against a long-term loan contract with a government agency of the donor country.

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

141. The loan is reflected at amortized cost using the effective interest rate of 2.44 percent. At 31 December 2017, total amortized cost was USD 78.1 million (USD 83.8 million at 31 December 2016) with an amount due within one year of USD 5.7 million and a long-term portion of USD 72.3 million (USD 5.7 million and USD 78.1 million, respectively in 2016).

142. Interest expense during 2017 totalled USD 1.9 million (USD 2.1 million at 31 December 2016) as reflected in the Statement of Financial Performance, of which USD 2.3 million represents the annual interest paid in May 2017 and USD (0.4) million represents the amortized cost resulting from the recognition of the long-term loan to its net present value.

143. In the Statement of Cash Flow, interest paid during the year in the amount of USD 2.4 million is presented under financing activities, while amortized interest of USD (0.4) million is presented under reconciliation to net cash flows from operating activities.

Note 2.14: Financial instruments

2.14.1 Nature of financial instruments

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

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

	2017	2016
	USD million	
Financial assets at fair value through surplus or deficit	1 199.3	1 170.4
Held-to-maturity investments	65.2	69.1
Loans and receivables	5 103.3	3 950.5
Available-for-sale financial assets	568.7	443.4
Subtotal	**6 936.5**	**5 633.4**
Non-financial assets	1 043.0	988.6
Total	**7 979.5**	**6 622.0**

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

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

148. The following table presents the WFP assets that are measured at fair value at 31 December 2017 and 2016, respectively.

	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	USD million				*USD million*			
Financial assets at fair value through surplus or deficit	-	1 199.3	-	1 199.3	-	1 169.4	1.0	1 170.4
Available-for-sale financial assets	263.4	304.2	1.1	568.7	224.3	217.2	1.9	443.4
Total	**263.4**	**1 503.5**	**1.1**	**1 768.0**	**224.3**	**1 386.6**	**2.9**	**1 613.8**

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

150. WFP investment guidelines are conservative in nature with the primary objective being capital preservation and liquidity. Both the held-for-trading and the available-for-sale

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

151. The following table presents the changes in Level 3 financial instruments for the years ended 31 December 2017 and 2016, respectively.

	2017			2016		
	Financial assets at fair value through surplus or deficit	**Available-for-sale financial assets**	**Total**	**Financial assets at fair value through surplus or deficit**	**Available-for-sale financial assets**	**Total**
	USD million			***USD million***		
Opening balance	1.0	1.9	2.9	9.4	-	9.4
Gains (losses) recognized in Statement of Net Assets	-	0.2	0.2	-	(0.1)	(0.1)
Purchases	-	1.1	1.1	1.0	3.0	4.0
Sales	-	(1.0)	(1.0)	-	(1.0)	(1.0)
Capital change	-	-	-	(9.4)	-	(9.4)
Transfer	(1.0)	(1.1)	(2.1)	-	-	-
Closing balance	**-**	**1.1**	**1.1**	**1.0**	**1.9**	**2.9**

152. During 2017, USD 2.1 million transferred from Level 3 to Level 2 due to an increase in the availability of market data in relation to two corporate bonds.

2.14.2 Credit risk

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

154. 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.

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

2.14.3 Interest rate risk

156. WFP is exposed to interest rate risk through short-term investments and long-term bonds. At 31 December 2017, the effective interest rates of these two investment portfolios were 1.80 percent and 1.97 percent, respectively (1.20 percent and 1.78 percent, respectively, in 2016). A measurement of interest rate sensitivity indicates that the effective duration is 0.71 years for the short-term investments and 6.48 years for the long-term bonds (0.62 years and 6.09 years, respectively, in December 2016). Fixed income derivatives are used by external investment managers to manage interest rate risk under strict investment guidelines.

2.14.4 Foreign currency risk

157. At 31 December 2017, 92 percent of cash, cash equivalent and investments are denominated in the US dollar base currency and 8 percent are denominated in Euros and other currencies (90 percent in the US dollar base currency and 9 percent in Euros and remaining 1 percent in other currencies at 31 December 2016). Non-US dollar holdings have the primary objective of supporting operating activities. In addition, 59 percent of contributions receivable is denominated in the US dollar base currency, 23 percent is denominated in Euros, 5 percent in Canadian dollars and 13 percent is denominated in other currencies (66 percent in the US dollar base currency, 18 percent in Euros, 8 percent in Canadian dollars and 8 percent in other currencies at 31 December 2016).

158. 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 2017, 12 contracts were settled at a realized gain of USD 0.3 million (12 contracts were settled during the year ended 31 December 2016 at a realized gain of USD 0.1 million). In addition, a new hedging strategy was implemented for 2018, in which WFP entered into 12 foreign exchange forward contracts to purchase a total of Euro 51.2 million over 12 months at a fixed exchange rate. At 31 December 2017, the 12 contracts have a notional amount of USD 59.2 million and an unrealized gain of USD 3.1 million using the forward rate at 31 December 2017. Both the realized loss and unrealized loss are included in currency exchange differences presented in the Statement of Financial Performance.

2.14.5 Market risk

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

160. Interest rate sensitivity – For short-term investments, if interest rates were to rise (fall) by 1 percent, the impact to the Statement of Financial Performance is a USD 13.5 million unrealized loss (gain). For long-term bond portfolio, if interest rates were to rise (fall) by 1 percent, the impact to the Statement of Changes in Net Assets is a USD 18.4 million unrealized loss (gain).

161. Futures price sensitivity – For short-term investments, if futures prices were to rise (fall) by 1 percent, the impact to the Statement of Financial Performance is a USD 0.01 million unrealized loss (gain). For long-term bond portfolio, if futures prices were to rise (fall) by 1 percent, the impact to the Statement of Changes in Net Assets is a USD 0.2 million unrealized gain (loss).

162. Equity price sensitivity – The equity investments track the MSCI All Country World Index, a recognized index of stocks of all world markets. If equity prices were to rise (fall) by 1 percent proportionally across the six regional equity funds, the impact to the Statement of Changes in Net Assets is a USD 2.9 million unrealized gain (loss).

163. Foreign Exchange forwards sensitivity - For the remaining 12 PSA hedge forward contracts, if USD/EUR rate were to rise (fall) by 1 percent, the impact to the Statement of Financial Performance is a USD 0.6 million unrealized gain (loss), with all other variables held constant. For long-term investments, if foreign currency prices were to appreciate (depreciate) versus the USD by 1 percent across the forward currency positions currently held, the impact to the Statement of Financial Performance is a USD 0.5 million unrealized loss (gain).

Note 2.15: Fund balances and reserves

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

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

	2016				
	Programme category funds	Bilateral operations and trust funds	General Fund and Special Accounts		Total
	(fund balance)	(fund balance)	(fund balance)	Reserves	
Opening balance at 1 January 2016	3 208.6	295.8	(12.0)	278.2	**3 770.6**
Change in Accounting Policy	-	-	23.5	-	**23.5**
Opening balance at 1 January 2016 (restated)	**3 208.6**	**295.8**	**11.5**	**278.2**	**3 794.1**
Surplus (deficit) for the year	**223.1**	**(90.4)**	**408.7**	**-**	**541.4**
Movements in fund balances and reserves in 2016					
Advances to projects	215.2	-	-	(215.2)	**-**
Repayments by projects	(124.7)	-	-	124.7	**-**
Other transfer from/to reserves	-	-	(142.0)	142.0	**-**
Transfer between funds	238.8	20.0	(258.8)	-	**-**
Actuarial gains (losses) on employee benefit liabilities	-	-	(65.7)	-	**(65.7)**
Net unrealized gains (losses) on long-term investments	-	-	14.8	-	**14.8**
Total movements during the year	**329.3**	**20.0**	**(451.7)**	**51.5**	**(50.9)**
Closing balance at 31 December 2016 (restated)	**3 761.0**	**225.4**	**(31.5)**	**329.7**	**4 284.6**

165. 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.

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

167. The change in accounting policy of employee benefits as described in Note 1 has resulted in the adjustment of the amount reported in prior years as indicated in the table above.

168. Reserves are established by the Board as facilities for funding and/or financing specific activities under specific circumstances. During 2017, WFP had four active reserves: i) Operational Reserve (OR); ii) Global Commodity Management Facility (GCMF) reserve; iii) Immediate Response Account (IRA); and the iv) PSA Equalization Account (PSAEA). The following table presents WFP's reserves.

	2017				
	OR	**GCMF**	**IRA**	**PSAEA**	**Total**
Note	**2.15.1**	**2.15.2**	**2.15.3**	**2.15.4**	
Opening balance at 1 January 2017	**95.2**	**6.0**	**16.1**	**212.4**	**329.7**
Advances to projects	-	-	(154.2)	-	**(154.2)**
Repayments by projects	-	-	114.5	-	**114.5**
Approved Board allocations	-	-	-	(13.5)	**(13.5)**
Repayment of unspent Board allocations	-	-	-	0.4	**0.4**
Write-off of loan	(2.2)	-	-	-	**(2.2)**
Replenishments	-	-	33.2	-	**33.2**
Transfer from PSAEA to IRA	-	-	15.0	(15.0)	**-**
Surplus of ISC revenue from PSA expense	-	-	-	72.5	**72.5**
Total movements during the year	**(2.2)**	**-**	**8.5**	**44.4**	**50.7**
Closing balance at 31 December 2017	**93.0**	**6.0**	**24.6**	**256.8**	**380.4**

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

2.15.1 Operational Reserve

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

171. In 2017, the Executive Director approved a write-off on non-recoverable loan from the Internal Project Lending Facility against the Operational Reserve.

172. The balance of the Operational Reserve at 31 December 2017 is USD 93.0 million, and below its approved level of USD 95.2 million.

2.15.2 Global Commodity Management Facility reserve

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

174. The balance of the Global Commodity Management Facility Reserve at 31 December 2017 is USD 6.0 million.

2.15.3 Immediate Response Account

175. The IRA was established as a flexible resource facility to enable WFP to respond quickly to emergency needs for food and for non-food-related purchase and delivery costs.

176. In 2017, the IRA received USD 33.2 million in replenishments. In addition, the USD 15.0 million transfer from the PSA Equalization Account to the Immediate Response Account was based on the WFP Management Plan (2017–2019) (Decision 2016/EB.2/6 iv).

177. Advances made to projects totalled USD 154.2 million and repayments by projects amounted to USD 114.5 million.

178. The IRA balance at 31 December 2017 is USD 24.6 million, which is below the target level of USD 200.0 million as established by the Executive Board Decision 2014/EB.2/4.

179. Outstanding advances to projects made by the IRA at 31 December 2017 totalled USD 89.5 million (USD 148.9 million in 2016).

2.15.4 Programme Support and Administrative Budget Equalization Account

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

181. Unspent balances totalling USD 0.4 million pertaining to allocations approved by the Board from PSAEA in previous periods were returned back to the PSAEA in 2017 pursuant to Financial Regulation 9.9.

182. The excess of ISC revenue over PSA expenses totalling USD 72.5 million was transferred to the PSAEA in 2017 (USD 108.8 million surplus in 2016).

183. The PSAEA balance at 31 December 2017 is USD 256.8 million.

Note 3: Revenue

		2017	2016
		USD million	
3.1	**Monetary contributions**		
	Contributions for direct costs	5 407.3	5 021.1
	ISC contributions	401.2	382.4
	Subtotal	**5 808.5**	**5 403.5**
	Less:		
	Refunds, reprogrammes and reductions in contribution revenue	(193.7)	(103.1)
	Total monetary contributions	**5 614.8**	**5 300.4**
3.2	**In-kind contributions**		
	Commodities in-kind contributions	352.5	442.0
	Services and non-food items in-kind contributions	31.6	32.0
	Subtotal	**384.1**	**474.0**
	Add (deduct):		
	Increase (decrease) in contribution revenue	1.0	(3.3)
	Total in-kind contributions	**385.1**	**470.7**
3.3	**Currency exchange differences**	**231.0**	**(31.3)**
3.4	**Return on investments**		
	Net realized gains (losses) on investments	9.5	(7.8)
	Net unrealized gains on investments	8.5	1.7
	Interest earned	33.0	26.4
	Total return on investments	**51.0**	**20.3**
3.5	**Other revenue**		
	Revenue generated from provision of goods and services	128.4	119.4
	Miscellaneous revenue	20.6	29.4
	Total other revenue	**149.0**	**148.8**
	Total revenue	**6 430.9**	**5 908.9**

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

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

186. During 2017, other revenue amounted to USD 149.0 million of which USD 128.4 million was generated from the provision of goods and services (USD 119.4 million at 31 December 2016) and USD 20.6 million from miscellaneous revenue (USD 29.4 million at 31 December 2016). Revenue generated from the provision of goods and services included mainly air operations, provisions of goods and services by the United Nations Humanitarian Response Depot and the Logistics Services Special Account. Miscellaneous revenue included proceeds from sale of damaged commodities and other unserviceable properties.

Note 4: Expenses

		2017	2016 (restated)
		USD million	
4.1	**Cash-based transfers distributed**		
	Cash and voucher transfers	1 368.7	856.2
	Commodity voucher transfers	77.4	26.1
	Cash-based transfers distributed	**1 446.1**	**882.3**
4.2	**Food commodities distributed**	**2 197.5**	**2 051.1**
4.3	**Distribution and related services**	**664.4**	**641.4**
4.4	**Wages, salaries, employee benefits and other staff costs**		
	International and national staff	644.3	608.6
	Consultants	123.0	108.2
	United Nations volunteers	2.5	3.5
	Temporary staff	89.9	84.3
	Other personnel costs	24.3	22.1
	Total wages, salaries, employee benefits and other staff costs	**884.0**	**826.7**
4.5	**Supplies, consumables and other running costs**		
	Telecommunications and Information Technology	13.9	11.1
	Equipment	106.5	99.4
	Office supplies and consumables	19.5	24.4
	Utilities	7.4	7.2
	Vehicle maintenance and running costs	27.1	28.7
	Total supplies, consumables and other running costs	**174.4**	**170.8**
4.6	**Contracted and other services**		
	Air operations	336.8	315.5
	Other contracted services	335.8	282.3
	Telecommunications/IT related services	30.2	31.5
	Security and other services	22.1	24.0
	Leases	34.6	36.2
	Total contracted and other services	**759.5**	**689.5**
4.7	**Finance costs**	**1.9**	**2.1**
4.8	**Depreciation and amortization**	**47.7**	**48.3**
4.9	**Other expenses**		
	Maintenance services	5.3	6.6
	Insurance	15.4	7.8
	Bank charges/investment manager and custodian fees	4.2	3.5
	Impairment and write-offs	(0.1)	15.4
	Other	18.9	22.0
	Total other expenses	**43.7**	**55.3**
	Total expenses	**6 219.2**	**5 367.5**

187. Food commodities distributed include cost of commodities as well as transport and related costs between the country in which WFP takes possession and the recipient country. Included in the cost of commodities distributed are post-delivery losses of USD 14.2 million (USD 21.1 million in December 2016) (Note 9).

188. Given WFP's accounting policy to expense when food is handed over to the cooperating partners, at 31 December 2017, USD 87 million (121,914 mt) of food held by cooperating partners was yet to be distributed to beneficiaries (USD 67.9 million (93,543 mt) at 31 December 2016).

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

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

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

Note 5: Statement of cash flow

192. Cash flows from operating activities are not adjusted for donations of commodities-in-kind or services-in-kind as these donations have no impact on cash movements. Cash flows from investing activities are shown net of items where the turnover is rapid, the amounts are large and the maturities are short.

Note 6: Statement of comparison of budget and actual amounts

193. WFP's budget and financial statements are prepared using different bases. The Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets and Statement of Cash Flow are prepared on a full accrual basis using a classification based on the nature of expenses in the Statement of Financial Performance, whereas the Statement of Comparison of Budget and Actual Amounts is prepared on a commitment accounting basis.

194. As required under IPSAS 24, Presentation of Budget Information in Financial Statements, the actual amounts presented on a comparable basis to the budget shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to the actual amounts presented in the financial statements, identifying separately any basis, timing and entity differences. There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget.

195. Budget amounts have been presented on a functional classification basis in accordance with the Management Plan (2017–2019), which presents a breakdown of the budget by year.

196. Statement V includes a column – Prioritized Plan – which represents a prioritized plan of work based on estimated forecast contributions taking into account the fact that WFP is a voluntarily funded organization and its operations and financial management therefore depend on the level of funding actually received. The prioritized plan of work includes direct project and CSP costs, the regular programme support and administrative costs and critical corporate initiatives approved by the Executive Board in November 2016 (WFP/EB.2/2016/5-A/1/Rev.2).

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

198. Basis differences occur when the approved budget is prepared on a basis other than the accounting basis. For WFP, the budget is prepared on the commitment basis and the financial statements are prepared on the accrual basis. Open commitments including open purchase orders and net cash flows from operating, investing and financing activities are presented as Basis differences.

199. Timing differences occur when the budget period differs from the reporting period reflected in the financial statements. There are no timing differences for WFP for purposes of comparison of budget and actual amounts.

200. Entity differences occur when the budget omits programmes or entities that are part of the entity for which the financial statements are prepared. Under Entity differences, bilateral operations and trust funds form part of WFP activities and are reported in the financial statements but, as they are considered extra-budgetary resources, are excluded from the budget.

201. Presentation differences are due to differences in the format and classification schemes adopted for presentation of Statement of Cash Flow and Statement of Comparison of Budget and Actual Amounts. Revenue and non-fund relevant expenses that do not form part of the Statement of Comparison of Budget and Actual Amounts are reflected as Presentation differences.

202. A reconciliation between the actual amounts on a comparable basis in the Statement of Comparison of Budget and Actual Amounts (Statement V) and the actual amounts in the Statement of Cash Flow (Statement IV) for the year ended 31 December 2017 is presented below:

	Operating	**Investing**	**Financing**	**Total**
	USD million			
Actual amount on comparable basis (Statement V)	**(5 769.9)**	**-**	**-**	**(5 769.9)**
Basis differences	179.9	(115.2)	(7.7)	57.0
Presentation differences	6 375.2	-	-	6 375.2
Entity differences	(170.9)	-	-	(170.9)
Actual amount in the Statement of Cash Flow (Statement IV)	**614.3**	**(115.2)**	**(7.7)**	**491.4**

Note 7: Segment reporting

Note 7.1: Statement of financial position by segment

	2017					2016 (restated)
	Programme Category Funds	General Fund and Special Accounts	Bilateral Operations and Trust Funds	Inter-Segment Transactions	Total	
	USD million					
Assets						
Current assets						
Cash, cash equivalents and short-term investments	1 573.4	663.6	238.2	-	2 475.2	1 954.1
Contributions receivable	3 167.0	269.1	87.7	-	3 523.8	2 756.9
Inventories	592.3	105.7	6.8	-	704.8	643.2
Other receivables	109.9	421.3	5.3	(399.9)	136.6	127.1
	5 442.6	**1 459.7**	**338.0**	**(399.9)**	**6 840.4**	**5 481.3**
Non-current assets						
Contributions receivable	187.0	142.1	49.1	-	378.2	488.4
Long-term investments	-	626.9	-	-	626.9	506.3
Property, plant and equipment	85.6	41.0	1.8	-	128.4	140.3
Intangible assets	0.1	5.5	-	-	5.6	5.7
	272.7	**815.5**	**50.9**	**-**	**1 139.1**	**1 140.7**
Total assets	**5 715.3**	**2 275.2**	**388.9**	**(399.9)**	**7 979.5**	**6 622.0**
Liabilities						
Current liabilities						
Payables and accruals	552.0	382.5	120.3	(399.9)	654.9	557.8
Deferred revenue	1 278.5	238.1	33.4	-	1 550.0	486.9
Provisions	4.6	-	1.7	-	6.3	7.0
Employee benefits	-	36.9	-	-	36.9	7.8
Loan	-	5.7	-	-	5.7	5.7
	1 835.1	**663.2**	**155.4**	**(399.9)**	**2 253.8**	**1 065.2**
Non-current liabilities						
Deferred revenue	187.4	141.7	49.1	-	378.2	499.3
Employee benefits	-	841.2	-	-	841.2	694.8
Loan	-	72.4	-	-	72.4	78.1
	187.4	**1 055.3**	**49.1**	**-**	**1 291.8**	**1 272.2**
Total liabilities	**2 022.5**	**1 718.5**	**204.5**	**(399.9)**	**3 545.6**	**2 337.4**
Net assets	**3 692.8**	**556.7**	**184.4**	**-**	**4 433.9**	**4 284.6**
Fund balances and reserves						
Fund balances	3 692.8	176.3	184.4	-	4 053.5	3 954.9
Reserves	-	380.4	-	-	380.4	329.7
Total fund balances and reserves, 31 December 2017	**3 692.8**	**556.7**	**184.4**	**-**	**4 433.9**	**4 284.6**
Total fund balances and reserves, 31 December 2016	**3 761.0**	**298.2**	**225.4**		**4 284.6**	

Note 7.2: Statement of financial performance by segment

	2017					2016 (restated)
	Programme Category Funds	General Fund and Special Accounts	Bilateral Operations and Trust Funds	Inter-Segment Transactions	Total	
	USD million					
Revenue						
Monetary contributions	4 777.1	735.8	101.9	-	5 614.8	5 300.4
In-kind contributions	365.6	16.5	3.0	-	385.1	470.7
Currency exchange differences	13.6	218.2	(0.8)	-	231.0	(31.3)
Return on investments	0.1	50.7	0.2	-	51.0	20.3
Other revenue	138.8	1 045.4	-	(1 035.2)	149.0	148.8
Total revenue	**5 295.2**	**2 066.6**	**104.3**	**(1 035.2)**	**6 430.9**	**5 908.9**
Expenses						
Cash-based transfers distributed	1 438.1	-	8.0	-	1 446.1	882.3
Food commodities distributed	2 181.7	852.0	3.2	(839.4)	2 197.5	2 051.1
Distribution and related services	651.2	16.3	28.8	(31.9)	664.4	641.4
Wages, salaries, employee benefits and other staff costs	510.7	313.9	72.7	(13.3)	884.0	826.7
Supplies, consumables and other running costs	128.6	45.9	13.2	(13.3)	174.4	170.8
Contracted and other services	641.6	190.7	40.3	(113.1)	759.5	689.5
Finance costs	-	1.9	-	-	1.9	2.1
Depreciation and amortization	29.4	16.9	1.4	-	47.7	48.3
Other expenses	46.9	17.6	3.4	(24.2)	43.7	55.3
Total expenses	**5 628.2**	**1 455.2**	**171.0**	**(1 035.2)**	**6 219.2**	**5 367.5**
Surplus (deficit) for the year, 2017	**(333.0)**	**611.4**	**(66.7)**	**-**	**211.7**	**541.4**
Surplus (deficit) for the year, 2016	**223.1**	**408.7**	**(90.4)**	**-**	**541.4**	

203. Cash and cash equivalents and short-term investments are presented as separate line items on the face of the Statement of Financial Position and presented together under segment reporting. The below table reconciles the amounts reported in the Statement of Financial Position and segment reporting.

	2017	2016
	USD million	
Cash and cash equivalents	1 268.9	777.5
Short-term investments	1 206.3	1 176.6
Total cash and cash equivalents and short-term investments	**2 475.2**	**1 954.1**

204. Some internal activities lead to accounting transactions that created inter-segment revenue and expense balances in the financial statements. Inter-segment transactions are reflected in the above tables to accurately present these financial statements.

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

Note 8: Commitments and contingencies

Note 8.1: Commitments

8.1.1 Property leases

	2017	2016
	USD million	
Obligations for property leases:		
Within 1 year	41.3	39.5
Later than 1 year and not later than 5 years	58.6	26.8
Beyond 5 years	5.0	1.0
Total property leases obligations	**104.9**	**67.3**

206. At 31 December 2017, property lease obligations for the WFP headquarters building in Rome represent 17 percent of the total obligations under the within 1-year category and 51 percent under the later than 1 year and not later than 5 years category (18 percent and 4 percent, respectively, at 31 December 2016). 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

207. At 31 December 2017, WFP had commitments for the acquisition of food commodities, transportation, services, non-food items, and capital commitments contracted but not delivered as follows:

	2017	2016
	USD million	
Food commodities	206.6	286.3
Transportation – Food commodities	142.0	131.1
Services	119.1	113.6
Non-food items	42.2	51.7
Capital commitments	10.7	8.2
Total open commitments	**520.6**	**590.9**

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

Note 8.2: Contingent liabilities and contingent assets

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

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

211. In 2005, two WFP employees in the WFP regional bureau in South Africa were found to have committed fraud resulting in a loss of approximately USD 6.0 million. A criminal trial began in 2008, and the South African authorities restrained the employees' known assets, reportedly valued at ZAR 40 million (approximately USD 3.2 million at 31 December 2017).

212. WFP also initiated arbitration against the two employees for recovery of the misappropriated funds, to establish WFP's claim against the restrained assets irrespective of the outcome of the criminal proceedings. In January 2010, the Arbitral Tribunal issued a default award in favour of WFP on all claims, for approximately USD 5.6 million, plus interest and costs. Following the required waiver by the United Nations and the FAO of WFP's immunity, WFP applied to the High Court of South Africa to make the arbitral award an order of court for the purpose of enforcement in South Africa, which was granted in October 2011 and is now final.

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

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

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

215. 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."

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

	2017	2016
	USD million	
Ex-gratia payments	0.3	0.4
Contributions receivable	2.8	4.4
Food commodity losses	14.2	21.1
Write-off of commodity	5.6	-
Non-food item losses	1.3	0.1
Other assets and cash losses	0.9	1.4
	In mt	
Commodity losses (quantity)	16 961	23 786

217. The *ex-gratia* payments mainly pertain to field emergency claims. Contributions receivable relates to the write-off of receivables from donors. The food commodity losses occurred after the related food arrived at the recipient country. The write-off of the commodity loss relates to the final resolution of a claim for a donor government with regards to a 2012 school feeding programme. The non-food item losses related mainly to warehouse losses. The other assets and cash losses related mainly to write-offs of other receivables from customers and service providers.

218. Fraud reported in 2017 comprised entitlement, vendor and partner fraud involving WFP staff and third parties valued at USD 141,198 (in 2016 USD 314,964 of which USD 23,100 was recovered).

Note 10: Related party and other senior management disclosure

Note 10.1: Key management personnel

	Number of individuals	Number of positions	Compensation and post adjustment	Entitlements and benefits	Pension and health plans	Total remuneration	Outstanding advances against entitlements
			USD million				
Key management personnel, 2017	8	6	1.1	0.8	0.3	2.2	0.1
Key management personnel, 2016	6	6	1.2	0.4	0.3	1.9	0.1

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

Note 10.2: Other senior management

	Number of individuals	Number of positions	Compensation and post adjustment	Entitlements and benefits	Pension and health plans	Total remuneration	Outstanding advances against entitlements
			USD million				
Other senior management, 2017	36	28	4.3	2.2	1.2	7.7	1.2
Other senior management, 2016	37	28	4.5	2.2	1.1	7.8	1.2

220. In addition to key management personnel whose remuneration, advances and loans are required to be disclosed under IPSAS 20 Related Party Disclosures, similar disclosure is also made for other senior management of WFP for the sake of completeness and transparency. Other senior management include regional directors and headquarters divisional directors.

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

222. The aggregate remuneration paid to key management personnel and other senior management includes: net salaries; post adjustment; entitlements such as representation allowance and other allowances, assignment and other grants, rental subsidy, personal effect shipment costs; post-employment benefits; other long-term employee benefits and employer pension and current health insurance contributions.

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

224. During 2017, compensation provided to close members of the family of other senior management amounted to USD 0.2 million (USD 0.4 million in 2016). There was no compensation provided to close members of the family of the key management personnel in 2017 and 2016.

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

Note 11: Events after reporting date

226. WFP's reporting date is 31 December 2017. On the date of signing of these accounts by the External Auditor, there have been no material events, favourable or unfavourable, incurred between the balance sheet date and the date when the financial statements have been authorized for issue that would have impacted these statements.

Note 12: Interest in other entities

International Computing Centre

227. The International Computing Centre (ICC) was established in January 1971 pursuant to Resolution 2741 (XXV) of the United Nations General Assembly. ICC provides Information Technology and Communications services to Partners and Users in the United Nations system. As a Partner bound by the Mandate of the ICC, WFP would be proportionately responsible for any third-party claim or liability arising from or related to service activities of the ICC as specified in the ICC Mandate. At 31 December 2017, there are no known claims that impact WFP. Ownership of assets is with ICC until dissolution. Upon dissolution, the division of all assets and liabilities amongst Partner Organizations shall be agreed by the Management Committee by a formula defined at that time.

African Risk Capacity Agency

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

229. While ARC is a separate legal entity, its financial and operating policies with reference to this agreement are subject to WFP rules. Funds received under this agreement are held under an ARC Trust Fund by WFP. WFP provides technical, administrative, personnel, and project management services to ARC. The Director-General of the ARC is employed by WFP and is accountable to both the WFP Executive Director and ARC. The agreement is considered joint operation where, based on the terms of the agreement, the financial transactions of ARC are consolidated within WFP financial statements. As at 31 December 2017, the accumulated surplus held under an ARC trust fund totalled USD 17.3 million.

Section II

Cour des comptes
FRANCE

The First President

Paris, 22 MARS 2018

To the Executive Board

AUDIT OPINION

Opinion

We have audited the Financial Statements of the World Food Programme (WFP), for the 12 month period ended 31 December 2017. These Financial Statements include a Statement of Financial Position as at 31 December 2017, a Statement of Financial Performance, a Statement of Changes in Net Assets, a Statement of Cash Flow, a Statement of Comparison of Budget and Actual Amounts and Notes, including a summary of the accounting policies and other information.

In our opinion, the Financial Statements present fairly the financial position of the World Food Programme as at 31 December 2017 and the results of the operations for the period, in conformity with the International Public Sector Accounting Standards (IPSAS). The Financial Statements were prepared in accordance with the stated accounting policies and the accounting policies were applied on a basis consistent with that of the preceding financial period. All transactions that we became aware of or that we tested during our audit have been carried out in compliance with the Financial Regulations and with the authorizations granted by legislative authority.

Basis for Opinion

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

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

Management's Responsibilities for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

Didier MIGAUD

Cour des comptes
FRANCE

EXTERNAL AUDIT OF THE WORLD FOOD PROGRAMME

AUDIT REPORT

FINANCIAL STATEMENTS OF THE WORLD FOOD PROGRAMME

FOR THE YEAR ENDED 31 DECEMBER 2017

REFERENCE COUR DES COMPTES : WFP-2018-1

WFP
World Food Programme
wfp.org

TABLE OF CONTENTS

I. Objectives and scope of the audit

1. In accordance with our notification letter of 1 December 2017, a team of six external auditors (including a data analyst) conducted the audit of the financial statements of the World Food Programme (WFP) for the year ended 31 December 2017. The objective of this audit was to issue an audit opinion on WFP's financial statements for the year ended 31 December 2017. The audit work was carried out mainly at WFP's headquarters in Rome during two phases:

- an interim mission from 16 to 27 October 2017;
- a final mission from 19 February to 9 March 2018.

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

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

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

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

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

7. This report comes under the annual work plan of the External Auditor submitted to the Executive Board of WFP during its Second Regular Session of November 2017, which details the verifications to be carried out between July 2017 and June 2018. Pursuant to the terms of reference, the External Auditor must produce each year an audit report on the Financial Statements of WFP (subject to the approval of the Board) accompanied by an opinion on the accounts, two reports on the performance and the regularity of the management of WFP, also known as "performance audit reports" (submitted to the Board for consideration) and ten management letters prepared at the end of visits to the external offices (including regional bureaux and country offices). The External Auditor also validates the draft annual report on the implementation status of its previous recommendations, submitted by the Secretariat to the Board for consideration.

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

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

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

- whether the Financial Statements fairly reflect, in all material respects, WFP’s financial position at 31 December 2017 and results of operations recognized during the period, in accordance with IPSAS;
- whether the Financial Statements were prepared in accordance with the Financial Regulations and the stated accounting policies;
- whether the accounting policies applied correspond to those used in the previous year;
- whether the transactions were carried out in compliance with the Financial Regulations and legislative authority.

11. Each observation and each recommendation were discussed with the relevant staff. The audit closure meeting was held with senior management of WFP’s Finance and Treasury Division (RMF) on 8 March 2018. The management received the External Auditor’s draft report and provided feedback; this report fully takes into account its comments and answers.

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

II. List of recommendations

13. Recommendations are ranked according to their priority level:

[1] Regional bureaux in Cairo and Johannesburg and country offices in Kenya, Lebanon, Malawi, Nepal, State of Palestine, Turkey, Ukraine and Zimbabwe.

- *Priority 1*: **An essential matter requiring the immediate attention of management;**

- *Priority 2*: **A less urgent control issue requiring management attention;**

- *Priority 3*: **An issue, brought to the attention of management, pertaining to which controls could be improved.**

Field	Priority	Recommendations
Cash-based transfers	1	The External Auditor recommends continuing the implementation of the recommendations made for the 2016 fiscal year regarding cash-based transfers (CBTs): 1 by continuing to deploy the SCOPE beneficiary tracking system and its associated functionalities in terms of secure data transmission, with the goal of eventually covering 80 percent of cash-based transfers, 2 ensuring that the beneficiary data recorded in SCOPE are up to date at least once a year.
Contributions receivable	3	3 The External Auditor recommends that WFP continue its efforts to improve the audit trail by formalizing the internal controls put in place for recording donations and by documenting the controls performed as well as any corrections made affecting the recognized revenue.
WINGS enterprise resource planning software	2	4 The External Auditor recommends finalizing the implementation of the recommendations made in the 2016 IT review by completing the deployment of the GRC task separation module in WINGS.
Contributions receivable	3	5 The External Auditor recommends that WFP add to the financial resources management manual with respect to in-kind contributions by detailing the documentation that must be provided for the measurement and verification of the value of the recognized revenue (particularly as regards contributions pending (standby partner agreements) and for in-kind donations of food products and assets).
COMET programme reporting system	1	6 In order to strengthen internal control mechanisms, the External Auditor recommends that WFP ensure that each country office report all information required in COMET each month. 7 The External Auditor recommends that WFP establish a monthly reconciliation of: a) amounts of cash transfers distributed to beneficiaries appearing in WINGS and those reported in COMET; b) COMET data on goods received by partners and stock outgoings in LESS in order to substantiate the overall differences found.

III. OBSERVATIONS AND RECOMMENDATIONS

1. Follow-up on the previous recommendations

14. We reviewed the status of implementation of the nine recommendations issued during the external audit of WFP's Financial Statements for the year ended 31 December 2016. Our assessment of the level of implementation is summarized in the table below.

Tableau 1 : Implementation status of the External Auditor's recommendations relating to the audit of WFP's Financial Statements for the year ended 31 December 2016

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

15. WFP is in the process of implementing two recommendations relating to cash-based transfers (CBTs)[2] by continuing the deployment of the SCOPE (system for cash operations) beneficiary tracking system: according to data provided by WFP, SCOPE covered 40.62 percent of the amounts distributed in 2017 (compared with 30 percent in 2016) and allows its associated secure data transfer functionality to be used.

[2] Recommendations 1 and 3 in the preceding table.

16. WFP also set up a working group to develop a procedure guide for entering cash-based transfer beneficiary data into SCOPE in order to implement recommendation 2. In order to ensure that electronic cards are issued to legitimate beneficiaries, the External Auditor considers it necessary that this working group include in the procedure guide being prepared the deactivation[3] of each issued card at least once a year, as was done in the past as part of the proactive integrity reviews in Lebanon and Jordan, to enable WFP to update the beneficiary data and authenticate the cardholders.

17. **Implementation of the recommendation to "*extend, under the close supervision of headquarters, analysis of data on sales carried out by retailers and direct it to usage that enables detection of potential errors or frauds and to ensure the traceability of work carried out in this area*" has begun.** During its audit of the Lebanon office in January 2018, the External Auditor was able to assess the efforts made by this office in the analysis of retailer sales data. However, only around 45 percent of the sales data obtained by WFP's office in Lebanon could be directly analysed because of problems of incompatibility between the retailers' information systems from which the data were extracted and WFP's information system intended to analyse them. In order to prevent this problem from reoccurring when WFP implements the recommendation to extend analyses of data to other countries, a standardized computerized sales tracking system accessible to retailers participating in the CBT programme should be implemented. The External Auditor will consider this recommendation fully implemented when WFP is able to indicate the number of data analyses, the countries concerned, and the results obtained in a given year.

Recommendation 1. The External Auditor recommends that WFP continue the implementation of the recommendations made for the 2016 fiscal year for cash-based transfers (CBTs) by continuing to deploy the SCOPE beneficiary tracking system and its associated functionalities in terms of secure data transmission, with the goal of eventually covering 80 percent of WFP's CBT activity.

Recommendation 2. The External Auditor recommends that WFP continue the implementation of the recommendations made for the 2016 fiscal year for cash-based transfers (CBTs) ensuring that the beneficiary data recorded in SCOPE are up to date at least once a year.

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

[3] The deactivation is accompanied by a notification to the beneficiaries so that they show up to verify their information before their cards are reactivated.

19. However, although improvements were noted in the audit trail, there are still areas for improvement, as illustrated by the case described below. After donations are recorded in the grants management (GM) module, the WINGS enterprise resource planning software automatically records the corresponding revenue in the finance (FI) module. The External Auditor's substantive work revealed that the audit trail between GM and FI remains very difficult to follow, especially for transactions resulting in year-end corrections or recognition of deferred revenue. For example, a 2016 donation resulted in correction entries at the beginning of 2017 for 10 million United States dollars (USD) due to an incorrect initial entry in 2016. The External Auditor did not receive WFP's year-end analysis report on transfers between GM and FI, which lists corrections made for the closure of the accounts, or other details on the internal controls put in place within the Partnerships and Governance Department (PG) to ensure accurate and comprehensive recording of donations in GM. However, the reliability of the data in GM is essential to ensure that receivables are tracked properly, since WFP expects donors to pay according to the amounts and schedules recorded in GM.

Recommendation 3. The External Auditor recommends that WFP continue its efforts to improve the audit trail by formalizing the internal controls put in place for recording donations and by documenting the controls performed as well as any corrections made affecting the recognized revenue.

20. WFP's Information Technology Division (ICT) indicated that it had resolved the areas for improvement identified during the IT audit by the External Auditor in December 2016 on IT general controls (ITGC) by implementing *fire fighters*[4] access instead of *SAP All* access and deleting profiles of users who left WFP in 2016. With regard to application controls, WFP undertook the deployment of the GRC task separation module in WINGS and the creation of a mandatory coding system to ensure the traceability of the reasons for removing an invoice from the invoice tracking system. These actions should be completed in 2018.

Recommendation 4. The External Auditor recommends finalizing the implementation of the recommendations made in the 2016 IT review by completing the deployment of the GRC task separation module in WINGS.

[4] The *fire fighter* functionality provides extended rights for a limited time to staff to handle a system crash in order to prevent data loss and to put the system back in operation.

2. Overview of WFP'S financial position at 31 december 2017

2.1. Presentation of the simplified Statement of Financial Position

Table 2: Presentation of the simplified Statement of Financial Position (*in USD million*)

	31 12 2017	31 12 2016 (restated)	31 12 2016
Current assets			
Cash and investments	2 475	1 954	1 954
Contributions receivable	3 524	2 757	2 757
Inventories	705	643	643
Other	136	127	127
Total current assets	***6 840***	***5 481***	***5 481***
Non-current assets			
Contributions receivable	378	488	488
Investments	627	506	506
Property, plant and equipment and intangible assets	134	146	146
Total non-current assets	***1 139***	***1 141***	**1 141**
TOTAL ASSETS (a)	***7 979***	***6 622***	***6 622***
Current liabilities			
Deferred revenues	1 550	487	487
Vendor payables and other liabilities	704	578	578
Total current liabilities	**2 254**	**1 065**	**1 065**
Non-current liabilities			
Deferred revenues	378	499	499
Employee benefits	841	695	653
Loan	73	78	78
Total non-current liabilities	***1 292***	***1 272***	***1 230***
TOTAL LIABILITIES (b)	**3 546**	**2 337**	**2 295**
NET ASSETS (a)–(b)	**4 434**	**4 285**	**4 327**

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

21. WFP's simplified Statement of Financial Position, presented above, shows a solid financial position with net assets of USD 4.43 billion at 31 December 2017, an increase of USD 149 million compared with the figure at 31 December 2016 as indicated in the previous Financial Statements. This financial strength is also illustrated by the composition of the assets on the Statement of Financial Position at 31 December 2017, which, out of a total of USD 7.98 billion, includes USD 3.10 billion in cash and cash equivalents and short-term and long-term investments, i.e., 39 percent of the total for the Statement of Financial Position.

22. The simplified Statement of Financial Position includes a "*31 12 2016 restated*" column corresponding to the adoption of the new standard IPSAS 39 on employee benefits, which WFP decided to implement early in 2017. This new accounting standard no longer permits the impact of actuarial changes to be smoothed by applying the corridor approach, which means that they are now fully recognized in the year in which they are detected. Its implementation must be carried out retrospectively, i.e., by restating the Statement of Financial Position for the previous year. In the column "*31 12 2016 restated*", this change results in an increase in liabilities for employee benefits payable of USD 42 million and a decrease of the same amount in net assets.

23. WFP's non-current liabilities include employee benefits liabilities (the largest portion of which concerns the after-service medical plan), which totalled USD 841 million at the end of 2017. WFP has set up a long-term investment in order to fund these liabilities, pursuant to the Executive Board's decision in December 2010. The balance of this investment stood at USD 573 million at 31 December 2017, and the signs indicate that the current funding mechanism will allow the obligations to be covered by 2027 at the latest, consistent with the 2010 decision.

2.2 ***<u>Presentation of WFP's simplified Statement of Financial Performance</u>***

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

	2017	2016 (restated)	2016
<u>Revenue</u>			
Contributions	6 000	5 771	5 771
Other revenue	431	138	138
Total revenue	***6 431***	***5 909***	***5 909***
<u>Expenses</u>			
Food commodities distributed	2 198	2 051	2 051
Cash-based transfers distributed	1 446	882	882
Distribution and related services	664	641	641
Employee costs	884	826	826
Other expenses	1 027	967	967
Total expenses	***6 219***	***5 367***	***5 367***
SURPLUS/(DEFICIT) FOR THE YEAR	***212***	**542**	**542**

Source: Statement II of WFP's Financial Statements

24. The simplified Statement of Financial Performance includes a "*2016 restated*" column due to the retrospective adoption of the new accounting standard IPSAS 39 on employee benefits. However, the implementation of this new standard has only a minor impact (USD 0.3 million in employee costs) on the 2016 Statement of Financial Performance, as the bulk of the change in the balance of employee benefits on the liabilities side of the Statement of Financial Position is offset in net assets and not in the Statement of Financial Performance.

25. 2017 was characterized by a very high level of contributions, totalling USD 6 billion, i.e., USD 229 million more than the 2016 figure, which itself was up by USD 1.1 billion compared with the 2015 figure.

26. The difference between revenue and expenses resulted in a surplus of USD 212 million, which is still less than the surplus in 2016. This situation is not due to WFP's inability to employ the contributions received for its operations, but to a seasonal effect: the level of contributions recorded in the final quarter of 2017 was high but came too late to enable commitment of the funds before the end of the year.

27. The presentation of the expenses does not make it possible to determine precisely the portion of expenses directly attributable to beneficiaries of food assistance provided by WFP. It is possible to distinguish expenses related to food distributions and CBTs, but the Statement of Financial Performance does not enable the portion of employee costs and logistics costs directly related to distributions to be separated out from overheads, in other words costs that do not change according to production. Food distributions and CBTs to beneficiaries totalled USD 3.64 billion, i.e., USD 711 million more than in 2016 and 58 percent of total expenses (an increase compared with the 55 percent observed in 2016).

28. As regards CBTs, out of a total of USD 1.45 billion, USD 769 million (53 percent of the total) was committed to the Syrian crisis, as this means was deemed particularly appropriate to needs related to this crisis. The very sharp increase in expenses related to this innovative activity (USD 564 million between 2016 and 2017) is explained by the USD 435 million increase in cash-based transfers in the "Syria+5" operation and Somalia. Nevertheless, WFP's main focus remains food distributions, which represented USD 2.2 billion in 2017, an increase of USD 147 million from 2016.

29. Employee costs increased between 2016 and 2017, mainly due to the increase in WFP staffing: 16,218 employees at end-2017, i.e., 593 people more than at end-2016. This figure includes 3,442 employees recruited internationally (148 more than end-2016) and 12,776 employees recruited locally (445 more than end-2016).

3. Main points on the financial statements

3.1 Adoption of IPSAS 39

30. WFP decided to apply the new standard IPSAS 39 on employee benefits early and analysed the implications for the Financial Statements together with its actuary, AON Hewitt. The main change is the end of the corridor approach, which allowed the impact of actuarial differences to be deferred. All net actuarial differences are now recognized in the year when they are detected, which led to the restatement of the Statement of Financial Position as at 31 December 2016, increasing the liability arising from employee benefits payable by USD 42 million. Another important change is that net defined benefit liabilities are recognized with an offset to net assets and no longer to the Statement of Financial Performance.

31. **The change in accounting method related to the adoption of IPSAS 39 is properly described in Note 1 to the financial statements (paragraphs 24 to 27). The External Auditor agrees with the manner in which IPSAS 39 was implemented.**

3.2 Adoption of IPSAS 34, 35, 36, 37 and 38

32. The application of the new standards IPSAS 34, 35, 36, 37 and 38 on separate financial statements, investments in associates and joint ventures, joint arrangements, consolidation and disclosures to be produced in the notes is mandatory for 2017. In order to comply with this obligation, WFP analysed the impact of these new standards on its financial statements. The impact is limited to additional information in the notes: in Note 12 on the treatment of WFP's interests in the International Computing Centre and in the African Risk Capacity agency in accordance with IPSAS 38 on Disclosure of Interests in Other Entities. Standard IPSAS 34 on Separate Financial Statements, IPSAS 36 on Investments in Associates and Joint Ventures, and IPSAS 37 on Joint Arrangements have no impact for WFP, given that no items falling within the scope of these standards were identified. IPSAS 35 on Consolidated Financial Statements also has no impact, given that the entities falling within this scope, such as the African Risk Capacity agency, were already consolidated in WFP's financial statements. **The External Auditor agrees with the manner in which the new standards IPSAS 34, 35, 36, 37 and 38 were implemented.**

4. Main internal control points

4.1 Observations from audits conducted in country offices

33. Each year, the External Auditor conducts 10 compliance audits in WFP's country offices and regional bureaux, providing an opportunity to review certain aspects of internal control useful for financial auditing. The points mentioned below have no significant impact and do not constitute serious internal control deficiencies. However, they illustrate the difficulty of maintaining a high level of financial internal control in a highly decentralized organization such as WFP operating in high-risk environments.

34. During these compliance audits, it appeared that the internal control of capital assets could be improved by performing physical inventories more frequently. When such physical inventories are conducted, they reveal discrepancies with the accounting records that should be analysed (such as the physical inventory conducted by the Johannesburg regional bureau on 25 October 2017 and the physical inventory by the Cairo regional bureau on 29 October 2017, which identified lost or damaged assets). When they are not conducted, or have not been conducted recently, and the External Auditor looks for certain assets appearing in the accounting records, it is difficult to find them, and discrepancies appear (in the case of the Kenya office). In some cases, the risk of damage to assets may come from the very poor conditions of the premises (case of the Nepalgunj sub-office in Nepal).

35. From time to time, the basic controls may be ineffective, due to the lack of sufficient training of the staff in place. The audit of the Cairo regional bureau revealed that it had no daily petty cash count as well as disbursements above the authorized maximum. The audit of the Nepal bureau also showed that a cash fund was maintained by a person who had not been formally designated in this role.

36. The increasingly frequent use of external service providers for warehouse management should be accompanied by sufficient means of control by WFP, in particular to ensure that storage conditions are not likely to lead to the deterioration of certain food products. The risk may be due to an unsuitable temperature (no thermometer in the Harare warehouse in Zimbabwe) or collocation with a non-food stock that may pose a risk of contamination (storage of Chromite in the Durban warehouse in South Africa, although in this case the laboratory test concluded that there was no contamination).

4.2 Contributions receivable and recognition of revenue

4.2.1. Tracking contributions receivable

37. The External Auditor's work, which includes a procedure for direct confirmation of WFP's contributions receivable from certain donors, found that the donor response rate was satisfactory (14 responses received out of 21 direct confirmations sent for the audit of the 2017 financial statements) and enabled WFP to carry out useful verifications.

38. WFP tracks receivables over the life cycle of contributions, particularly in order to follow up with donors in arrears. However, the External Auditor received proof of the existence of follow-up on only 32 out of the 91 contributions corresponding to an overdue receivable in 2017.

39. With the growth in WFP's activity (USD 3.9 billion in contributions receivable at end-2017, compared with USD 3.3 billion at end-2016), the procedure of direct confirmation of receivables, as implemented in the context of the External Auditor's work, is important because it allows WFP to identify any discrepancies between recognized receivables and amounts recognized by donors, which, if they are not analysed in time, may lead to payment delays that would be detrimental to cash flow or even write-offs.[5]

40. **The External Auditor suggests that WFP establish a biannual procedure for direct confirmation of its receivables with its 20 largest donors for earlier detection and investigation of any discrepancies between the recognized receivables and the amounts recognized by donors. WFP does not intend to implement this procedure as it considers that the costs entailed would exceed the expected benefits. Consequently, the External Auditor has not formulated a recommendation on this point.**

4.2.2. Quality of financial information

41. Note 2.3 to the Financial Statements includes a table detailing the contributions receivable by accounting year of recognition. It shows USD 3,286.1 million in receivables for 2017 in the 2017 financial statements compared with USD 2,760.3 million for 2016 in the 2016 financial statements, a 19 percent increase between 2016 and 2017. The 2017 line of this table presents the receivables recognized in revenue in 2017 but also the receivables recognized in deferred revenue. This information given to readers about the credit risk assumed by WFP is therefore insufficient, as it does not present receivables by year of expected payment and does not allow late payments to be identified. In order to improve the financial information on this point, the External Auditor proposed detailing the receivables by year of expected payment in Note 2.3 to show the receivables not yet due that will not be payable until future years. This proposal was not followed by the Finance and Treasury Division in order to avoid making the already dense financial information given in the financial statements more cumbersome.

42. Contribution revenues recognized in 2017 totalled USD 6,192.8 million,[6] up 5.44 percent from 2016 when it totalled USD 5,873.5 million. Of these revenues, although they do not have a formal condition as defined by IPSAS 23, there was still USD 36 million in pending allocation grants as of 31 December 2017 due to the lack of a decision by the donor on how the contribution should be used or for other administrative reasons. However, information on the pending allocation grants is not provided in the notes, although it would remind donors of the amount of revenues still frozen due to the lack of decision on their part or for other reasons. In order to improve the financial information on this point, the External Auditor proposed indicating in Note 3 the amount of revenues recognized in 2017 but still pending allocation due to lack of instructions from the donor as to how the contribution must be used or for other administrative reasons. This proposal was not followed by the Finance and Treasury Division in order to avoid making the already dense financial information given in the financial statements more cumbersome.

[5] Early identification of a late payment may, in some cases, allow detection of a donor's reluctance to pay and help resolve disagreements by inducing WFP to provide additional supporting documents

[6] Before reduction and refund provisions.

4.2.3. Recognition of in-kind contribution revenue

43. Contributions in kind accounted for USD 384.1 million in 2017, down 19 percent from 2016. Further information should be added to section 12.5.13 on in-kind contributions of the Financial Resource Management Manual. The manner of measuring and recognizing in-kind contributions (donations of food products and assets or provision of staff and equipment under standby partner agreements) is not specific enough. The recognition of in-kind contributions obtained through partnership agreements should be based on a detailed assessment of their amounts. With regard to donations of food products and assets, they must be recorded at their fair value.[7] The value of the in-kind contribution should be verified, which is not done by WFP, and this verification should be documented when the corresponding revenue is recognized. The External Auditor feels that these key control points should be included in the Financial Resources Management Manual when information is added to its section devoted to in-kind contributions.

Recommendation 5. The External Auditor recommends that WFP add to the Financial Resources Management Manual with respect to in-kind contributions by detailing the documentation that must be provided for the measurement and verification of the value of the recognized revenue (particularly as regards contributions under standby partner agreements for in-kind donations of food products and assets).

4.3 ***COMET programme online reporting system***

44. WFP directive RM2016/004 of 12 April 2016 aims to make the implementation of a monthly online programme reporting system mandatory for all WFP country offices: the COMET tool. Its purpose is to enable managers in the field and at Headquarters to have up-to-date information on the performance of a programme in real time.

45. The goal is to provide quality evidence on the execution of programmes and to facilitate decision-making in a standardized format.

4.3.1. Frequency of tool input

46. Despite the high stakes and the mandatory nature of this directive, some country offices, such as those in Lebanon and Turkey, do not enter data into COMET each month and do so only at the end of the year.

47. Given that COMET is not always updated each month, the External Auditor found that Lebanon had significant unexamined upwards and downwards variations in the amounts distributed between January and March 2018. This situation undermines the expected transparency goals.

Recommendation 6. In order to strengthen the internal control system, the External Auditor recommends that WFP ensure that each country office enters all required information in the COMET system each month.

[7] Standard IPSAS 23

4.3.2 Reconciliation between data in COMET and data in WINGS and LESS

48. Paragraph 19 of Directive RM2016/004 specifies that data on beneficiaries' needs must be entered into COMET at the same time as the terms of partnerships are recorded in WINGS. The goal is to enable periodic analysis and reconciliations between the financial, logistical and operational information provided by the two systems.

49. The reconciliation of financial, logistical and operational information is one of the key controls of the internal control system. It allows regular consistency checks to be performed on the basis of reliable indicators and any anomalies to be detected in advance.

50. The reconciliation between data from three difference sources – the accounting records with WINGS, the COMET online reporting system, and the statements provided by partner financial institutions – must serve as a strong internal control. In order to permit this reconciliation, the External Auditor believes that the amounts reported in the COMET system must include only the amounts withdrawn each month by the beneficiaries, whereas the WINGS accounting tool indicates the amount loaded on the e-cards. The difference between these two amounts must theoretically match the unused balances remaining on the beneficiaries' cards. The implementation of this monthly reconciliation would permit the identification of potentially unused cards and the analysis of the source of this situation.

51. The data entered into COMET for the food stock made available to cooperating partners must theoretically match the corresponding stock outflows in the LESS stock tracking system. COMET currently offers two reports allowing data from LESS to be reconciled with the data entered into COMET. This reconciliation must be carried out in each country office for the validation of the monthly distribution reports produced by the cooperating partners, as indicated in the COMET user manual. However, the implementation of this reconciliation at headquarters, on a monthly basis and for all countries, would help ensure that there are no unjustified discrepancies. The External Auditor considers that it comprises a strong internal control enabled by COMET and that henceforth the role of supervision by headquarters cannot be limited to ensuring technical support to the country offices and regional bureaux and a quarterly review, based on statements by the network.

Recommendation 7. The External Auditor recommends implementing a monthly reconciliation: a) between the cash-based transfer amounts distributed to beneficiaries indicated in WINGS and the amounts reported in COMET; b) between the COMET data on goods received by partners and the logistics data in LESS and then justifying all discrepancies found.

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

5.1 Prevention of fraud risk

52. As highlighted in the External Auditor's recent report on losses associated with food supplies, WFP is exposed to an inherent risk of fraud due to its activity, the regions in which it operates, the nature of its assets, the very decentralized nature of its organization and the large number of partners with which it interacts. Frauds are regularly detected as shown by the annual reports of the Inspector General. In 2017, the Inspector General reported to the External Auditor that he was aware of nine frauds or presumptive frauds for a total of USD 0.538 million. These were only the cases of fraud that WFP's current resources were able to detect and for which the investigations had made sufficient progress as of the closing date of the accounts to reach a conclusion on a financial impact on the 2017 fiscal year. Cases of fraud that by nature do not cause financial loss to WFP are not indicated. In addition, during the audit of the Kenya office, the External Auditor witnessed the diversion of several bags of food by a truck belonging to a company contracted by WFP since May 2017 in Mombasa. As a result of this incident, WFP pursued remedies against this provider, which took disciplinary measures against the driver in question and implemented escort measures to limit the risk of recurrence.

53. The role of the External Auditor is not to investigate frauds or to provide any assurance on the matter whatsoever. Nevertheless, the External Auditor relies on his appreciation of the risk of fraud to define his audit strategy and his work in application of ISA 240. In view of what was set out in the previous paragraph, the External Auditor considered that inherent fraud risk was high at WFP. As such, he adapted his procedures accordingly, in particular to take into account the unpredictability of a portion of the accounting entries tested and by conducting data analyses on cash disbursements in 2017 with the help of Benford's law on abnormal number distributions. This work did not result in the detection of new potential cases of fraud.

54. The External Auditor observes that WFP is equipped with significant resources to detect and punish fraud, with, in particular, a zero-tolerance policy, investigations conducted by the Inspector General and proactive integrity reviews.

55. Nevertheless, it is necessary to reinforce the elements of internal control that could help prevent and detect potential fraud. Implementation of the recommendations formulated in Part III.1 of this report is likely to assist in reducing the risk of fraud, particularly the recommendation to continue deployment of the SCOPE system to secure the data of beneficiaries of WFP's distributions, the recommendations on taking advantage of the data reconciliations made possible by deploying the COMET online reporting system, and the recommendation on completing the implementation of the GRC task separation module in WINGS.

5.2 Write-offs and ex gratia payments

56. On 22 March 2018 WFP formally submitted a note to the External Auditor signed by the Executive Director listing all the ex gratia payments and amounts written off of losses of cash, stocks of food commodities, other items and other assets as per Article 12.4 of the Financial Regulations.

57. The amount of commodities written off totalled USD 14.2 million in 2017 versus USD 21.1 million in 2016, with the main losses in 2017 occurring in Yemen and the Syrian Arab Republic.

58. In the note dated 22 March 2018, these write-offs were formally authorized in advance by the Executive Director prior to the closing of the accounts, in accordance with the provisions of article 12.4 of the Financial Regulations. This constitutes an improvement on the situation in the preceding report, referring to the 2016 financial year. By contrast, as of the cut-off date, the write-offs of food commodities had not undergone a systematic detailed analysis, and there was no plan of action to limit the future risk even though article 12.4 provides that "the Executive Director may authorize the write-off of funds, revenues and other assets after thorough investigation." It should be noted that the report on post-delivery losses for 2016, including this analysis, was not released until 25 May 2017, more than a month and a half after the cut-off date of the accounts having taken these write-offs into account. **As the External Auditor already indicated in the 2016 financial statement audit report, the write-offs should only be recognized after formal authorization from the Executive Director, on the basis of the annual report on post-delivery food losses, after full investigation, in accordance with the provisions of article 12.4 of the Financial Regulations.**

59. Apart from write-offs of food stocks, all ex gratia payments and write-offs in 2017 represented a total of USD 10.9 million, up significantly from USD 6.3 million in 2016. The main amounts written off relate to the settlement of a dispute with a State for USD 5.6 million, receivables disputed by a donor for USD 2.8 million and capital assets destroyed during riots in South Sudan for a net value of USD 846,000.

IV. Acknowledgements

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

End of audit observations.

Appendix: Audit adjustments and requested modifications to the Financial Statements

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

62. The proposed additions to Note 2.3 to the Financial Statements, to indicate receivables not due until future years, as well as Note 3, to indicate pending allocation grants, were not accepted by WFP's Finance and Treasury Division, in order to avoid making the already dense financial information given in the financial statements more cumbersome.

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

Acronyms used in the document

ARC	African Risk Capacity
ASHI	After Service Health Insurance
ASMP	After-Service Medical Plan
BMIP	Basic Medical Insurance Plan
CBT	cash-based transfer
COMET	country office tool for managing effectively
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CSP	country strategic plan
DOC	direct operational costs
DRC	Democratic Republic of the Congo
DSC	direct support costs
EMG	Executive Management Group
ERM	enterprise risk management
FAO	Food and Agriculture Organization of the United Nations
FI	finance module
GA	General Assembly
GCMF	Global Commodity Management Facility
GM	grants management module
HLCM	High-Level Committee on Management
ICC	International Computing Centre
ICSP	interim country strategic plan
IPSAS	International Public Sector Accounting Standard
IRA	Immediate Response Account
IRM	Integrated Road Map
ISC	indirect support costs
MICS	Medical Insurance Coverage Scheme
MSCI	Morgan Stanley Capital International
NGO	non-governmental organization
OR	Operational Reserve
PIR	proactive integrity review
PP&E	property, plant and equipment
PSA	Programme Support and Administrative (budget)
PSAEA	PSA Equalization Account
SDG	Sustainable Development Goal
SG	Secretary-General

SR	Strategic Result
STRIPS	United States Treasury Separate Trading of Registered Interest and Principal of Securities
TPA	third-party agreement
UNJSPF	United Nations Joint Staff Pension Fund
UNORE	United Nations Operational Rates of Exchange
USD	United States dollar
WINGS	WFP Information Network and Global System
ZAR	South African Rand