Executive Board
Annual Session

Rome, 25–28 May 2015

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For approval

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AUDITED ANNUAL ACCOUNTS, 2014

NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for approval.

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

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The Secretariat is pleased to submit the Audited 2014 Financial Statements together with the Audit Opinion and the Report by the External Auditor. The financial statements have been prepared under International Public Sector Accounting Standards. The External Auditor has completed the audit in accordance with the International Standards of Auditing, and has provided an unqualified audit opinion.

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

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

The Secretariat's responses to the External Auditor's recommendations are contained in "Report on the Implementation of the External Auditor Recommendations" (WFP/EB.A/2015/6-I/1).

DRAFT DECISION*

The Board:

i) approves the 2014 Annual Financial Statements of WFP, together with the Report of the External Auditor, pursuant to General Regulation XIV.6 (b);

ii) notes the funding from the General Fund of USD 4,507,782.37 during 2014 for the write-off of cash losses and receivables; and

iii) notes post-delivery losses of commodities during 2014 forming part of the operating expenses for the same period.

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

SECTION I

Executive Director's Statement

INTRODUCTION

1. In accordance with Article XIV.6 (b) of the General Regulations and Financial Regulation 13.1, I have the honour to submit for the approval of the Executive Board (the Board) the financial statements of the World Food Programme (WFP), prepared in accordance with the International Public Sector Accounting Standards (IPSAS), for the year ended 31 December 2014. The External Auditor has given his opinion and report on the 2014 financial statements, both of which are also submitted to the Board as required by Financial Regulation 14.8 and the Annex to the Financial Regulations.

2. WFP carries out its mandate within a results-based framework ensuring effectiveness, accountability and transparency. The Strategic Plan (2014–2017) provides a framework for WFP's operations and its role in achieving a world with zero hunger. This framework is supported by the financial reporting and management information, a key enabler to allow WFP to deliver its mandate.

3. 2014 was a particularly challenging year for WFP. The increasing scale and growing complexity of crises resulted in increased demand for WFP's assistance and services. Five concurrent Level 3 emergencies together with six ongoing Level 2 emergencies amounted to an unprecedented challenge for the organization, its staff and its partners. The recognition by the global community of WFP's abilities was demonstrated in the volume of contributions raised during 2014: some USD 5,381 million, an increase of 23 percent over 2013. A significant part of this was for the Syrian Arab Republic, Iraq, South Sudan, the Central African Republic and our contribution to the Ebola disease response.

4. WFP, as a fully voluntarily funded organization, is committed to maintaining the highest standards of financial and budgetary management and financial reporting. WFP has continued to strengthen transparency and accountability, financial risk management and internal control during 2014.

FINANCIAL AND BUDGET ANALYSIS

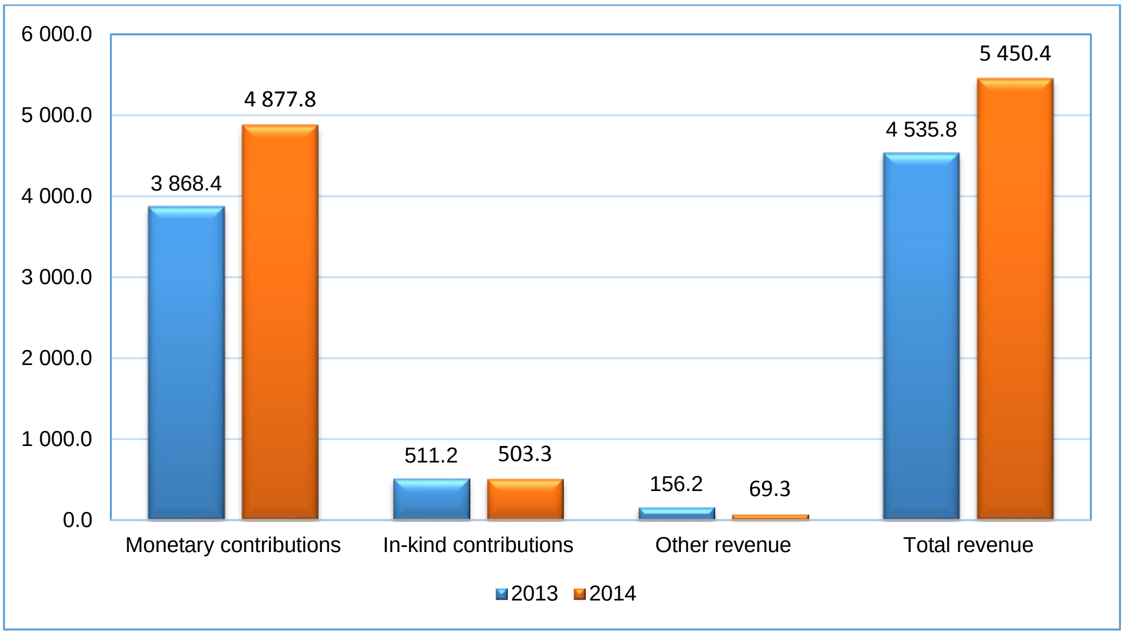
Summary

5. The financial and budget analysis highlights the increased levels in 2014 of revenue, expenses and budget. The analysis indicates the financial strength of WFP in terms of net assets, fund balances and reserves, which show an increase over 2013. The analysis reflects the increasing demand for WFP services to meet the critical needs of beneficiaries.

6. WFP's financial reporting in line with IPSAS recognizes contribution revenue when confirmed in writing and recognizes expenses when food commodities or cash and vouchers are delivered. There is an inherent time-lag between the recognition of revenue and the recognition of expense. Resources available for use in 2014 therefore consisted of the fund balances at the end of 2013 and new contributions confirmed by donors during 2014. Consequently, expenses in any one year may be higher or lower than the revenue in that year as WFP utilizes or replenishes its fund balances.

2014 Financial Performance

Figure 1: Revenue for the period ended 31 December 2014 (*USD million*)



7. Total revenue in 2014 was USD 5,450.4 million, an increase of USD 914.6 million or 20 percent from the revenue of USD 4,535.8 million in 2013.

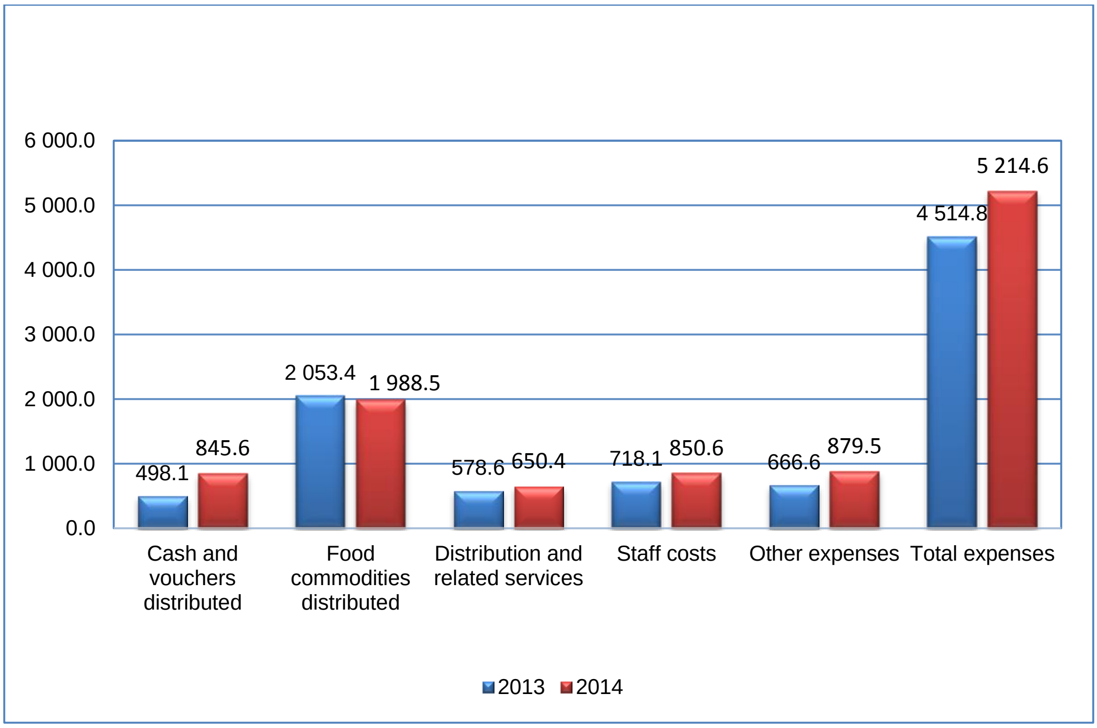
8. The increase is mainly due to the increase in monetary contributions of USD 1,009.4 million – 26 percent more than in 2013.

9. The elements of other revenue amounting to USD 69.3 million in 2014 comprised:

- currency exchange differences – USD (64.7) million loss;
- return on investments – USD 1.1 million; and

- other revenue, generated from provision of goods and services and proceeds from sale of damaged commodities and other unserviceable properties – USD 132.9 million.

Figure 2: Expenses for the period ended 31 December 2014 (*USD million*)



10. In 2014, WFP's expenses amounted to USD 5,214.6 million, an increase of USD 699.8 million – 16 percent – from 2013.

11. Cash and voucher expense increased to USD 845.6 million from the 2013 level of USD 498.1 million. An increase of USD 347.5 million or 70 percent is largely due to the use of cash and vouchers in the response to the Syrian crisis.

12. Food commodities distributed in 2014 remained at the same level as 2013 (3.2 million mt) while the value of commodities distributed of USD 1,988.5 million was three percent lower. Fifty-three percent of the food commodities distributed (both in value and tonnage) are attributable to WFP's large-scale operations in Ethiopia, the Sudan, Pakistan, South Sudan, Kenya and to the Syrian Arab Republic emergency-related projects.

13. Staff costs increased to USD 850.6 million from the 2013 level of USD 718.1 million, mainly because of the increase in the liabilities pertaining to locally recruited staff determined by actuarial valuation and recorded as an expense in 2014.

14. Other expenses in 2014 were:

a) supplies, consumables and other running costs – USD 183.5 million;
b) contracted and other services – USD 572.8 million;
c) finance costs – USD 2.4 million;
d) depreciation and amortization costs – USD 50.3 million; and
e) other expenses – USD 70.5 million.

Surplus Analysis

15. In 2014 the surplus of revenue over expenses was USD 235.8 million compared to USD 21.0 million in 2013. The increase of USD 214.8 reflects the timing of revenue and expense recognition (mentioned in paragraph 6) and:

a) the increase in contributions of USD 1,001.5 million from USD 4,379.6 million in 2013 to USD 5,381.1 million in 2014; and

b) an increase in spending of USD 699.8 million from USD 4,514.8 million in 2013 to USD 5,214.6 million in 2014. This increase mainly reflects increased distribution to WFP beneficiaries – an increase in cash and voucher assistance slightly offset by a decrease in food assistance.

Financial Position at the End of 2014

Table 1: Summary of Financial Position at 31 December 2014 (*USD million*)

	2014	2013
Current assets	4 476.6	4 012.6
Non-current assets	676.1	719.8
TOTAL ASSETS	**5 152.7**	**4 732.4**
Current liabilities	(585.3)	(566.2)
Non-current liabilities	(644.7)	(493.5)
TOTAL LIABILITIES	**(1 230.0)**	**(1 059.7)**
TOTAL NET ASSETS	3 922.7	3 672.7
Fund Balances	3 591.3	3 400.2
Reserves	331.4	272.5
TOTAL FUND BALANCES AND RESERVES	**3 922.7**	**3 672.7**

16. At 31 December 2014 WFP's net assets totalled USD 3,922.7 million, confirming a healthy overall financial position. Of these net assets (Fund Balances and Reserves), USD 3,167.1 million relate to the Programme's projects, representing approximately six months of operational activity (six months in 2013). The balance pertains to the General Fund, Special Accounts, Reserves, Bilateral Operations and Trust Funds. Operational fund balances relate to donor support primarily directed to specific programmes in different stages of implementation, with expenses and related reduction in fund balance only recognized when food commodities and cash and vouchers are distributed. Growth in Reserves in 2014 was due to a USD 68.5 million increase in the Programme Support and Administrative (budget) (PSA) Equalization Account, partly offset by a reduction in the Immediate Response Account.

17. Total cash and short-term investments increased by USD 239.8 million or 17 percent from USD 1,436.2 million in 2013 to USD 1,676.0 million in 2014. The increase is mainly due to the higher levels of contribution revenue in 2014. WFP's cash and short-term investments included in the Programme Category Funds segment of USD 1,054.8 million cover three months of operational activity, as in 2013.

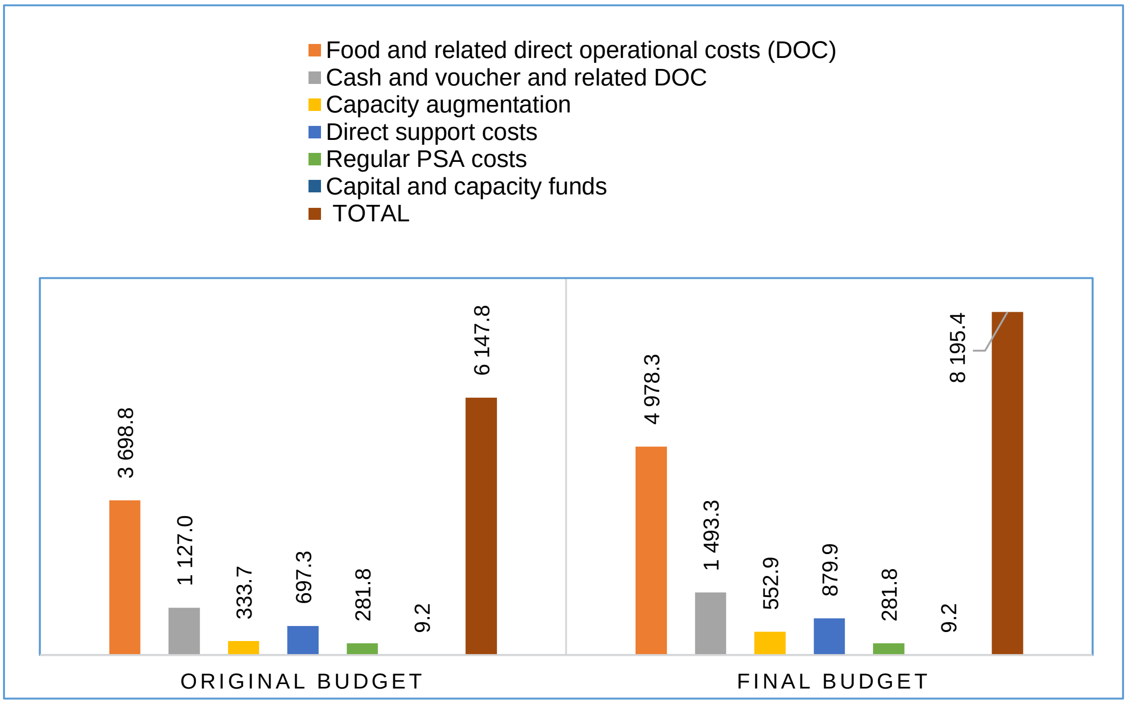
18. Contributions receivable increased by USD 253.1 million or 13 percent from USD 1,939.8 million in 2013 to USD 2,192.9 million in 2014. The increase is mainly due to the increased levels of contribution revenue in 2014.

19. The value of WFP's food commodity inventory at the end of 2014 decreased by USD 85.8 million or 13 percent from the 2013 value mainly due to a reduction in stocks held by 0.2 million mt or 18 percent from the 2013 value (1.1 million mt in 2013 compared to 0.9 million mt in 2014). Using the projected operational requirements in the Management Plan (2015–2017) the 0.9 million mt of food commodity in inventory represents four months of operational activity.

Budgetary Analysis

Basis of the budget

Figure 3: Budget for the period ended 31 December 2014 (*USD million*)

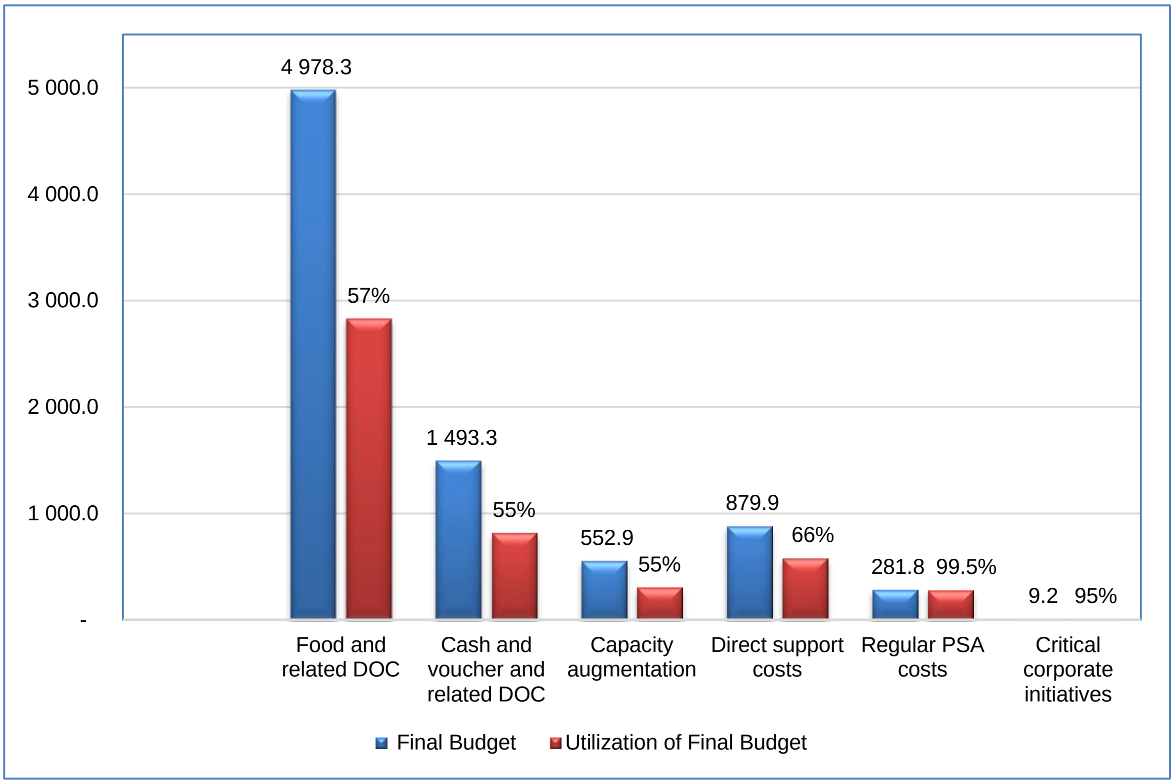


20. The budget figures for direct project costs and indirect costs (PSA budget), which are disclosed in *Financial Statement V – Statement of Comparison of Budget and Actual Amounts* are derived from the Programme of Work in the Management Plan (2014–2016). The Management Plan reflects the total of direct and indirect cost budgets approved by the Board or through authority it has delegated, and broadly is needs-based. Resources are made available for direct project costs when contributions are confirmed by donors for approved projects and through advances from the advance financing facilities. Resources are made available to meet indirect costs through the approval of the Management Plan.

21. In the Management Plan (2014–2016) presented to the Board in November 2013 the projected 2014 Programme of Work was USD 6,147.8 million. This is disclosed in Financial Statement V as "Original Budget". By the end of 2014 the Programme of Work had expanded to reflect changes in project needs. The increased requirements to respond to the Syrian crisis were USD 1,186.0 million, amounting to some 58 percent of the total increase (due to the uncertainty at the time of the Management Plan preparation only six months of needs for the Syrian crisis were included). South Sudan accounted for 26 percent of the increase in needs. Other notable increases were for the Ebola disease response in West Africa and conflicts in Iraq and the Central African Republic. The final 2014 Programme of Work was one third higher at USD 8,195.4 million, an increase of USD 2,047.6 million. This is disclosed in Financial Statement V as "Final Budget".

Utilization of the budget

Figure 4: Utilization of the final budget for the period ended 31 December 2014



22. WFP can use resources when contributions are confirmed to approved projects, or funds are provided through advance financing facilities. Purchases of commodities from the Global Commodity Management Facility can be made by projects using both sources. Budgetary utilization within the year is constrained by the amount, timing and predictability of contributions, as well as inherent operational constraints. In 2014, WFP's final direct project cost budget was USD 7,904.4 million. Utilization of the final direct project cost budget in 2014 was 57 percent, reflecting these constraints.

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

- food and related direct operational costs (DOC) at 57 percent;
- cash and vouchers and related DOC at 55 percent;
- capacity augmentation at 55 percent; and
- direct support costs (DSC) at 66 percent.

24. Cash and vouchers (C&V) continues to grow as a transfer modality for WFP. Cash and vouchers represented 18 percent of the original budget (compared with 9 percent in the previous financial period), and 18 percent of the final budget (14 percent in the previous financial period). The sizeable increase in the cash and vouchers is mostly attributable to the programmatic response for Syrian refugees in Egypt, Iraq, Jordan, Lebanon and Turkey.

25. The final PSA budget consisted of USD 281.8 million for regular expenditure and USD 9.2 million for critical corporate initiatives. Of the final approved regular PSA budget 99.5 percent was utilized by 31 December 2014. Of the final approved critical corporate initiatives, 95 percent was utilized at 31 December 2014.

ENHANCING TRANSPARENCY AND ACCOUNTABILITY

26. WFP has prepared IPSAS-based Financial Statements since 2008. Adherence to these internationally recognized accounting standards has ensured that WFP produces more timely, relevant and useful financial reporting, thereby improving transparency and accountability in the management of resources.

27. WFP continues to work closely with other United Nations system organizations, through the High-Level Committee on Management task force on IPSAS. This provides a platform for discussion on IPSAS issues with a view to achieving consistency in the application of new IPSAS developments and enhancing comparability of financial reporting.

28. The Executive Management Group (EMG) meets regularly to discuss policy and strategic issues, including IPSAS-based Quarterly Financial Statements, which cover WFP's financial performance, financial position and cash flows, with supporting qualitative analysis and key financial performance metrics. This has strengthened senior management focus on financial management issues and allowed risks to be identified.

29. A Statement on Internal Control is issued with the annual financial statements and provides specific assurance on the effectiveness of internal control. WFP remains one of the few United Nations agencies and programmes to provide this level of assurance to its governing body.

30. Enterprise risk management (ERM) is integrated with the organizational performance management and is one of the key components of our internal control framework. The ERM framework defines risks as contextual, programmatic or institutional and includes mechanisms for identifying appropriate risk responses under each category. All WFP offices manage their respective risk registers, escalating risks as required in line with existing managerial structures. Risks identified as impacting and adversely affecting the achievement of programme and organizational objectives are included in the Corporate Risk Register. Oversight of the corporate risks is mandated to the EMG.

31. The Assistant Executive Director (AED), Resource Management (RM) and Chief Financial Officer (CFO) ensures that: a) the concepts of strong managerial control are firmly embedded in the organization's culture; and b) a clear action plan exists for addressing internal control issues raised in the annual statement.

32. As an important component of internal control the Secretariat ensures effective follow-up of the recommendations of the internal and external oversight bodies and reports regularly to the WFP Audit Committee on outstanding recommendations and actions taken or proposed to address high risk recommendations.

33. WFP has adopted clear policies related to the public disclosure of key oversight information. Since late 2012, Internal Audit and Inspection reports are posted on WFP's external website within thirty days of their publication.

FINANCIAL FRAMEWORK REVIEW

34. The Financial Framework Review is to better align financial systems with WFP's evolving operational requirements. The review is focusing on three components: i) increase predictability of resources; ii) improve flexibility of WFP's funds management structure; and iii) improve accountability of planning and cost management.

35. In the first component WFP reviewed the Working Capital Financing Facility (WCFF). This led to an overall increase in the available lending capability, including an increase of the ceiling for Internal Project Lending from USD 207 million to USD 570 million (Decision 2014/EB.A/8). The new ceilings have already had a significant impact as compared to 2013, with an increase of 62 percent in advances granted to projects from the Internal Project Lending facility and 12 percent increase in commodities procured through the Global Commodity Management Facility. This has increased efficiency and effectiveness in operations, particularly the Level 3 emergencies.

36. Although the impact has been significant, improvements so far have been achieved through incremental change. In 2015–16 the Financial Framework Review will consider further revision of the financial architecture to improve operational effectiveness.

FINANCIAL RISK MANAGEMENT

Financial Risk Management

37. 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.

38. Financial risk management is carried out by a central treasury function using guidelines set out by the Executive Director who is advised by the WFP Investment Committee and the Investment Advisory Panel, which consists of external investment experts. Policies cover foreign exchange, interest rates and credit risk, the use of derivative financial instruments, and investing of excess liquidity.

39. WFP's employee benefit liabilities were USD 565.5 million at 31 December 2014. Of this USD 350.9 million has been funded to date through charging relevant funds and projects. The unfunded balance of USD 214.6 million is accounted for in the General Fund. The funding plan approved by the Board in 2010 includes an incremental annual funding of USD 7.5 million in the standard staff cost over a 15-year period starting in 2011. The current level of assets set aside and held in bonds, equities and cash for the funding of the gross long-term employee benefit liabilities represents a 64 percent funding level. This is a decrease from the 82 percent funding level in 2013. It is due to an increase in the liability arising from two main reasons: i) reduction in the discount rate used to value the liabilities; and ii) an increase in the long-term liabilities pertaining to locally recruited staff members, as determined by actuarial valuation. Despite the decrease in the funding level in 2014, the fully funded status remains achievable at the end of the approved funding plan period in 2025.

SUSTAINABILITY

40. 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.

41. My statement on sustainability is supported by: i) the requirements I put forward in the WFP Management Plan (2015–2017); ii) the Strategic Plan (2014–2017) approved by the Board in 2013; iii) the net assets held at the end of the period and contributions received in 2014; iv) the projected contributions levels for the year 2015; and v) the trend in donor support that has been sustaining WFP's mandate since its inception in 1963.

ADMINISTRATIVE MATTERS

42. 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

43. 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 2014.

Statement I	Statement of Financial Position at 31 December 2014
Statement II	Statement of Financial Performance for the Year Ended 31 December 2014
Statement III	Statement of Changes in Net Assets for the Year Ended 31 December 2014
Statement IV	Statement of Cash Flow for the Year Ended 31 December 2014
Statement V	Statement of Comparison of Budget and Actual Amounts for the Year Ended 31 December 2014

Notes to the Financial Statements

Signed on original

Ertharin Cousin

Executive Director Rome, 27 March 2015

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 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 that identifies the principal risks to the achievement of objectives, evaluates the nature and extent of those risks and manages them effectively, efficiently and economically.

WFP'S OPERATING ENVIRONMENT

3. By the nature of its work as a humanitarian organization WFP is called to go where it is needed. This exposes WFP to situations where there is a high level of inherent risk in terms of staff security and ability to maintain high standards of internal control.

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

   i) establish an internal environment and culture that promotes effective internal control;

   ii) identify and assess risks that may impact achievement of objectives;

   iii) specify and propose policies, plans, operating standards, procedures, systems and other control activities that will minimize, mitigate and/or limit the risks associated with exposures identified;

   iv) ensure an effective flow of information and communication so that all staff understand what they need to do to fulfil their responsibilities; and

   v) monitor the effectiveness of controlling processes and foster continuous improvement to them.

THE INTERNAL CONTROL FRAMEWORK AND ENTERPRISE RISK MANAGEMENT

5. In 2011 WFP adopted a new internal control framework based on COSO[1] best practice. The framework is supported by a range of guidance and tools to help managers assess the effectiveness of internal control in their business units. COSO issued a major guidance update in 2013, recommending that organizations following COSO best practice should aim to revise their internal control frameworks by the end of 2014. During 2014 WFP began work on revising the framework for application from 2015. The work is informed by two advisory assignments completed by the Inspector General in February 2015 about i) the effectiveness of the assurance process and ii) an assurance mapping exercise to identify key management oversight activities using the Three Lines of Defence model.

6. The Executive Director issued a statement on WFP's risk appetite in 2012. The statement aims to further strengthen WFP's engagement with its governing bodies by explaining the risks WFP faces and, in sharing its response to risks, seeking to minimize them wherever possible. This statement sets out a vision on how WFP views risk. It allows staff throughout the organization to communicate to partners and stakeholders about how much risk we are prepared to accept and to engage proactively with them about risk-sharing decisions. The Board is briefed on significant risks through periodic operational updates.

7. WFP continued to develop and enhance its risk management processes in line with its enterprise risk management policy. WFP seeks to identify and manage risks at two broad levels: risks that impact individual business units (country offices, regional bureaux, Rome Headquarters divisions); and risks that impact WFP as a whole, in particular in emergencies.

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

9. Every office in WFP is required to maintain an up-to-date risk register. Risks identified as impacting and adversely affecting the achievement of corporate objectives are included in the Corporate Risk Register. This provides a means of ascertaining the level of risk exposure across WFP. The Executive Management Group is mandated to oversee corporate risks and regularly reviews and updates the Corporate Risk Register. This is shared with all offices and the WFP Audit Committee and is used for briefings to the Executive Board. The Audit Committee, which is mandated to advise the Executive Director and the Executive Board on the effectiveness of internal control and risk management in WFP, received systematic updates of the risk profile throughout 2014.

[1] The Committee of Sponsoring Organizations of the Treadway Commission

REVIEW OF THE EFFECTIVENESS OF INTERNAL CONTROL

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

    i) **Statements of assurance on the effectiveness of internal control** signed by 135 senior WFP managers including the Deputy Executive Director; Assistant Executive Directors; Regional Directors; Country Directors; Directors of WFP Offices; and Directors of divisions in Headquarters. This represents 100 percent compliance. Submissions were subject to at least one higher level of review. In 2014 the statements were further improved by requiring managers to provide comments in support of "yes" as well as "no" answers to facilitate a more refined global analysis of responses.

    ii) **An Assurance Opinion from the Inspector General** based on the results of internal audit, inspections, investigations and assurance services by the Inspector General and the Oversight Office.

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

SIGNIFICANT RISK AND INTERNAL CONTROL MATTERS

Issues Arising in 2014

12. One significant risk and internal control issue arose during 2014:

    The impact of an unusually high number of Level 3 and Level 2 emergencies on internal control in WFP. During 2014 WFP has been responding to eleven emergencies classified as either Level 3 (five) or Level 2 (six). This emergency workload has reached levels that are both unprecedented and significantly higher than those the organization has actively prepared for. Some senior managers have highlighted the potential risk to internal controls (for example, ensuring adequate segregation of duties) connected to the absence of staff temporarily assigned to Level 3 emergency operations. Corporate analysis also suggests that the organization is taking longer to respond to the findings and recommendations of oversight bodies; and that timeframes for the completion of some key policy actions (for example, updating the risk management policy) have slipped because of staffing shortfalls.

    The Inspector General has also reported in his assurance opinion: a) that some country office key positions were vacant for extended periods of time leading to a sub-optimal structure to support programme activities and potential delays in responding to strategic priorities; and b) that the effective operation of control activities over programme management, transport and logistics, commodity management, procurement and security are frequently challenged by WFP's operating environments and have resulted in the identification of a number of opportunities for improvement.

    While managers have acted to plug known gaps in internal control, the risk relating to operating with a high number of emergencies has been escalated to the Corporate Risk Register.

During 2015, WFP will continue to monitor the impact of the unprecedented high level of emergency activity across WFP on the effectiveness of internal control and will take necessary remedial actions to ensure that appropriate levels of internal control are maintained.

Issues Reported in the 2013 Statement on Internal Control

13. The 2013 statement on internal control drew attention to four areas where there was need for improvement. Significant progress has been made in all four areas and further work is needed in two of them.

a) Areas where further improvement is needed

i) **Improving operational monitoring and review systems.** The 2013 statement reported progress in building the capacity to improve field-level monitoring and review systems. Progress was accelerated during 2014 with the establishment and roll out of a comprehensive normative framework: the Strategic Results Framework; business rules; standard operating procedures (SOPs); minimum monitoring requirements (MMRs); and direct support for reporting on programme outcomes. The increased capacity within the regional bureaux on outcome measurement, application of SOPs and the MMR enabled more direct guidance and support to country offices. A guide on third-party monitoring was developed and issued to all WFP staff. Use, application and further development of the Country Office Monitoring and Evaluation Tool (COMET) continued during 2014. The global roll-out of the first module that was concluded in 2013 was fully operationalized. The second module, which will support operational planning, monitoring of operational progress and reporting at output level was successfully piloted in the Southern Africa Region. Roll-out of this module will continue in 2015.

The Inspector General has reported in his assurance opinion that: a) programme monitoring remains a key risk area for WFP; and b) the risks in the external environment, including security constraints and limited or no accessibility in some locations, have been a challenge to effective programme monitoring. WFP will continue to pay priority attention to this during 2015.

ii) **Ensuring staff performance is appraised in a timely manner.** WFP's Performance and Competency Enhancement programme (PACE), launched in 2004, is the main tool for assessing the performance and competence of staff. In 2011 WFP reported that only half of all staff had finalized the PACE process by the due date. Over the past three years WFP has improved the timeliness and quality of performance assessments, reporting a record 94 percent completion by the end of February 2014 in the 2013 Statement on Internal Control. This was matched in 2014 with a completion rate of 95 percent by the end of February 2015. WFP is now one of the top performing United Nations organizations in terms of timeliness.

During 2014, the Executive Board approved a new People Strategy. This raises the bar on performance management and assessment. During 2014 WFP focused on improving the quality and use of PACE in promotion and reassignment. Key actions include: a quality audit of a random sample of PACEs; the introduction of optional self-assessment; and better mechanisms to follow up on the distribution of performance ratings. The PACE process for 2015 will be further improved with the introduction of common performance indicators for Country Directors; expanding to other contract modalities; and streamlining. WFP will continue to monitor and assess these crucially important quality aspects.

b) *Areas previously reported on where WFP has implemented the necessary improvement actions:*

i) **Implementation of the enterprise risk management strategy.** In 2011 WFP reported that whilst action had been taken to implement the risk management strategy only 65 percent of WFP country offices had established formal risk registers. Over the past three years WFP has ensured that all offices have formal risk registers and that these are regularly reviewed and updated (95 percent in 2014). WFP offices are now equipped to analyse, identify and respond to risks, linked to the achievement of management and strategic results.

Comprehensive risk assessments are undertaken in all regions, linked to all corporate initiatives. Risk analysis is integrated in project documents at the strategic and operational level. Specialized risk management support was provided across all Level 3 emergency responses. During 2014 the Inspector General undertook an Advisory Assurance review of WFP's Enterprise Risk Management (ERM) framework. Overall, ERM elements were rated sustainable, mature or integrated. WFP is presenting a new risk management policy for consideration and approval by the Executive Board in May 2015.

ii) **Implementation of emergency preparedness strengthening.** In 2011 WFP reported it was strengthening emergency preparedness, including the development of a three-year Preparedness and Response Enhancement Programme (PREP). PREP contained a number of discrete projects including a new Emergency Preparedness and Response Package (EPRP) for country offices. By the end of 2011 some 20 percent of country offices had implemented the EPRP. By 2014 some 93 percent of country offices have implemented the EPRP and have engaged in minimum preparedness actions.

PREP was completed at the end of 2014. It has delivered: an Operations Centre with a dedicated operational information management team who are ready to deploy as surge capacity; a comprehensive EPR training and deployment strategy, including an Emergency Response Roster mainstreamed into the Human Resources function; and implementation of Functional and Support Training for Emergency Response. Some activities require continued refining, maintenance and mainstreaming into WFP's core business. WFP will monitor its level of emergency preparedness as part of the annual assurance for the Statement on Internal Control.

14. Apart from the issues noted above, the assurance statements received from WFP directors and managerial oversight provided assurance on the effectiveness and strength of WFP's internal controls during 2014. WFP management will place increased emphasis on the key themes raised by the Inspector General in his Assurance Opinion including Cash and Voucher control and business processes; challenges to funding and operational budget management; and capacity development and monitoring of cooperating partners.

STATEMENT

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

16. 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 2014 and up to the date of approval of the financial statements.

17. WFP is committed to addressing the internal control and risk issues identified in paragraphs 12 and 13a) above as part of the continuous improvement of its internal controls.

Signed on original
Ertharin Cousin
Executive Director Rome, 27 March 2015

WORLD FOOD PROGRAMME
STATEMENT I
STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2014
(USD millions)

	Note	2014	2013
ASSETS			
Current assets			
Cash and cash equivalents	2.1	822.0	652.7
Short-term investments	2.2	854.0	783.5
Contributions receivable	2.3	2 099.8	1 774.1
Inventories	2.4	578.6	664.9
Other receivables	2.5	122.2	137.4
		4 476.6	**4 012.6**
Non-current assets			
Contributions receivable	2.3	93.1	165.7
Long-term investments	2.6	448.9	427.5
Property, plant and equipment	2.7	125.2	110.7
Intangible assets	2.8	8.9	15.9
		676.1	**719.8**
TOTAL ASSETS		**5 152.7**	**4 732.4**
LIABILITIES			
Current liabilities			
Payables and accruals	2.9	535.9	499.0
Provisions	2.10	6.2	10.7
Employee benefits	2.11	10.4	23.7
Loans	2.12	32.8	32.8
		585.3	**566.2**
Non-current liabilities			
Employee benefits	2.11	555.1	398.1
Long-term loan	2.13	89.6	95.4
		644.7	**493.5**
TOTAL LIABILITIES		**1 230.0**	**1 059.7**
NET ASSETS		**3 922.7**	**3 672.7**
FUND BALANCES AND RESERVES			
Fund balances	7.1	3 591.3	3 400.2
Reserves	2.15	331.4	272.5
TOTAL FUND BALANCES AND RESERVES		**3 922.7**	**3 672.7**

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

Signed on original
Ertharin Cousin
Executive Director

Rome, 27 March 2015

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WORLD FOOD PROGRAMME
STATEMENT II
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2014
(USD millions)

		2014	2013
REVENUE			
Monetary contributions	**3.1**	4 877.8	3 868.4
In-kind contributions	**3.2**	503.3	511.2
Currency exchange differences	**3.3**	(64.7)	19.8
Return on investments	**3.4**	1.1	20.1
Other revenue	**3.5**	132.9	116.3
TOTAL REVENUE		**5 450.4**	**4 535.8**
EXPENSES			
Cash and vouchers distributed	**4.1**	845.6	498.1
Food commodities distributed	**4.2**	1 988.5	2 053.4
Distribution and related services	**4.3**	650.4	578.6
Wages, salaries, employee benefits and other staff costs	**4.4**	850.6	718.1
Supplies, consumables and other running costs	**4.5**	183.5	159.0
Contracted and other services	**4.6**	572.8	405.3
Finance costs	**4.7**	2.4	2.5
Depreciation and amortization	**4.8**	50.3	49.0
Other expenses	**4.9**	70.5	50.8
TOTAL EXPENSES		**5 214.6**	**4 514.8**
SURPLUS FOR THE YEAR		**235.8**	**21.0**

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 2014
(USD millions)

	Note	Accumulated surpluses/fund balances	Surplus	Reserves	Total net assets
31 December 2013		**3 379.2**	**21.0**	**272.5**	**3 672.7**
Allocation of the surplus for 2013		21.0	(21.0)	-	-
Movements in fund balances and reserves in 2014					
Transfer from/to reserves	2.15	(58.9)	-	58.9	-
Net unrealized gains on long-term investments recognized directly within fund balance	2.6 / 2.15	14.2	-	-	14.2
Surplus for the year	7.2	-	235.8	-	235.8
Total movements during the year		**(44.7)**	**235.8**	**58.9**	**250.0**
TOTAL NET ASSETS at 31 December 2014		**3 355.5**	**235.8**	**331.4**	**3 922.7**

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 2014

(USD millions)

	Note	2014	2013
Cash flows from operating activities:			
Surplus for the year		235.8	21.0
Adjustments to reconcile surplus to net cash flows from operating activities			
Depreciation and amortization	**2.7/2.8**	50.3	49.0
Unrealized (gain) loss on short-term investments	**2.2**	(1.2)	2.2
Unrealized loss on long-term investments	**2.6**	13.6	2.8
(Increase) in amortized value of long-term investments	**2.2/2.6**	(4.3)	(4.5)
(Decrease) in amortized value of long-term loan	**2.13**	(0.5)	(0.5)
Interest expense on long-term loan	**2.13**	2.9	3.0
Decrease in inventories	**2.4**	86.3	45.0
(Increase) in contributions receivable	**2.3**	(253.1)	(13.5)
Decrease in other receivables	**2.5**	15.2	10.6
(Increase) in property, plant and equipment (donated in kind)	**2.7**	(0.7)	(1.3)
Increase in payables and accruals	**2.9**	36.9	83.8
(Decrease) in provisions	**2.10**	(4.5)	(3.6)
Increase in employee benefits	**2.11**	143.7	37.2
Net cash flows from operating activities		**320.4**	**231.2**
Cash flows from investing activities:			
(Increase) decrease in short-term investments	**2.2**	(61.3)	57.9
(Increase) in accrued interest receivable	**2.5**	-	(0.1)
(Increase) in long-term investments	**2.6**	(24.5)	(53.8)
(Increase) in property, plant and equipment	**2.7**	(54.9)	(38.8)
(Increase) in intangible assets	**2.8**	(2.2)	(0.9)
Net cash flows from investing activities		**(142.9)**	**(35.7)**
Cash flows from financing activities:			
Interest paid on long-term loan	**2.13**	(2.9)	(3.0)
Repayment of annual principal on long-term loan	**2.13**	(5.3)	(5.3)
Increase in loans	**2.12**	-	27.0
Net cash flows from financing activities		**(8.2)**	**18.7**
Net increase in cash and cash equivalents		**169.3**	**214.2**
Cash and cash equivalents at beginning of the year	**2.1**	**652.7**	**438.5**
Cash and cash equivalents at end of the year	**2.1**	**822.0**	**652.7**

The accompanying notes form an integral part of these financial statements

WORLD FOOD PROGRAMME

STATEMENT V

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS*

FOR THE YEAR ENDED 31 DECEMBER 2014

(USD millions)

	Notes	Budget Amount		Actual on comparable basis	Difference: final budget and actual
		Original Budget	Final Budget		
	6				
Food and related direct operational costs (DOC)		3 698.8	4 978.3	2 830.2	2 148.1
Cash and vouchers and related DOC		1 127.0	1 493.3	816.2	677.1
Capacity augmentation		333.7	552.9	302.7	250.2
Direct support costs		697.3	879.9	579.6	300.3
Subtotal direct project costs		**5 856.8**	**7 904.4**	**4 528.7**	**3 375.7**
Regular programme support and administrative costs		281.8	281.8	280.5	1.3
Critical corporate initiatives		9.2	9.2	8.7	0.5
Subtotal indirect costs		**291.0**	**291.0**	**289.2**	**1.8**
TOTAL		**6 147.8**	**8 195.4**	**4 817.9**	**3 377.5**

The accompanying notes form an integral part of these financial statements

* Prepared on a commitment basis

Notes to the Financial Statements at 31 December 2014

NOTE 1: ACCOUNTING POLICIES

Basis of Preparation

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

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

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

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

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

Cash and Cash Equivalents

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

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

Financial Instruments

8. Financial instruments are recognized when WFP becomes a party to the contractual provisions of the instrument until such time as when the rights to receive cash flows from those assets have expired or have been transferred and WFP has transferred substantially all the risks and rewards of ownership.

9. Financial assets that are held for trading are measured at fair value and any gains or losses arising from changes in the fair value are accounted for through surplus or deficit and included within the Statement of Financial Performance in the period in which they arise. 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.

10. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. Loans and receivables comprise contributions receivable in cash, other receivables and cash and cash equivalents. Loans and receivables are stated at amortized cost.

11. Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that WFP has the intention and ability to hold to maturity. Held-to-maturity investments comprise the United States Treasury Separate Trading of Registered Interest and Principal of Securities (STRIPS) held within the long-term investment portfolio and are stated at amortized cost.

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

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

Inventories

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

15. The cost of food commodities includes purchase cost or fair value[2] if donated in-kind and all other costs incurred in bringing the food commodities into WFP's custody at their point of first entry into a recipient country where they become distributable. In addition, any significant costs of conversion such as milling or bagging are included. Cost is determined on the weighted average basis.

Contributions and Contributions Receivable

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

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

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

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

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

Property, Plant and Equipment

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

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

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

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

Intangible Assets

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

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

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

Employee Benefits

25. WFP recognizes the following categories of employee benefits:

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

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

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

Provisions and Contingent Liabilities

28. Provisions are made for future liabilities and charges where WFP has a present legal or constructive obligation as a result of past events and it is probable that WFP will be required to settle the obligation.

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

Fund Accounting and Segment Reporting

30. A fund is a self-balancing accounting entity established to account for the transactions of a specified purpose or objective. Funds are segregated for the purpose of conducting specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The financial statements are prepared on a fund accounting basis, showing at the end of the period the consolidated position of all WFP funds. Fund balances represent the accumulated residual of revenue and expenses.

31. A segment is a distinguishable activity or group of activities for which financial information is reported separately in order to evaluate an entity's past performance in achieving its objectives and for making decisions about the future allocation of resources. WFP classifies all projects, operations and fund activities into three segments: i) Programme Category Funds; ii) General Fund and Special Accounts; and iii) Bilateral Operations and Trust Funds. WFP reports on the transactions of each segment during the financial period, and the balances held at the end of the period.

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

33. The General Fund is the accounting entity established for recording, under separate accounts, indirect support cost (ISC) recoveries, miscellaneous income, operational reserve and contributions received that are not designated to a specific programme category, project or a bilateral project. Special Accounts are established by the Executive Director under Financial Regulation 5.1 for special contributions or monies earmarked for specific activities, the balances of which may be brought forward to the succeeding financial period.

34. Bilateral Operations and Trust Funds are also identifiable subdivisions of the WFP Fund. These are established by the Executive Director under Financial Regulation 5.1 in order to account for contributions, the purpose, scope and reporting procedures of which have been agreed upon with the donor under specific trust fund agreements.

35. Reserves are maintained within the General Fund for the purpose of operational support. An operational reserve is maintained within the General Fund as required under Financial Regulation 10.5 to ensure continuity of operations in the event of temporary shortfalls of resources. In addition to the Operational Reserve, other reserves have been established by the Board.

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

Budget Comparison

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

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

39. Statement V: Comparison of Budget and Actual Amounts compares the final budget to actual amounts calculated on the same basis as the corresponding budgetary amounts. As the bases used to prepare the budget and financial statements differ, Note 6 provides reconciliation between the actual amounts presented in Statement V to the actual amounts presented in Statement IV: Cash Flow.

Note 2.1: Cash and Cash Equivalents

	2014	2013
	USD millions	
Cash and cash equivalents		
Bank and cash at Headquarters	111.1	58.8
Bank and cash at regional bureaux and country offices	122.6	64.4
Money market and deposit accounts at Headquarters	388.1	334.2
Cash and cash equivalents held by investment managers	200.2	195.3
Total cash and cash equivalents	**822.0**	**652.7**

40. 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

	2014	2013
	USD millions	
Short-term investments		
Short-term investments	846.1	775.5
Current portion of long-term investments (Note 2.6)	7.9	8.0
Total short-term investments	**854.0**	**783.5**

41. 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 2014 and remained at very low levels in the context of a market environment of low absolute yields.

42. Short-term investments were valued at USD 846.1 million at 31 December 2014 (USD 775.5 million at 31 December 2013). Of this amount, USD 371.6 million pertains to bonds issued or guaranteed by governments or government agencies (USD 492.9 million at 31 December 2013); USD 312.8 million pertains to corporate bonds (USD 193.0 million at 31 December 2013) and USD 161.7 million pertains to asset-backed securities (USD 89.6 million at 31 December 2013). These investments are stated at fair value based on valuation provided by the independent custodian bank responsible for the administration and safekeeping of the securities.

43. At 31 December 2014, 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 21.6 million (USD 60.4 million at 31 December 2013).

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

	2013	Net additions/ (deductions)	Interest received/ amortized	Net realized gains/ (losses)	Net unrealized gains/ (losses)	2014
	USD millions					
Short-term investments	775.5	65.2	9.4	(5.2)	1.2	846.1
Current portion of long-term investments	**8.0**	(0.5)	0.4	-	-	**7.9**
Total short-term Investments	**783.5**	**64.7**	**9.8**	**(5.2)**	**1.2**	**854.0**

45. During 2014, short-term investments increased by USD 70.5 million. This increase includes net unrealized gains of USD 1.2 million presented in the reconciliation of surplus to operating cash flows in the Statement of Cash Flow and amortized interest on the current portion of the long-term investment of USD 0.4 million, also presented in the reconciliation as part of the increase in amortized value of the long-term investment of USD 4.3 million. The remaining balance, net of reclassification from long-term to short-term of USD 7.6 million, amounting to USD 61.3 million is presented in the Statement of Cash Flow under investing activities.

Note 2.3: Contributions Receivable

	2014	2013
	USD millions	
Composition:		
Current	2 099.8	1 774.1
Non-current	93.1	165.7
Total net contributions receivable	**2 192.9**	**1 939.8**

	2014	2013
	USD millions	
Monetary contributions receivable	2 166.5	1 913.2
In-kind contributions receivable	123.9	109.3
Total contributions receivable before allowance	**2 290.4**	**2 022.5**
Allowance for reductions in contribution revenue	(75.9)	(63.6)
Allowance for doubtful accounts	(21.6)	(19.1)
Total net contributions receivable	**2 192.9**	**1 939.8**

46. Current contributions receivable are for confirmed contributions that are due within twelve months while non-current contributions receivable are those that are due after 12 months from 31 December 2014.

47. Contributions receivable relate to donor contributions for programme categories, bilateral operations, trust funds or to the General Fund and Special Accounts. Donor contributions may include restrictions that require WFP to use the contribution for a specific project, activity or country within a specified timeframe.

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

	2014		2013	
	USD millions	*%*	*USD millions*	*%*
Year of confirmation				
2014	2 061.1	88		
2013	198.9	8	1 695.6	83
2012 and earlier	97.2	4	347.0	17
Subtotal	**2 357.2**	**100**	**2 042.6**	**100**
Revaluation adjustments (non-USD contributions receivable)	(66.8)	-	(20.1)	-
Total contributions receivable before allowance	**2 290.4**	**100**	**2 022.5**	**100**

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

50. The allowance for reductions in contribution revenue is an amount estimated for any reductions of contributions receivable and 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.

51. The change in the allowance for reductions in contribution revenue during 2014 is as follows:

	2013	Utilization	Increase/ (decrease)	2014
	USD millions			
Total allowance for reductions in contribution revenue	**63.6**	**(66.6)**	**78.9**	**75.9**

52. During 2014, the reductions in contributions receivable amounted to USD 66.6 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 2014, the estimated final allowance required is USD 75.9 million. Accordingly, an increase of USD 78.9 million was recorded as an adjustment to monetary contribution revenue for the period and is reported in the Statement of Financial Performance.

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

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

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

55. The change in the allowance for doubtful accounts during 2014 is as follows:

	2013	**Utilization**	**Increase/ (decrease)**	**2014**
	USD millions			
Total allowance for doubtful accounts	**19.1**	**(4.4)**	**6.9**	**21.6**

56. During 2014, write-offs of contributions receivable amounted to USD 4.4 million. These write-offs are recorded as a utilization of the allowance for doubtful accounts and reported in the Statement of Financial Position. At 31 December 2014, the estimated final allowance for doubtful accounts required is USD 21.6 million. Accordingly, an increase of USD 6.9 million was recorded as an expense for the period and is reported in the Statement of Financial Performance.

Note 2.4: Inventories

57. The following tables show the movements of food and non-food items during the year. The first table shows the total value of inventories – food and non-food – as presented in the Statement of Financial Position. The second table shows a reconciliation of food inventories, which reflects the opening balance and the additions during the year reduced by the value of food distributed and impairment allowance made during the year.

	2014	2013
	USD millions	
Food on hand	442.3	539.0
Food in transit	123.5	112.8
Subtotal food	**565.8**	**651.8**
Less allowance for impairment – food	(2.8)	(3.0)
Total food	**563.0**	**648.8**
Non-food items	15.8	16.2
Less allowance for impairment – non-food	(0.2)	(0.1)
Total non-food items	**15.6**	**16.1**
Total inventories	**578.6**	**664.9**

Food reconciliation	**2014**	**2013**
	USD millions	
Opening inventory	648.8	694.4
Add back: impairment allowance	3.0	2.9
Food purchased	1 185.8	1 144.1
In-kind commodities received	444.6	543.5
Transport and related costs	271.2	315.7
Total inventory available for distribution	**2 553.4**	**2 700.6**
Less: Food distributed	(1 987.6)	(2 048.8)
Allowance for impairment – food	(2.8)	(3.0)
Total food	**563.0**	**648.8**

58. For 2014, food and non-food items distributed totalled USD 1,988.5 million (USD 2,053.4 million in 2013), as reported in the Statement of Financial Performance. Of this amount, USD 1,987.6 million relates to food commodities and USD 0.9 million relates to non-food items (USD 2,048.8 million and USD 4.6 million, respectively, in 2013).

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

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

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

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

63. Food commodity stocks at 31 December 2014 were 0.9 million mt, valued at USD 565.8 million. At 31 December 2013, stocks were 1.1 million mt valued at USD 651.8 million.

64. An allowance for impairment has been made for possible loss or damage to inventories. The allowance is based on past experience and has been set at 0.49 percent of total food and 1.04 percent for non-food items. In 2013, the allowance for food was 0.45 percent and 0.7 percent for non-food items. Inventories are valued net of any impairments or obsolescence. During 2014, USD 7.0 million representing the total value of food impaired and USD 0.2 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 2014, the estimated final allowance for impairment required is USD 3.0 million. Accordingly, an increase in the allowance for impairment of USD 7.1 million is reported in the Statement of Financial Performance.

65. The change in the allowances for impairment during 2014 is as follows:

	2013	Utilization	Increase/(decrease)	2014
	USD millions			
Allowance for impairment – food	3.0	(7.0)	6.8	2.8
Allowance for impairment – non-food	0.1	(0.2)	0.3	0.2
Total allowance	**3.1**	**(7.2)**	**7.1**	**3.0**

Note 2.5: Other Receivables

	2014	2013
	USD millions	
Advances to vendors	35.5	36.3
Advances to staff	29.9	28.6
TPA receivables (Note 11)	6.8	21.9
Miscellaneous receivables	81.6	74.5
Total other receivables before allowance	**153.8**	**161.3**
Allowance for doubtful accounts	**(31.6)**	**(23.9)**
Total net other receivables	**122.2**	**137.4**

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

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

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

69. Other receivables are reviewed to determine whether any allowance for doubtful accounts is required. As at 31 December 2014, the estimated final allowance required is USD 31.6 million, of which USD 30.6 million is for value-added tax receivable and USD 1.0 million is for other receivables (USD 23.4 million for value-added tax receivable and USD 0.5 million for other receivables in 2013).

70. The change in the allowance for doubtful accounts during 2014 is as follows:

	2013	Utilization	Increase/ (decrease)	Revaluation adjustment	2014
			USD millions		
Total allowance for doubtful accounts	**23.9**	**-**	**9.3**	**(1.6)**	**31.6**

71. During 2014, there were no write-offs of other receivables.

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

73. As at 31 December 2014, the estimated final allowance required is USD 31.6 million. Accordingly, an increase of USD 9.3 million was recorded as an expense for the period and is reported in the Statement of Financial Performance.

Note 2.6: Long-Term Investments

	2014	2013
	USD millions	
US Treasury STRIPS	77.0	80.8
Current portion (Note 2.2)	(7.9)	(8.0)
Long-term portion, US Treasury STRIPS	**69.1**	**72.8**
Bonds	187.8	173.9
Equities	192.0	180.8
Total bonds and equities	**379.8**	**354.7**
Total long-term investments	**448.9**	**427.5**

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

75. 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.

76. Changes in market value of the investment in STRIPS are not recognized. At 31 December 2014, the market value of this investment was USD 96.9 million (USD 96.7 million at 31 December 2013).

77. The investments in bonds and equities have been designated as being held for funding of WFP's post-employment benefits liabilities and are not expected to be used in support of WFP's current operations. Although these investments are designated for this purpose, and are not available for funding current operations, the investments are not subject to separate legal restrictions and do not qualify as Plan Assets as defined in IPSAS 25, Employee Benefits.

78. 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.

79. The increase in the value of the long-term bond and equity investments of USD 25.1 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 21.0 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.

80. The movement of long-term investments accounts during 2014 is as follows:

	2013	Additions/ (deductions)	Interest received/ amortized	Net realized gains/ (losses)	Net unrealized gains/ (losses)	2014
	USD millions					
Bonds and equities	**354.7**	21.0	5.4	(1.9)	0.6	**379.8**
Investment in STRIPS	**72.8**	(7.6)	3.9	-	-	**69.1**
Total long-term investment	**427.5**	**13.4**	**9.3**	**(1.9)**	**0.6**	**448.9**

81. During 2014, long-term investments increased by USD 21.4 million. Long-term bonds and equities are treated as available-for-sale financial assets except the investment in foreign exchange forward derivatives (notional value of USD 19.9 million), which are treated as held for trading financial assets. Accordingly, under IPSAS, the net unrealized gains of USD 14.2 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 3.2 million related to foreign exchange forward derivatives and the net unrealized losses of USD 10.4 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 3.9 million is presented in the reconciliation of surplus to operating cash flows in the Statement of Cash Flow as part of the increase in amortized value of the long-term investment of USD 4.3 million. The

remaining balance, net of a reclassification from long-term to short-term of USD 7.6 million, amounting to USD 24.5 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 2013	Additions	Disposal/ transfers	At 31 Dec 2014	At 31 Dec 2013	Depreciation expense	Disposal/ transfers	At 31 Dec 2014	At 31 Dec 2014
	USD millions								
Buildings									
Permanent	16.1	6.4	(0.1)	22.4	(1.6)	(0.5)	-	(2.1)	20.3
Temporary	54.0	14.1	(1.6)	66.5	(26.1)	(11.1)	1.2	(36.0)	30.5
Computer equipment	9.1	0.9	(0.1)	9.9	(7.0)	(1.3)	-	(8.3)	1.6
Office equipment	19.1	5.2	(1.0)	23.3	(15.0)	(3.0)	0.7	(17.3)	6.0
Office fixtures and fittings	0.4	-	-	0.4	(0.2)	-	-	(0.2)	0.2
Security and safety equipment	4.2	1.1	(0.1)	5.2	(2.8)	(0.9)	0.1	(3.6)	1.6
Telecommunication equipment	5.7	1.9	(0.1)	7.5	(4.1)	(1.2)	0.1	(5.2)	2.3
Motor vehicles	107.0	26.7	(3.8)	129.9	(59.3)	(19.3)	3.2	(75.4)	54.5
Workshop equipment	3.6	1.1	(0.1)	4.6	(2.1)	(1.0)	-	(3.1)	1.5
Leasehold improvements	17.1	2.0	(0.6)	18.5	(9.8)	(2.8)	0.4	(12.2)	6.3
Fixed Assets under construction	2.4	0.3	(2.3)	0.4	-	-	-	-	0.4
Total	**238.7**	**59.7**	**(9.8)**	**288.6**	**(128.0)**	**(41.1)**	**5.7**	**(163.4)**	**125.2**

	Cost				Accumulated depreciation				Net Carrying Amount
	At 31 Dec 2012	Additions	Disposal/ transfers	At 31 Dec 2013	At 31 Dec 2012	Depreciation expense	Disposal/ transfers	At 31 Dec 2013	At 31 Dec 2013
	USD millions								
Buildings									
Permanent	11.9	4.2	-	16.1	(1.3)	(0.3)	-	(1.6)	14.5
Temporary	46.6	8.8	(1.4)	54.0	(17.0)	(9.9)	0.8	(26.1)	27.9
Computer equipment	7.8	1.4	(0.1)	9.1	(5.3)	(1.8)	0.1	(7.0)	2.1
Office equipment	16.8	2.6	(0.3)	19.1	(12.3)	(3.1)	0.4	(15.0)	4.1
Office fixtures and fittings	0.3	0.1	-	0.4	(0.2)	-	-	(0.2)	0.2
Security and safety equipment	2.9	1.3	-	4.2	(2.0)	(0.8)	-	(2.8)	1.4
Telecommunication equipment	4.5	1.3	(0.1)	5.7	(3.0)	(1.1)	-	(4.1)	1.6
Motor vehicles	90.4	17.6	(1.0)	107.0	(40.7)	(19.3)	0.7	(59.3)	47.7
Workshop equipment	3.3	0.4	(0.1)	3.6	(1.4)	(0.8)	0.1	(2.1)	1.5
Leasehold improvements	15.1	2.2	(0.2)	17.1	(7.1)	(2.8)	0.1	(9.8)	7.3
Fixed Assets under construction	1.2	2.2	(1.0)	2.4	-	-	-	-	2.4
Total	**200.8**	**42.1**	**(4.2)**	**238.7**	**(90.3)**	**(39.9)**	**2.2**	**(128.0)**	**110.7**

82. In 2014 and 2013, major additions to PP&E were for temporary buildings and motor vehicles. Net acquisitions (after disposals) for the period ended 31 December 2014 totalled USD 49.9 million (USD 37.9 million at 31 December 2013) of which USD 0.7 million relate to donated in-kind property, plant and equipment. Additions or disposals in PP&E are reported in the Statement of Financial Position and the depreciation expense for the year of USD 41.1 million is reported in the Statement of Financial Performance (USD 39.9 million in 2013).

83. 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.

84. Assets are reviewed annually to determine if there is any impairment in their value. The review that was undertaken in 2014 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 2013	Additions	Disposal/ transfers	At 31 Dec 2014	At 31 Dec 2013	Amortization expense	Disposal/ transfers	At 31 Dec 2014	At 31 Dec 2014
	USD millions								
Internally generated software	50.0	1.1	(0.1)	51.0	(35.9)	(8.4)	-	(44.3)	6.7
Externally acquired software	2.7	-	-	2.7	(1.8)	(0.7)	-	(2.5)	0.2
Licenses and rights	0.6	-	-	0.6	(0.4)	(0.1)	-	(0.5)	0.1
Intangible asset under construction	0.7	1.2	-	1.9	-	-	-	-	1.9
Total Intangible Assets	**54.0**	**2.3**	**(0.1)**	**56.2**	**(38.1)**	**(9.2)**	**-**	**(47.3)**	**8.9**

	Cost				Accumulated depreciation				Net Carrying Amount
	At 31 Dec 2012	Additions	Disposal/ transfers	At 31 Dec 2013	At 31 Dec 2012	Amortization expense	Disposal/ transfers	At 31 Dec 2013	At 31 Dec 2013
	USD millions								
Internally generated software	48.2	1.8	-	50.0	(27.8)	(8.1)	-	(35.9)	14.1
Externally acquired software	2.5	0.2	-	2.7	(0.9)	(0.9)	-	(1.8)	0.9
Licenses and rights	0.5	0.1	-	0.6	(0.3)	(0.1)	-	(0.4)	0.2
Intangible asset under construction	1.9	0.7	(1.9)	0.7	-	-	-	-	0.7
Total Intangible Assets	**53.1**	**2.8**	**(1.9)**	**54.0**	**(29.0)**	**(9.1)**	**-**	**(38.1)**	**15.9**

85. 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 the internally generated software excludes those costs related to research and maintenance costs.

86. The internally generated software mainly relates to the WFP Information Network and Global System – the customization and implementation of an integrated enterprise resource planning application. At 31 December 2014, total capitalized costs of the project amounted to USD 4.0 million (USD 11.9 million in 2013), net of accumulated amortization of USD 43.5 million (USD 35.6 million in 2013). These capitalized costs comprise the system design and realization phase of the project. Additions or disposals in intangible assets are reported in the Statement of Financial Position while the amortization expense for the year of USD 9.2 million is reported in the Statement of Financial Performance.

Note 2.9: Payables and Accruals

	2014	2013
	USD millions	
Vendor payables	122.3	130.5
Donor payables	23.7	28.0
Miscellaneous	50.2	36.8
Subtotal payables	**196.2**	**195.3**
Accruals	339.7	303.7
Total payables and accruals	**535.9**	**499.0**

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

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

89. 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.

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

Note 2.10: Provisions

	2014	2013
	USD millions	
Provision for refunds to donors	6.2	10.7

91. 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.

92. The change in the provision for refunds to donors during 2014 is as follows:

	2013	Utilization	Increase/ (decrease)	2014
	USD millions			
Provision for refunds to donors	**10.7**	**(4.1)**	**(0.4)**	**6.2**

93. During 2014, refunds made to donors totalled USD 4.1 million. These refunds are recorded as a utilization of the provision for refunds to donors and reported in the Statement of Financial Position. At 31 December 2014, the estimated final provision required is USD 6.2 million. Accordingly, a decrease of USD 0.4 million was recorded as an adjustment to monetary contribution revenue for the period and is reported in the Statement of Financial Performance.

Note 2.11: Employee Benefits

	2014	2013
	USD millions	
Composition:		
Current	10.4	23.7
Non-current	555.1	398.1
Total employee benefits liabilities	**565.5**	**421.8**

	2014			2013
	Actuarial valuation	WFP valuation	Total	
	USD millions			
Short-term employee benefits	-	10.4	10.4	23.7
Post-employment benefits	457.3	1.5	458.8	326.9
Other long-term employee benefits	90.5	5.8	96.3	71.2
Total employee benefit liabilities	**547.8**	**17.7**	**565.5**	**421.8**

2.11.1 Valuation of Employee Benefit Liabilities

94. Employee benefit liabilities are determined by professional actuaries or calculated by WFP based on personnel data and past payment experience. At 31 December 2014, total employee benefits liabilities amounted to USD 565.5 million, of which USD 547.8 million were calculated by the actuaries and USD 17.7 million were calculated by WFP (USD 389.4 million and USD 32.4 million, respectively, at 31 December 2013).

95. Of the total employee benefits liabilities of USD 565.5 million, the amount of USD 350.9 million has been charged against relevant funds and projects (USD 301.7 million at 31 December 2013). The balance of liabilities in the amount of USD 214.6 million has been allocated against the General Fund (USD 120.1 million at 31 December 2013). During the 2010 Annual Session, the Board approved a funding plan to provide for the unfunded employee benefit liabilities currently allocated to the General Fund. The funding plan includes an incremental annual funding of USD 7.5 million in the standard staff cost over a 15-year period starting in 2011 with a view to achieving fully funded status at the end of the 15-year period.

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

96. Liabilities arising from post-employment benefits and other separation-related benefits are determined by consulting professional actuaries. These employee benefits are established for two groups of staff: a) staff members who are in the professional category and general service in Headquarters who are covered by the Food and Agriculture Organization of the United Nations (FAO) Staff Rules and the United Nations Staff Rules and; b) commencing 1 July 2014, WFP's national professional officers and

general service staff members in the country offices and regional bureaux (collectively, locally recruited staff members). Liabilities arising from post-employment benefits and other separation-related benefits were previously determined through the internal WFP valuations.

97. Post-employment benefits and other separation-related benefits liabilities which are calculated by actuaries totalled USD 547.8 million at 31 December 2014 net of actuarial gains and losses (USD 389.4 million in 2013) of which USD 435.0 million pertains to staff members who are in the professional category and general service in Headquarters and USD 112.8 million pertains to the benefits for locally recruited staff members.

98. In the 2014 valuation, WFP's gross defined benefit obligations totalled USD 601.0 million (USD 425.5 million in 2013), of which USD 510.5 million (USD 360.8 million in 2013) represents post-employment benefits and USD 90.5 million (USD 64.7 million in 2013) represents other separation-related benefits.

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

100. In the 2014 valuation of employee benefits liabilities, the actuaries have determined actuarial losses under post-employment benefits of USD 53.2 million (USD 36.1 million in 2013) and actuarial losses under other separation-related benefits of USD 12.4 million (actuarial gains of USD 3.1 million in 2013).

101. Of the total actuarial losses of USD 53.2 million, actuarial losses of USD 52.7 million relate to the After-Service Medical Plan (ASM), actuarial gains of USD 2.1 million relate to the Separation Payments Scheme and actuarial losses of USD 2.6 million pertain to the Compensation Plan Reserve Fund (Note 2.11.5.4). Actuarial losses for the Compensation Plan Reserve Fund exceeded 10 percent of the defined benefit obligation. Under the corridor method, losses over 10 percent will be amortized over the average remaining service of active staff for each benefit. The average remaining service of active staff for the Compensation Plan Reserve Fund is 9.6 years.

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

103. The movements of employee benefits liabilities as determined by the actuaries during 2014 are as per the following table. Other separation-related benefits include accrued leave which was reclassified from current liability in 2013 to non-current liability in 2014.

	2013	Reclassification	Utilization	Increase/ (decrease)	2014
			USD millions		
After-Service Medical Plan	296.3	-	(3.1)	132.0	425.2
Separation Payments Scheme	22.3	-	(1.3)	2.9	23.9
Compensation Plan Reserve Fund	6.8	-	(0.2)	1.6	8.2
Other separation-related benefits	64.9	10.0	(3.5)	19.1	90.5
Total employee benefits liabilities	**390.3**	**10.0**	**(8.1)**	**155.6**	**547.8**

2.11.3 Short-Term Employee Benefits

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

2.11.4 Post-Employment Benefits

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

106. The After-Service Medical Plans allow eligible retirees and their eligible family members to participate in the Basic Medical Insurance Plan (BMIP) or the United Nations Medical Insurance Plan (MIP) depending on which staff group they belong to. BMIP is provided to staff members in the professional category and general service category in Headquarters. MIP is provided to locally recruited staff members in country offices and regional bureaux

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

108. 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.

109. The liabilities include the service costs for 2014 less benefit payments made.

2.11.5 Other Long-Term Employee Benefits

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

2.11.5.1 Actuarial Assumptions and Methods

111. 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 2014 valuation, the assumptions and methods used are described in the following table, which also indicates the assumptions and methods used for the 2013 valuation.

112. The assumptions and methods adopted for the 2014 actuarial valuation resulted in an increase in the post-employment and other separation-related benefits net liabilities in the total amount of USD 157.5 million (USD 33.5 million in 2013).

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

114. 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 2014. Assumptions relating only to certain employee benefits are specifically identified:

Discount rate	3.1 percent for accounting and funding based on yield curve approach for plans provided to staff members in the professional category and general service category in Headquarters (3.8 percent in 2013 valuation based on indices) 4.5 percent based on yield curve approach for plans provided to locally recruited staff members.
Medical cost increases (ASM* only)	BMIP – 5.0 percent per year during 2014 through 2024, 4.5 percent per year during 2025 through 2044, and 4 percent per year in 2045 and beyond (same as in 2013 valuation). MIP – 6.0 percent for 2015, decreasing by 0.2 percent each year to 4.6 percent in 2022 and 4.5 percent in 2023 and beyond
Expected return on assets	Funding – 5.6 percent (same in 2013 valuation); Accounting – Not applicable as plans are treated as unfunded
Annual salary scale	3.00 percent plus merit component
Annual cost of living increases	2.50 percent (minimum death grant benefit for the Staff Compensation Plan remains unchanged)
Future exchange rates	United Nations rates at 31 December 2014
Medical claims cost (ASM only)	BMIP – Average claims in 2015 are USD 5,334 for each adult participant (USD 5,865 in 2014 valuation). MIP – Average claims in 2015 are USD 987 for each adult participant
Annual administrative costs (ASM only)	BMIP – USD 142.08 for the dollar plan and EUR 135.00 for the euro plan MIP – included in claims cost shown above
Insurer's retention (ASM only)	2.30 percent of the claims in 2014 (same as in 2013 valuation)
Future participant contributions (ASM only)	BMIP – Accounting and Funding 29.00 percent (same as in 2013 valuation) MIP – medical costs increase with inflation, while participant contributions increase with pay/pension amounts
Mortality rates	Mortality rates match the 31 December 2013 valuations of the United Nations Joint Staff Pension Fund
Disability rates	Disability rates match the 31 December 2013 valuation of the United Nations Joint Staff Pension Fund
Withdrawal rates	Based on a study of WFP's withdrawal rates from 2009 to 2013
Retirement rates	Based on a study of WFP's withdrawal rates from 2009 to 2013
Participation (ASM only)	BMIP – 95 percent of future retirees will elect coverage in the BMIP (same as in 2013 valuation). Based on a study of experience for the Rome–based United Nations organizations, 0.2 percent of people covered by the BMIP will withdraw from coverage each year after retirement (same in 2013 valuation) MIP – same as BMIP
Medical plan of future retirees (ASM only)	Currently receiving pay in euro currency – euro plan Currently receiving pay in currency other than euro – dollar plan
Coverage of spouses (ASM only)	85 percent of male and 55 percent of female retirees have a spouse who elects coverage in the BMIP (same as in 2013 valuation). Spouses are assumed to be four years younger than the corresponding male retirees, and four years older than corresponding female retirees
Proportion of future deaths and disablements attributable to performance of official duties (CPRF** only)	10.00 percent of deaths and 4.00 percent of disablements (same as in 2013 valuation)
Nature of disablements (CPRF only)	All disablements are assumed to be total and permanent
Eligibility of benefits offsets (CPRF only)	Deaths or disablements under CPRF are assumed to receive UNJSPF benefits
Benefits excluded due to lack of materiality (CPRF only)	Preparation of remains and funeral expenses; children's benefit for future deaths and disablements, etc.
Benefits excluded due to inclusion in other valuations (CPRF only)	Medical and hospital expenses Return transportation of the deceased and family members
Members receiving repatriation benefits (OSRB*** only)	Repatriation benefits were assumed to be payable to 80.00 percent of those staff members who retire or withdraw from service (same in 2013 valuation). 80.00 percent of eligible males were assumed to be married and 50.00 percent of female staff members were assumed to be married (same in 2013 valuation)
Repatriation travel and removal costs (OSRB only)	USD 8,600 for unmarried staff and USD 12,200 for married staff in 2015, growing with inflation thereafter. (USD 11,811 for unmarried staff and USD 16,778 for married staff, in 2013 valuation)
Accrued leave payable at separation (OSRB only)	Average accrued leave benefit was assumed to be 37 days' pay (26 days' pay in 2013 valuation)
Actuarial method	After-Service Medical Plans, Separation Payments Scheme, and Staff Compensation Plan: Projected unit credit with an attribution period from the entry on duty date to the date of full eligibility for benefits Other Separation-Related Payments Schemes: For accrued leave, projected unit credit with all liability attributed to past service. For repatriation travel and removal, projected unit credit with an attribution period from the entry on duty date to separation. For repatriation grant and death grant, projected unit credit with an attribution based on the actual benefit formula
Value of assets	Funding – Market value Accounting – Plans treated as unfunded

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

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

2.11.5.2 Reconciliation of Defined Benefit Obligation

	After-Service Medical Plan	Other separation-related benefits	Separation payments scheme	Compensation Plan Reserve Fund	Total
	USD millions				
Net defined benefit obligation at 31 December 2013	**328.1**	**64.7**	**24.4**	**8.3**	**425.5**
Service cost for 2014	19.0	3.9	2.0	0.3	25.2
Interest cost for 2014	12.4	2.4	0.9	0.3	16.0
Actual gross benefit payments for 2014	(4.5)	(3.5)	(1.3)	(0.3)	(9.6)
Participant contributions	1.5	-	-	-	1.5
Exchange rate movements	(30.4)	(0.4)	(2.7)	(0.1)	(33.6)
Method change for locally recruited staff valuation	100.8	10.6	-	1.4	112.8
Other actuarial (gain)/loss	51.0	12.8	(1.5)	0.9	63.2
Defined benefit obligation at 31 December 2014	**477.9**	**90.5**	**21.8**	**10.8**	**601.0**

2.11.5.3 Annual Expense for Calendar Year 2014

116. The annual expense for 2014 comprises: a) the annual expense of USD 53.7 million related to the Professional staff members in the professional category and general service category in Headquarters as per below table; and b) the expense of USD 101.9 million reflecting the increase in the employee benefit liabilities due to calculation method changes for the locally recruited staff members in country offices and regional bureaux.

	After-Service Medical Plan	Other separation-related benefits	Separation payments scheme	Compensation Plan Reserve Fund	Total
	USD millions				
Service cost	19.0	3.9	2.0	0.3	25.2
Interest cost	12.4	2.4	0.9	0.3	16.0
(Gain)/Loss amortization	-	12.4	-	0.1	12.5
Sub-total expense	**31.4**	**18.7**	**2.9**	**0.7**	**53.7**

2.11.5.4 Reconciliation of Present Value of Defined Benefit Obligation

	After-Service Medical Plan	Other separation-related benefits	Separation payments scheme	Compensation Plan Reserve Fund	Total
			USD millions		
Defined benefit obligation					
Inactive	135.1	-	-	8.1	143.2
Active	342.8	90.5	21.8	2.7	457.8
Total	**477.9**	**90.5**	**21.8**	**10.8**	**601.0**
(Surplus)/deficit	477.9	90.5	21.8	10.8	601.0
Unrecognized (loss)/gain	(52.7)	-	2.1	(2.6)	(53.2)
Net balance sheet liability	**425.2**	**90.5**	**23.9**	**8.2**	**547.8**

2.11.5.5 After-Service Medical Plans – Sensitivity Analysis

117. Three of the principal assumptions in the valuation of the After-Service Medical Plans are: i) the rate at which medical costs are expected to increase in the future; ii) the exchange rate between the 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.

118. In the 2014 valuation, it was assumed that for the BMIP, medical costs will increase at 5 percent from 2015 to 2024, 4.5 percent per year during 2025 through 2044, and 4 percent per year in 2045 and beyond. For the MIP, it was assumed that medical costs will increase at 6 percent from 2015, decreasing by 0.2 percent each year to 4.6 percent in 2022 and 4.5 percent in 2023 and beyond.

119. It was also assumed that for the BMIP, the future exchange rates between the euro and US dollar will average about USD 1.220 per euro, which was the United Nations operational rate of exchange at 31 December 2014. For the MIP, it is assumed that all claims are incurred in US dollars or other currencies that are correlated with the US dollar.

120. Further assumed was a discount rate of 3.1 percent for the BMIP, based on yield curve approach at 31 December 2014 (3.8 percent in 2013 valuation) and a discount rate of 4.5 percent for the MIP.

121. A sensitivity analysis was undertaken to determine the impact of the above assumptions on the liability and service cost under IPSAS 25. The results indicate that claims costs and premium rates would increase by the same percentage as the medical inflation, but that all other assumptions would be unaffected. For the exchange rate, the sensitivity analysis reflects the impact of a 10-cent increase in the value of the Euro in US dollars. For medical inflation and the discount rates, the sensitivity analysis reflects the impact of 1 percent changes.

122. Using the current assumptions, the defined benefit obligation is USD 477.8 million. For the liability sensitivity analysis, a change in the medical inflation rate of 1 percent per year, would, other assumptions being equal, result in a defined benefit obligation of USD 614.3 million. An exchange rate of USD 1.320 per euro would, other assumptions being equal, result in a defined benefit obligation of USD 497.8 million. A change in the discount rate of 1 percent would, other assumptions being equal, result in a defined benefit obligation of USD 620.7 million

123. Using the current assumptions, the 2015 service cost is USD 33.1 million. For the service cost sensitivity analysis, a change in the medical inflation rate of 1 percent per year would, other assumptions being equal, result in a service cost equal to USD 45.7 million. An exchange rate of USD 1.320 per euro would, other assumptions being equal, result in a service cost equal to USD 34.3 million. A change in the discount rate of 1 percent would, other assumptions being equal, result in a service cost of USD 45.8 million.

2.11.5.6 Expected Costs during 2015

124. The expected contribution of WFP in 2015 to the defined benefits plans is USD 11.5 million which is determined based on expected benefit payments for that year.

2.11.6 United Nations Joint Staff Pension Fund

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

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

127. The actuarial valuation performed as of 31 December 2013 revealed an actuarial deficit of 0.72 percent (1.87 percent in the 2011 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve a balance as of 31 December 2013 was 24.42 percent of pensionable remuneration, compared to the actual contribution rate of 23.7 percent. The next actuarial valuation will be conducted as of 31 December 2015.

128. At 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.5 percent (130.0 percent in the 2011 valuation). The funded ratio was 91.2 percent (86.2 percent in the 2011 valuation) when the current system of pension adjustments was taken into account.

129. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2013, for deficiency payments under Article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of Article 26.

130. In December 2012 and April 2013, the General Assembly authorized an increase to age 65 in the normal retirement age and in the mandatory age of separation respectively for new participants of the Fund, with effect not later than from 1 January 2014.The related change to the Pension Fund's Regulations was approved by the General Assembly in December 2013. The increase in the normal retirement age is reflected in the actuarial valuation of the Fund as of 31 December 2013.

131. During 2014, contributions paid to the UNJSPF amounted to USD 63.4 million (USD 61.7 million in 2013). Expected contributions due in 2015 are USD 65.2 million.

132. The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the United Nations Joint Staff Pension Fund 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.

2.11.7 Social Security Arrangements for Employees under Service Contracts

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

Note 2.12: Loans

	2014	2013
	USD millions	
CERF loan	**27.0**	**27.0**
Current portion of long-term loan (Note 2.13)	**5.8**	**5.8**
Total loans	**32.8**	**32.8**

134. The Central Emergency Response Fund (CERF) is a cash-flow mechanism of the United Nations which is designed to bridge the gap between needs and available funding. The CERF is funded by donors and loan proceeds are released to United Nations operational agencies interest-free. The mechanism requires that agencies borrowing from the fund pay back the loan within one year.

135. In 2013, WFP used this facility to borrow USD 27.0 million to establish a contingency fund for the emergency operations in the Syrian Arab Republic and the surrounding region (Egypt, Iraq, Jordan, Lebanon and Turkey). In 2014, the loan repayment date was extended to April 2015.

Note 2.13: Long-Term Loan

	2014	2013
	USD millions	
Long-term loan	**95.4**	**101.2**
Less: Current portion of long-term loan (Note 2.12)	**(5.8)**	**(5.8)**
Long-term loan	**89.6**	**95.4**

136. 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.

137. 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 0.5 million using the effective interest method. Investments in US Treasury STRIPS (Note 2.6) acquired in 2001 are held to maturity up to 2031 for the payment of interest and principal of the commodity loan of USD 106.0 million.

138. The loan is reflected at amortized cost using the effective interest rate of 2.44 percent. At 31 December 2014, total amortized cost was USD 95.4 million (USD 101.2 million at 31 December 2013) with an amount due within one year of USD 5.8 million and a long-term portion of USD 89.6 million (USD 5.8 million and USD 95.4 million, respectively in 2013).

139. Interest expense during 2014 totalled USD 2.4 million (USD 2.5 million at 31 December 2013) as reflected in the Statement of Financial Performance, of which USD 2.9 million represents the annual interest paid in May 2014 and USD (0.5) million represents the amortized cost resulting from the recognition of the long-term loan to its net present value.

140. In the Statement of Cash Flow, interest paid during the year in the amount of USD 2.9 million is presented under financing activities while amortized interest of USD (0.5) million is presented under reconciliation to net cash flows from operating activities.

Note 2.14: Financial Instruments

2.14.1 Nature of Financial Instruments

141. 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.

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

	2014	2013
	USD millions	
Financial assets at fair value through surplus or deficit	844.5	777.1
Held-to-maturity investments	77.0	80.8
Loans and receivables	3 015.5	2 624.4
Available-for-sale financial assets	381.4	353.1
Subtotal	**4 318.4**	**3 835.4**
Non-financial assets	834.3	897.0
Total	**5 152.7**	**4 732.4**

143. Financial assets at fair value through surplus or deficit are classified as held-for-trading category.

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

145. The following table presents the WFP assets that are measured at fair value at 31 December 2014 and 2013, respectively.

				2014				2013
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	USD millions				*USD millions*			
Financial assets at fair value through surplus or deficit	-	835.3	9.2	844.5	-	723.4	53.7	777.1
Available-for-sale financial assets	195.0	185.7	0.7	381.4	182.1	144.3	26.7	353.1
Total	**195.0**	**1 021.0**	**9.9**	**1 225.9**	**182.1**	**867.7**	**80.4**	**1 130.2**

146. 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).

147. WFP investment guidelines are very 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.

148. The following table presents the changes in Level 3 financial instruments for the year ended 31 December 2014 and 2013, respectively.

	2014			2013		
	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 millions			***USD millions***		
Opening balance	53.7	26.7	80.4	5.2	21.4	26.6
Gains/(losses) recognized in Statement of Financial Performance	0.1	(1.6)	(1.5)	(0.8)	(1.4)	(2.2)
Gains/(losses) recognized in Statement of Net Assets	-	1.7	1.7	-	(3.1)	(3.1)
Purchases	7.2	0.7	7.9	33.9	21.0	54.9
Sales	(31.3)	(9.8)	(41.1)	(1.8)	(9.9)	(11.7)
Settlements	-	-	-	(0.3)	-	(0.3)
Capital change	(10.0)	(0.4)	(10.4)	1.6	(1.3)	0.3
Transfer	(10.5)	(16.6)	(27.1)	15.9	-	15.9
Closing balance	**9.2**	**0.7**	**9.9**	**53.7**	**26.7**	**80.4**

149. There were no transfers out of Level 1 into Level 2 and out of Level 2 into Level 1 during 2014 and 2013.

2.14.2 Credit Risk

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

151. 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.

152. 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

153. WFP is exposed to interest rate risk through short-term investments and long-term bonds. At 31 December 2014, the effective interest rates of these two investment portfolios were 0.66 percent and 1.72 percent, respectively, (0.51 percent and 1.97 percent, respectively, in 2013). A measurement of interest rate sensitivity indicates that the effective duration is 0.75 years for the short-term investments and 6.41 years for the long-term bonds (0.69 years and 6.28 years, respectively, in December 2013). Fixed income derivatives are used by external investment managers to manage interest rate risk under strict investment guidelines.

2.14.4 Foreign Currency Risk

154. At 31 December 2014, 85 percent of cash, cash equivalent and investments are denominated in the US dollar base currency and 12 percent are denominated in Euros and remaining 3 percent in other currencies (87 percent in the US dollar base currency and 10 percent in Euros and remaining 3 percent in other currencies at 31 December 2013). Non-US dollar holdings have the primary objective of supporting operating activities. In addition, 72 percent of contributions receivable is denominated in the US dollar base currency, 15 percent is denominated in Euros, 4 percent in Canadian dollar and 9 percent is denominated in other currencies (59 percent in the US dollar base currency, 15 percent in Euros, 11 percent in Pounds Sterling and 15 percent in other currencies at 31 December 2013).

155. 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 2014, 12 contracts were settled at a realized gain of USD 0.2 million (12 contracts were settled during the year ended 31 December 2013 at a realized gain of USD 2.9 million). In addition, a new hedging strategy was implemented for 2015, in which WFP entered into 12 foreign exchange forward contracts to purchase Euro 6.0 million on a monthly basis at a fixed exchange rate. At 31 December 2014, the 12 contracts have a notional value of USD 97.2 million and an unrealized loss of USD 9.9 million using the forward rate at 31 December 2014. Both the realized gain and unrealized loss are included in currency exchange differences presented in the Statement of Financial Performance.

2.14.5 Market Risk

156. WFP is subject to market risk in both the short-term and long-term investments. The market value of its fixed income, equity, financial derivatives and foreign exchange forwards 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.

157. Interest rate sensitivity: For short-term investments, if interest rates were to rise (fall) by 1 percent, the impact to the Statement of Financial Performance is a USD 7.9 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 12.1 million unrealized loss (gain).

158. 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 0.2 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).

159. 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 1.9 million unrealized gain (loss).

160. Foreign Exchange forwards sensitivity: For the remaining 12 PSA hedge forward contracts, if USD/EUR rate were to rise (fall) by 1 percent, the impact to the Statement of Financial Performance is a USD 0.9 million unrealized gain (loss), with all other variables held constant. For long-term investments, if foreign currency prices were to appreciate (depreciate) versus the USD by 1 percent across the forward currency positions currently held, the impact to the Statement of Financial Performance is a USD 0.2 million unrealized loss (gain).

Note 2.15: Fund Balances and Reserves

161. 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.

	2014					2013
	Programme category funds (fund balance)	Bilateral operations and trust funds (fund balance)	General Fund and Special Accounts		Total	
			(fund balance)	Reserves		
	USD millions					
Opening balance at 01 January, 2014	**2 796.5**	**344.6**	**259.1**	**272.5**	**3 672.7**	**3 624.3**
Surplus (deficit) for the year	**95.1**	**(38.6)**	**179.3**	**-**	**235.8**	**21.0**
Subtotal	**2 891.6**	**306.0**	**438.4**	**272.5**	**3 908.5**	**3 645.3**
Movements during the year:						
Advances to projects	182.4	-	-	(182.4)	-	-
Repayments by projects	(132.6)	-	-	132.6	-	-
Approved Board allocations	-	-	9.2	(9.2)	-	-
Repayments of unspent Board allocations	-	-	(1.7)	1.7	-	-
Replenishments	-	-	(40.2)	40.2	-	-
Surplus of ISC revenue over PSA expenses	-	-	(76.0)	76.0	-	-
Transfers between funds	225.7	15.7	(241.4)	-	-	-
Net unrealized gains (losses) on long-term investments	-	-	14.2	-	14.2	27.4
Total movements during the year	**275.5**	**15.7**	**(335.9)**	**58.9**	**14.2**	**27.4**
Closing balance at 31 December 2014	**3 167.1**	**321.7**	**102.5**	**331.4**	**3 922.7**	**3 672.7**

162. 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.

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

164. Reserves are established by the Board as facilities for funding and/or financing specific activities under specific circumstances. During 2014, WFP had 4 active reserves: i) Operational Reserve; ii) Global Commodity Management Facility Reserve; iii) Immediate Response Account; and the iv) PSA Equalization Account. The following table presents WFP's reserves.

	2014					
	2.15.1 Operational Reserve (OR)	**2.15.2 Global Commodity Management Facility (GCMF) Reserve**	**2.15.3 Immediate Response Account (IRA)**	**2.15.4 PSA Equalization Account (PSAEA)**	**Total**	**2013**
	USD millions					
Opening balance at 01 January, 2014	**101.2**	**-**	**50.0**	**121.3**	**272.5**	**273.1**
Advances to projects	-	-	(182.4)	-	(182.4)	(163.9)
Repayments by projects	-	-	132.6	-	132.6	86.9
Approved Board allocations	(6.0)	6.0	-	(9.2)	(9.2)	(11.7)
Repayments of unspent Board allocations	-	-	-	1.7	1.7	1.9
Replenishments	-	-	40.2	-	40.2	49.6
Surplus of ISC revenue over PSA expenses	-	-	-	76.0	76.0	36.6
Closing balance at 31 December 2014	**95.2**	**6.0**	**40.4**	**189.8**	**331.4**	**272.5**

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

2.15.1 Operational Reserve

166. 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).

167. In 2014, as a result of a comprehensive review of the Working Capital Financing Facility, USD 6.0 million was transferred from the Operational Reserve to a newly created Global Commodity Management Facility Reserve.

168. The balance of the Operational Reserve at 31 December 2014 is USD 95.2 million.

2.15.2 Global Commodity Management Facility Reserve

169. In 2014, as a result of a comprehensive review of the Working Capital Financing Facility, a new reserve account was created to back internal lending under the Global Commodity Management Facility (Decision 2014/EB.A/8).

170. USD 6.0 million was transferred from the Operational Reserve to the newly created Global Commodity Management Facility Reserve.

171. The balance of the Global Commodity Management Facility Reserve at 31 December 2014 is USD 6.0 million.

2.15.3 Immediate Response Account

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

173. In 2014, the IRA received USD 40.2 million in replenishments. Advances made to projects totalled USD 182.4 million and repayments by projects amounted to USD 132.6 million. The IRA balance at 31 December 2014 is USD 40.4 million, which is below the target level of USD 200.0 million. In 2014, the target level was increased from 70 million to 200 million (WFP/EB.2/2014/5-A/1). Outstanding advances to projects made by the IRA at 31 December 2014 totalled USD 211.6 million (USD 229.6 million in 2013).

2.15.4 Programme Support and Administrative Budget Equalization Account

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

175. During the Second Regular Session of the Board in November 2013, the Board approved one-time investments in the WFP Management Plan 2014–2016 for organizational changes from PSAEA (Decision 2013/EB.2/6 iv) totalling USD 9.2 million which was allocated in 2014.

176. USD 1.7 million unspent balances pertaining to allocations approved by the Board from PSAEA in the previous periods were returned back to PSAEA in 2014 pursuant to Financial Regulation 9.9.

177. The excess of ISC revenue over PSA expenses totalling USD 76.0 million was transferred to PSAEA in 2014 (USD 36.6 million surplus in 2013). The PSAEA balance at 31 December 2014 is USD 189.8 million. As approved in the WFP Management Plan (2015–2017) (Decision 2014/EB.2/4 (iv)), this balance is reduced in early 2015 by USD 9.2 million supplementary PSA investments to be used for critical corporate initiatives.

NOTE 3: REVENUE

		2014	2013
		USD (millions)	
3.1	**Monetary contributions**		
	Contributions for direct costs	4 601.1	3 657.6
	ISC contributions	354.7	283.5
	Subtotal	**4 955.8**	**3 941.1**
	Less:		
	Refunds, reprogrammes and reductions in contribution revenue	(78.0)	(72.7)
	Total monetary contributions	**4 877.8**	**3 868.4**
3.2	**In-kind contributions**		
	Commodities in-kind contributions	453.5	482.7
	Service in-kind contributions	53.7	28.0
	Subtotal	**507.2**	**510.7**
	Add (deduct):		
	Increase (decrease) in contribution revenue	(3.9)	0.5
	Total in-kind contributions	**503.3**	**511.2**
3.3	**Currency exchange differences**	**(64.7)**	**19.8**
3.4	**Return on investments**		
	Net realized gains (losses) on investments	(8.0)	2.7
	Net unrealized gains (losses) on investments	(12.4)	(5.2)
	Interest earned	21.5	22.6
	Total return on investments	**1.1**	**20.1**
3.5	**Other revenue**		
	Revenue generated from provision of goods and services	114.1	94.1
	Miscellaneous revenue	18.8	22.2
	Total other revenue	**132.9**	**116.3**
	Total revenue	**5 450.4**	**4 535.8**

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

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

180. Contribution revenues recognized in 2014 representing resources which are to be used in future years (with comparative figures for 2013) are as follows:

	Applicable to Years					
	2014	**2015**	**2016**	**2017**	**2018**	**Total**
	USD millions					
Future year contribution revenue recognized in 2014	**-**	**180.2**	**59.1**	**11.8**	**-**	**251.1**
Future year contribution revenue recognized in 2013	**132.5**	**90.3**	**14.8**	**5.3**	**-**	**242.9**

181. During 2014, other revenue amounted to USD 132.9 million, of which USD 114.1 million was generated from the provision of goods and services (USD 94.1 million at 31 December 2013) and USD 18.8 million from miscellaneous revenue (USD 22.2 million at 31 December 2013). 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

		2014	2013
		USD (millions)	
4.1	**Cash and vouchers distributed**	**845.6**	**498.1**
4.2	**Food commodities distributed**	**1 988.5**	**2 053.4**
4.3	**Distribution and related services**	**650.4**	**578.6**
4.4	**Wages, salaries, employee benefits and other staff costs**		
	International and national staff	691.3	580.4
	Consultants	58.1	46.6
	United Nations volunteers	4.5	4.1
	Temporary staff	79.1	70.5
	Other personnel costs	17.6	16.5
	Total wages, salaries, employee benefits and other staff costs	**850.6**	**718.1**
4.5	**Supplies, consumables and other running costs**		
	Telecommunications and Information Technology	10.0	10.9
	Equipment	85.1	71.9
	Office supplies and consumables	50.3	47.6
	Utilities	10.4	8.0
	Vehicle maintenance and running costs	27.7	20.6
	Total supplies, consumables and other running costs	**183.5**	**159.0**
4.6	**Contracted and other services**		
	Air operations	278.0	153.1
	Other contracted services	182.9	154.1
	Telecommunications/IT related services	35.2	31.3
	Security and other services	43.6	38.9
	Leases	33.1	27.9
	Total contracted and other services	**572.8**	**405.3**
4.7	**Finance Costs**	**2.4**	**2.5**
4.8	**Depreciation and amortization**	**50.3**	**49.0**
4.9	**Other expenses**		
	Maintenance services	6.4	4.3
	Insurance	6.5	8.1
	Bank charges/investment manager and custodian fees	2.4	2.6
	Doubtful accounts and impairment	23.4	11.8
	Trainings and meetings	25.7	20.7
	Other	6.1	3.3
	Total other expenses	**70.5**	**50.8**
	Total expenses	**5 214.6**	**4 514.8**

182. During 2014, cash and vouchers distributed totalled USD 845.6 million (USD 498.1 million in December 2013).

183. During 2014, food commodities and non-food items distributed totalled USD 1,988.5 million, as reported in the Statement of Financial Performance (USD 2,053.4 million in December 2013).

184. Food commodities distributed include cost of commodities as well as transport and related costs between the country in which WFP takes possession and the recipient country. Included in the cost of commodities distributed are post-delivery losses of USD 11.8 million (USD 18.7 million in December 2013) (Note 9).

185. Given WFP's accounting policy to expense when food is handed over to the cooperating partners, at 31 December 2014, there remains food commodities of USD 84.2 million (122,788 mt) that have yet to be distributed to beneficiaries (USD 86.0 million (121,795 mt) at 31 December 2013).

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

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

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

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

NOTE 5: STATEMENT OF CASH FLOW

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

NOTE 6: STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

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

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

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

194. 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.

195. 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.

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

197. 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.

198. 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 2014 is presented below:

	2014			
	Operating	**Investing**	**Financing**	**Total**
	USD millions			
Actual amount on comparable basis (Statement V)	**(4 817.9)**	**-**	**-**	**(4 817.9)**
Basis differences	123.1	(142.9)	(8.2)	(28.0)
Presentation differences	5 181.4	-	-	5 181.4
Entity differences	(166.2)	-	-	(166.2)
Actual amount in the Statement of Cash Flow (Statement IV)	**320.4**	**(142.9)**	**(8.2)**	**169.3**

199. Open commitments including open purchase orders and net cash flows from operating, investing and financing activities are presented as Basis differences. Revenue and non-fund relevant expenses that do not form part of the Statement of Comparison of Budget and Actual Amounts are reflected as Presentation differences. Under Entity differences, bilateral operations and trust funds form part of WFP activities and are reported in the financial statements but, as they are considered extra-budgetary resources, are excluded from the budget.

200. Budget amounts have been presented on a functional classification basis in accordance with the Management Plan (2014–2016), which presents a breakdown of the budget by year for purposes of the above comparison.

NOTE 7: SEGMENT REPORTING

Note 7.1: Statement of Financial Position by Segment

	2014					2013
	Programme Category Funds	General Fund and Special Accounts	Bilateral Operations and Trust Funds	Inter-Segment Transac-tions	Total	
	(USD millions)					
ASSETS						
Current Assets						
Cash and short-term investments	1 054.8	341.8	279.4	-	1 676.0	1 436.2
Contributions receivable	1 862.0	150.9	86.9	-	2 099.8	1 774.1
Inventories	508.8	64.1	5.7	-	578.6	664.9
Other receivables	76.9	442.9	6.9	(404.5)	122.2	137.4
	3 502.5	**999.7**	**378.9**	**(404.5)**	**4 476.6**	**4 012.6**
Non-current Assets						
Contributions receivable	59.2	27.7	6.2	-	93.1	165.7
Long-term investments	-	448.9	-	-	448.9	427.5
Property, plant and equipment	91.1	30.8	3.3	-	125.2	110.7
Intangible assets	-	8.4	0.5	-	8.9	15.9
	150.3	**515.8**	**10.0**	**-**	**676.1**	**719.8**
TOTAL ASSETS	**3 652.8**	**1 515.5**	**388.9**	**(404.5)**	**5 152.7**	**4 732.4**
LIABILITIES						
Current Liabilities						
Payable and accruals	456.6	420.7	63.1	(404.5)	535.9	499.0
Provisions	2.1	-	4.1	-	6.2	10.7
Employee benefits	-	10.4	-	-	10.4	23.7
Loans	27.0	5.8	-	-	32.8	32.8
	485.7	**436.9**	**67.2**	**(404.5)**	**585.3**	**566.2**
Non-current Liabilities						
Employee benefits	-	555.1	-	-	555.1	398.1
Long-term loan	-	89.6	-	-	89.6	95.4
	-	**644.7**	**-**	**-**	**644.7**	**493.5**
TOTAL LIABILITIES	**485.7**	**1 081.6**	**67.2**	**(404.5)**	**1 230.0**	**1 059.7**
NET ASSETS	**3 167.1**	**433.9**	**321.7**	**-**	**3 922.7**	**3 672.7**
FUND BALANCES AND RESERVES						
Fund balances	3 167.1	102.5	321.7	-	3 591.3	3 400.2
Reserves	-	331.4	-	-	331.4	272.5
TOTAL FUND BALANCES AND RESERVES, 31 December 2014	**3 167.1**	**433.9**	**321.7**	**-**	**3 922.7**	**3 672.7**
TOTAL FUND BALANCES AND RESERVES, 31 December 2013	**2 796.5**	**531.6**	**344.6**	**-**	**3 672.7**	

Note 7.2: Statement of Financial Performance by Segment

	2014					2013
	Programme Category Funds	General Fund and Special Accounts	Bilateral Operations and Trust Funds	Inter-Segment Transactions	Total	
	(USD millions)					
REVENUE						
Monetary contributions	4 088.9	661.9	127.0	-	4 877.8	3 868.4
In-kind contributions	468.3	34.4	0.6	-	503.3	511.2
Currency exchange differences	3.2	(67.0)	(0.9)	-	(64.7)	19.8
Return on investments	-	0.2	0.9	-	1.1	20.1
Other revenue	88.6	680.9	-	(636.6)	132.9	116.3
TOTAL REVENUE	**4 649.0**	**1 310.4**	**127.6**	**(636.6)**	**5 450.4**	**4 535.8**
EXPENSES						
Cash and vouchers distributed	844.7	-	0.9	-	845.6	498.1
Food commodities distributed	1 977.9	471.0	22.4	(482.8)	1 988.5	2 053.4
Distribution and related services	638.8	3.7	12.1	(4.2)	650.4	578.6
Wages, salaries, employee benefits and other staff costs	408.6	377.1	73.3	(8.4)	850.6	718.1
Supplies, consumables and other running costs	135.7	41.8	16.6	(10.6)	183.5	159.0
Contracted and other services	455.6	187.3	30.1	(100.2)	572.8	405.3
Finance costs	-	2.4	-	-	2.4	2.5
Depreciation and amortization	29.2	20.0	1.1	-	50.3	49.0
Other expenses	63.4	27.8	9.7	(30.4)	70.5	50.8
TOTAL EXPENSES	**4 553.9**	**1 131.1**	**166.2**	**(636.6)**	**5 214.6**	**4 514.8**
SURPLUS (DEFICIT) FOR THE YEAR, 2014	**95.1**	**179.3**	**(38.6)**	**-**	**235.8**	**21.0**
SURPLUS (DEFICIT) FOR THE YEAR, 2013	**(148.8)**	**211.1**	**(41.3)**	**-**	**21.0**	

201. 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.

	2014	2013
	USD millions	
Cash and cash equivalents	822.0	652.7
Short-term investments	854.0	783.5
Total cash and cash equivalents and short-term investments	**1 676.0**	**1 436.2**

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

203. During the year ended 31 December 2014, activities have created inter-segment balances in the amount of USD 404.5 million in the Statement of Financial Position and USD 636.6 million in the Statement of Financial Performance.

204. Of the total PP&E of USD 125.2 million at 31 December 2014 (USD 110.7 million at 31 December 2013), USD 49.9 million relates to acquisitions, net of disposals in 2014 (USD 37.9 million at 31 December 2013).

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

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

NOTE 8: COMMITMENTS AND CONTINGENCIES

Note 8.1: Commitments

8.1.1 Property Leases

	2014	2013
	USD millions	
Obligations for property leases:		
Within 1 year	37.0	28.1
Later than 1 year and not later than 5 years	42.6	47.4
Beyond 5 years	5.6	7.2
Total property leases obligations	**85.2**	**82.7**

207. At 31 December 2014, property lease obligations for the WFP Headquarters building in Rome represent 23 percent of the total obligations under the within 1 year category and 43 percent under the later than 1 year and not later than 5 years category (30 percent and 53 percent, respectively, at 31 December 2013). The lease can be renewed at WFP's option. Costs incurred in leasing the Headquarters building are reimbursed by the host government.

8.1.2 Other Commitments

208. At 31 December 2014, WFP had commitments for the acquisition of food commodities, transportation, services, non-food items, and capital commitments contracted but not delivered as follows:

	2014	2013
	USD millions	
Food commodities	275.7	205.9
Transportation – Food commodities	116.5	106.6
Services	88.8	70.2
Non-food items	57.5	55.8
Capital commitments	14.5	8.5
Total open commitments	**553.0**	**447.0**

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

Note 8.2: Legal or Contingent Liabilities and Contingent Assets

210. There is one material contingent liability related to a potential refund for the amount of USD 17 million requested by a donor in 2014. The donor's request relates to concerns regarding programme implementation, which WFP is actively addressing in close consultation with this donor government. Pending final resolution of this issue no commitments have been made against the donor contribution.

211. There is one material contingent asset resulting from an arbitration award in 2010.

212. In 2005, cases of fraud by two WFP employees were discovered in the WFP regional bureau in South Africa. The loss was estimated at USD 6.0 million. A criminal trial began in 2008. As part of the criminal proceedings, the employees' known assets, reportedly valued at ZAR 40 million (approximately USD 3.4 million at 31 December 2014), were placed under restraint order at the request of the Prosecuting Authority.

213. In parallel to the criminal proceedings, WFP initiated arbitration against the two employees (the defendants) under the terms of their employment contracts, seeking recovery of the misappropriated funds. This action was pursued in order to establish WFP's claim against the restrained assets irrespective of the outcome of the criminal proceedings. In January 2010, the Arbitral Tribunal issued a default award in favour of WFP on all claims. The total award amounted to approximately USD 6.0 million, plus

interest and costs. Following the required waiver by the United Nations and FAO of WFP's immunity, WFP filed an application with the High Court of South Africa to have the arbitral award made an order of court for the purpose of enforcement in South Africa.

214. In October 2011, the High Court issued a judgement in favour of WFP, ordering that the arbitral award be made an order of court. This judgement is now final.

215. In December 2012, a judgement in the criminal proceedings was rendered which found the defendants guilty on all accounts of fraud and on 30 August 2013, the court gave each of the defendants a cumulative sentence of 25 years of imprisonment. On 31 October 2013, the trial court rejected the defendants' applications for leave to appeal their conviction and sentence. The defendants indicated they would be petitioning the South African High court for leave to appeal. Local counsel has advised that the defendants' petitions are in the final stages of preparation and that the appeal process would take approximately 12 months.

216. Enforcement of the arbitral award can only occur following the conclusion of criminal proceedings including the appeals process. At that juncture, WFP will intervene under the relevant sections of the Prevention of Organized Crime Act to seek recovery.

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

217. WFP Financial Regulation 12.3 provides that "The Executive Director may make such *ex-gratia* payments as the Executive Director deems necessary in the interest of WFP. The Executive Director shall report all such payments to the Board with the financial statements". In addition, Financial Regulation 12.4 provides that "The Executive Director may, after full investigation, authorize the writing off of losses of cash, commodities and other assets, provided that a statement of all amounts written off shall be submitted to the External Auditor with the financial statements."

218. The following table details the *ex-gratia* payments and losses of cash, food commodities and other assets for 2014.

	2014	**2013**
	USD millions	
Ex-gratia payments	-	0.1
Contributions receivable	4.4	0.5
Food commodity losses	11.8	18.7
Non-food item losses	0.2	-
Other assets and cash losses	0.2	-
	In mt	
Commodity losses (quantity)	17 220	25 054

219. The *ex-gratia* payments mainly pertain to Field Emergency Claims. Contributions receivable relates to the write-off of receivables from donors. The food commodity losses occurred after the related food arrived at the recipient country. The non-food item losses related mainly to warehouse losses. The other assets and cash losses related mainly to write-offs of other receivables from customers and service providers.

220. Fraud reported in 2014 comprised of vendor fraud, theft and misappropriation of food commodities, non-food items, and cash involving WFP staff and third parties valued at USD 850,436 of which nil has been recovered to date (USD 444,349 in 2013).

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	Outstanding loans
			USD millions					
Key management personnel, 2014	**5**	**5**	**1.1**	**0.4**	**0.2**	**1.7**	**0.2**	**-**
Key management personnel, 2013	**7**	**6**	**1.1**	**0.7**	**0.2**	**2.0**	**-**	**-**

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

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

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

224. Key management personnel qualify for post-employment benefits and other long-term employee benefits at the same level as other employees. The actuarial assumptions applied to measure such employee benefits are disclosed in Note 2.11. Key management personnel are ordinary members of the UNJSPF.

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	Outstanding loans
			USD millions					
Other senior management, 2014	**33**	**27**	**5.0**	**2.1**	**1.1**	**8.2**	**1.2**	**-**
Other senior management, 2013	**33**	**27**	**4.9**	**2.4**	**1.1**	**8.4**	**0.8**	**-**

225. In addition to key management personnel whose remuneration, advances and loans which are required to be disclosed under IPSAS 20, similar disclosure is also made for other senior management of WFP for the sake of completeness and transparency. Other senior management include Regional Directors and Headquarters divisional directors.

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

227. During 2014, compensation provided to close members of the family of other senior management amounted to USD 0.8 million (USD 0.6 million in 2013).

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

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

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

NOTE 11: THIRD-PARTY AGREEMENTS

Third-party agreements reconciliation	2014		2013	
	USD millions			
Opening balance at 01 January		**21.6**		**27.2**
Add-back: allowance for doubtful accounts		0.3		0.3
New third-party agreements set up in the year	75.2		84.9	
Less: receipts/additions during the year	(80.7)	(5.5)	(74.7)	10.2
Third-party agreements payables during the year	(69.9)		(76.1)	
Less: disbursements/deductions during the year	60.3	(9.6)	60.3	(15.8)
Total TPA receivables (Note 2.5)		6.8		21.9
Allowance for doubtful accounts		(0.3)		(0.3)
Closing balance at 31 December		**6.5**		**21.6**

231. 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.

232. The above table shows the movement of TPA transactions during 2014 showing a net receivable from third parties of USD 6.5 million (USD 21.6 million at 31 December 2013).

NOTE 12: EVENTS AFTER REPORTING DATE

233. WFP's reporting date is 31 December 2014. On the date of signing of these accounts by the External Auditor, there have been no material events, favourable or unfavourable, incurred between the balance sheet date and the date when the financial statements have been authorized for issue that would have impacted these statements.

ANNEX I

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

SECTION II

Shashi Kant Sharma

सत्यमेव जयते

भारत के नियंत्रक – महालेखापरीक्षक
COMPTROLLER & AUDITOR GENERAL OF INDIA

No. 357 /12-IR/2015
1 April 2015

Dear Executive Director,

Audit Report of the External Auditor on the Financial Statements of the World Food Programme for the year ended 31 December 2014

I have the honour to transmit the financial statements of the World Food Programme (WFP) for the year ended 31 December 2014 which were submitted to me in accordance with Financial Regulation 13.3. I have audited these statements and have expressed my opinion thereon. Please find enclosed the audit report which may be transmitted to the Executive Board.

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

Please accept the assurances of my highest consideration.

Yours sincerely,

Shashi Kant Sharma
Comptroller and Auditor General of India
External Auditor

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

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

INDEPENDENT AUDITOR'S REPORT

To

The Executive Board
World Food Programme

Report on the Financial Statements

We have audited the accompanying financial statements of the World Food Programme, which comprise the statement of financial position at 31 December 2014, and the statement of financial performance, statement of changes in net assets, statement of cash flow, statement of comparison of budget and actual amounts for the year ended 31 December 2014 and notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the World Food Programme as at 31 December 2014, and its financial performance and of its cash flows for the year ended 31 December 2014 in accordance with IPSAS.

Report on Other Legal and Regulatory Requirements.

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

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

Shashi Kant Sharma
Comptroller and Auditor General of India
External Auditor

New Delhi, India
1 April 2015

Report of the

External Auditor on the

Financial Statements

of the

World Food Programme

For the year ended December 2014

सत्यमेव जयते

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

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

For further information please contact:

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

Tel: 0039-06-6513-2392
Email: stephen.hongray@wfp.org

Results of Audit

1. We have audited the Financial Statements of the World Food Programme (WFP) for the year ended 31 December 2014 in accordance with the Financial Regulations and in conformity with International Standards on Auditing.

2. In our opinion, the Financial Statements present fairly in all material respects the financial position of the WFP as on 31 December 2014 and of its financial performance during the period from 1 January 2014 to 31 December 2014. WFP has followed the provisions of International Public Sector Accounting Standards (IPSAS) in preparation and presentation of the Financial Statements.

Our Programme of Work

3. Our programme of work 2014–2015 was presented to the November 2014 session of the Executive Board. The reports summarising our performance audit work are:

- Report on Warehouse Management
- Report on Management of Corporate Emergencies

4. The above reports have been prepared for the May 2015 session of the Executive Board as scheduled in the Work Plan.

5. In addition to these performance audit reports, our work programme included field visits to 5 out of 79 total country offices (COs), 3 out of a total of 6 regional bureaux (RBs)[1] and the Office of the Regional Emergency Coordinator, Amman. We reviewed the operations in these field offices and also undertook substantive testing of transactions, sampled on the basis of a risk assessment in each of the field audits. At the end of each audit, we issued Management Letters to the Secretariat with our findings and recommendations.

[1] *The country offices audited were the Philippines, Jordan, Cameroon, United Republic of Tanzania and South Sudan. The regional bureaux at Bangkok, Cairo and Dakar were also covered in our field audit.*

Current Report

6. The current report is on the results of Financial Audit at WFP Headquarters (HQ). Our report contains an assessment of (a) performance of WFP on key operational and financial parameters and (b) comments on the Financial Statements. The management made three fresh disclosures in the Notes to the Financial Statements based on our observations. In addition, we have made two recommendations in the report. We also reviewed the progress made in implementation of our recommendations on financial audit of the previous years.

I. Introduction

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

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

- present fairly in all material respects the financial position of WFP as on 31 December 2014 and of the financial performance of WFP during the year 2014;
- are prepared in accordance with the Financial Regulations and the accounting policies of WFP; and
- are in conformity with International Public Sector Accounting Standards (IPSAS).

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

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

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

5. Important findings observed during the field audits of five COs, three RBs and the Office of the Regional Emergency Coordinator, Amman, were also considered during this audit. Views of the management received at various stages of audit were considered while finalizing this report.

II. Responsibility for the Financial Statements

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

III. Responsibility of the External Auditor

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

IV. Audit Opinion on the 2014 Financial Statements

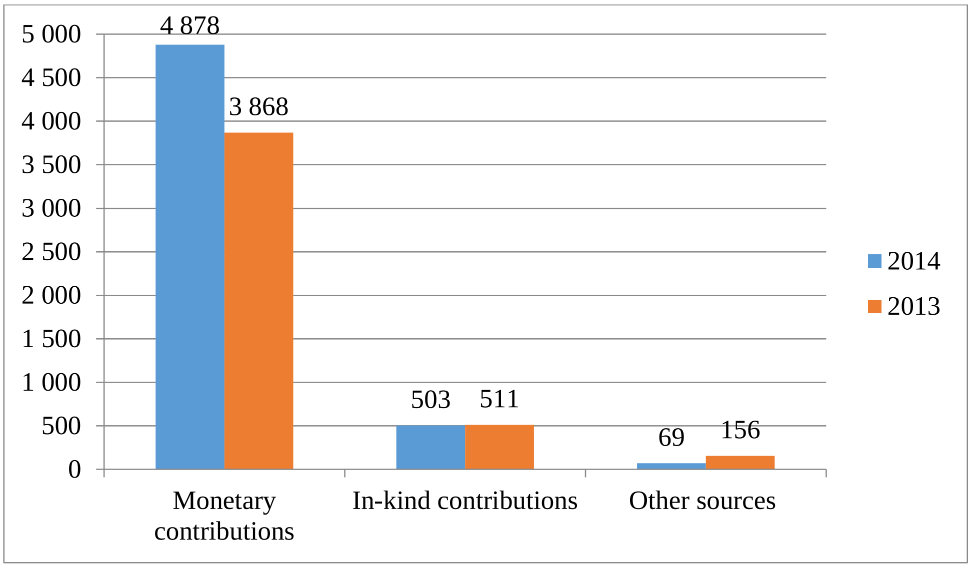
8. Audit of the Financial Statements for the financial period 2014 revealed no weakness or errors which I considered material to the accuracy, completeness and validity of the Financial Statements as a whole. Accordingly, I have placed an unqualified audit opinion on the WFP’s Financial Statements for the financial period ended 31 December 2014.

V. Performance against Key Indicators

Revenue and Expenses

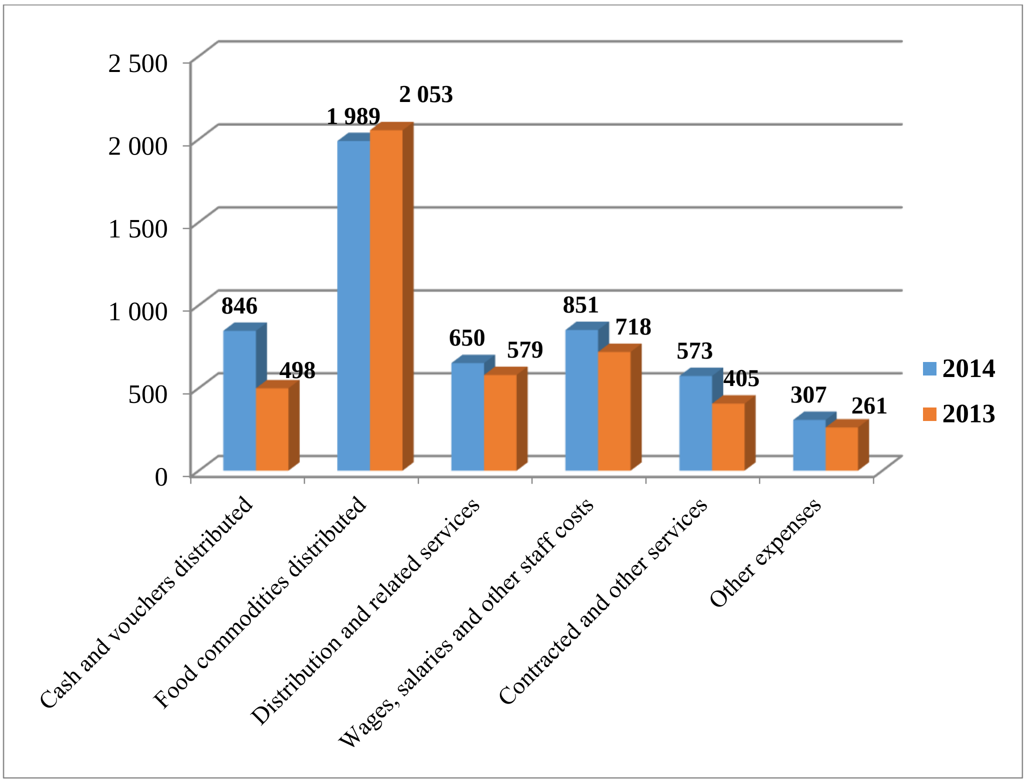
9. Most of WFP’s revenue came from donor contributions, monetary and in-kind, which together constituted 98.7 percent of WFP’s total revenue during 2014 (96.6 percent in 2013). The rest came from currency exchange differences, return on investments, revenue generated from the provision of goods and services and other sources like proceeds from the sale of damaged commodities, etc. The monetary contribution constituted 90.6 percent of the total contributions in 2014 (88.3 percent in 2013).

Chart 1: WFP Revenues (*USD million*)



10. The aid component – food commodities as well as cash and vouchers – amounting to USD 2.83 billion accounted for 54.3 percent of WFP’s expenses in 2014 (56.5 percent in 2013), followed by staff costs which represented 16.3 percent of its expenses during the year (15.9 percent in 2013). Distribution and related services accounted for 12.5 percent of total expenses (12.8 percent in 2013) while contracted and other services accounted for 11 percent of expenses (9 percent in 2013). The rest of expenses (supplies, consumables and other running costs, training and meeting related costs, allowances for doubtful accounts, maintenance of facilities and services, insurance, finance costs, etc.) accounted for 5.9 percent (5.8 percent in 2013). The comparison of revenue and expenses during 2013 and 2014 is shown in Charts 1 and 2 respectively.

Chart 2: WFP Expenses (*USD million*)



11. Among the expenses, an increased use of cash and vouchers distributed was noticed, with the result that while expenses on account of food commodities distributed decreased by USD 64.9 million (3.2 percent) over the previous year, this decrease was more than offset by an increase of USD 347.5 million (69.8 percent) in cash and vouchers distributed during the year. Compared to the previous year, expenses on distribution and related services increased by 12.4 percent, supplies, consumables and running costs increased by 15.4 percent, contracted and other services increased by 41.3 percent and wages, salaries, employee benefits and other staff costs increased by 18.5 percent.

12. In respect of revenue also, while monetary contributions increased by USD 1.01 billion (26.1 percent), in-kind contributions decreased by USD 7.9 million (1.5 percent), which reflected the trend of increasing use of cash and vouchers. While other revenue showed marginal improvement by USD 16.6 million over the previous year's level of USD 116.3 million, return on investments showed a significant decline of USD 19.0 million from the last year's level of USD 20.1 million mainly due to the foreign exchange loss element on long-term investments of USD 10.4 million.

Operating Surplus/Deficit

13. Under IPSAS, WFP recognizes a contribution as revenue when it is confirmed by donors in writing. Expenses are recognized when goods and services are received or when food commodities are handed over to cooperating partners for distribution.

14. The surplus/deficit is the difference between the revenue of WFP during the year and the expenses. There was an operating net surplus of USD 235.8 million for 2014 against a surplus of USD 21.0 million in 2013. The surplus/deficit position is shown in Chart 3.

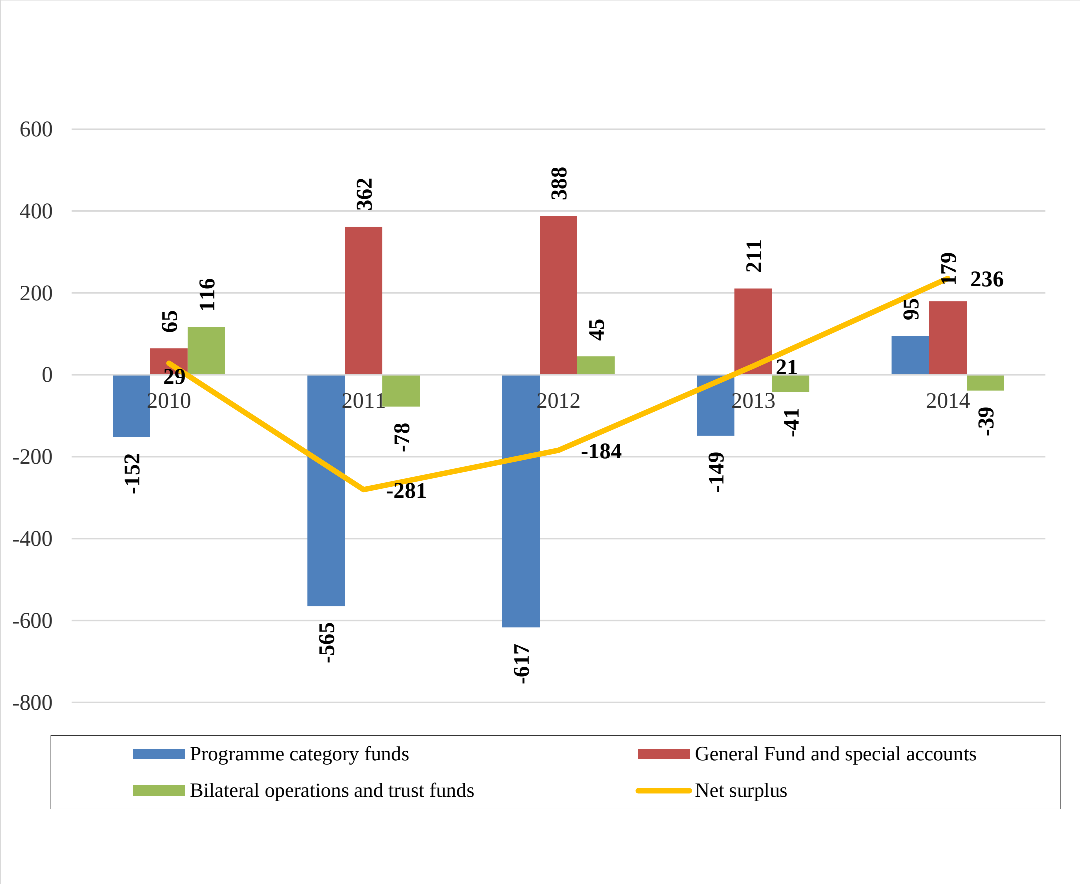
15. Analysis of the surplus/deficit across different segments is shown in Table 1. There was substantial improvement in the surplus position in programme category funds in 2014, in welcome contrast to a trend of deficits noticed during the earlier years. The increase in surplus was due primarily to the increase in revenue (USD 885.5 million or 23.5 percent) which exceeded the increase in expenses (USD 641.6 million or 16.4 percent) over the previous year.

Table 1: Segment-Wise Financial Performance: 2010–2014
(USD million)

Segments	2010	2011	2012	2013	2014
Programme category funds					
Revenue	3 577.3	2 894.1	3 236.1	3 763.5	4 649.0
Expenses	3 729.4	3 458.8	3 853.2	3 912.3	4 553.9
Surplus/Deficit	(-) 152.1	(-) 564.7	(-) 617.1	(-) 148.8	95.1
Surplus/Deficit in other segments					
General Fund and Special Accounts	64.8	361.9	388.0	211.1	179.3
Bilateral Operations and Trust Funds	115.8	(-) 77.9	44.8	(-) 41.3	(-) 38.6
Total surplus/deficit	**28.5**	**(-) 280.7**	**(-) 184.3**	**21.0**	**235.8**

16. The deficit in bilateral operations and trust funds was offset by surplus in programme category funds and General Fund and special accounts to leave a net surplus of USD 235.8 million, as against a surplus of USD 21.0 million in 2013. During the two years 2011 and 2012 only, WFP operations had registered high levels of deficits and restoration of balance between expenses and revenue in 2013 and 2014 was a welcome development.

Chart 3: Overall Surplus/Deficit Position (*USD million)*



Segment-Wise Revenue, Expenses and Surplus/Deficit

17. Among the three segments of WFP activities, viz., programme category funds, General Fund and special accounts and bilateral operations and trust funds, total contributions increased in respect of programme category funds and General Fund and special accounts, while contributions in respect of bilateral operations and trust funds decreased slightly.

18. Total revenue in 2014 was USD 5.45 billion which represented a 20.2 percent increase compared to 2013 (USD 4.54 billion). In-kind contributions showed a 1.5 percent decrease from USD 511.2 million received in 2013.

19. In respect of programme category funds, the revenue increased from USD 3.76 billion in 2013 to USD 4.65 billion in 2014 and expenses increased from USD 3.91 billion in 2013 to USD 4.55 billion in 2014. As a result, the deficit of USD148.8 million turned into a surplus of USD 95.1 million in 2014.

20. Revenue in respect of General Fund and special accounts increased by USD 382.8 million in 2014 mainly on account of an increase of USD 347.7 million from other revenue; and expenses increased by USD 414.6 million, mainly due to increase in the cost of food commodities distributed line – from USD 215.7 million in 2013 to USD 471.0 million in 2014. The surplus decreased from USD 211.1 million in 2013 to USD 179.3 million in 2014 in this segment.

21. Bilateral operations and trust funds showed a drop in total revenues by USD 8.4 million due to a drop in contributions, and expenses decreased from USD 177.3 million in 2013 to USD 166.2 million in 2014. The deficit in this segment decreased from USD 41.3 million in 2013 to USD 38.6 million in 2014.

Assets and Liabilities

22. The total assets increased by USD 420.3 million during 2014, from USD 4.73 billion in 2013 to USD 5.15 billion in 2014. Major increases were noticed in cash and cash equivalents (USD 169.3 million), short-term investments (USD 70.5 million) and the current portion of contributions receivable (USD 325.7 million), while modest decreases occurred in inventories (USD 86.3 million) and the non-current portion of contributions receivable (USD 72.6 million). Contributions receivable (current and non-current) constituted 42.6 percent of the assets, followed by Investments (short and long term), constituting 25.3 percent of the total assets.

23. Total liabilities increased by USD 170.3 million from USD 1.06 billion in 2013 to USD 1.23 billion during the year, mainly on account of increases in payables and accruals (USD 36.9 million) and the non-current portion of employee benefits liabilities (USD 157.0 million).

24. Of the total employee benefit liabilities of USD 565.5 million, an amount of USD 350.9 million (62.1 percent) was charged against the relevant funds and projects and the balance of USD 214.6 million was allocated against the General Fund. Payables and accruals and liabilities on account of employee benefits accounted for 43.6 percent and 46 percent respectively of the total liabilities. The net assets of WFP after adjusting liabilities stood at USD 3.92 billion at the end of 2014, registering an increase of USD 250.0 million (6.8 percent) over the previous year. Liabilities and assets of WFP for 2013 and 2014 have been shown in Charts 4 and 5 respectively.

Chart 4: WFP Assets *(USD million*)

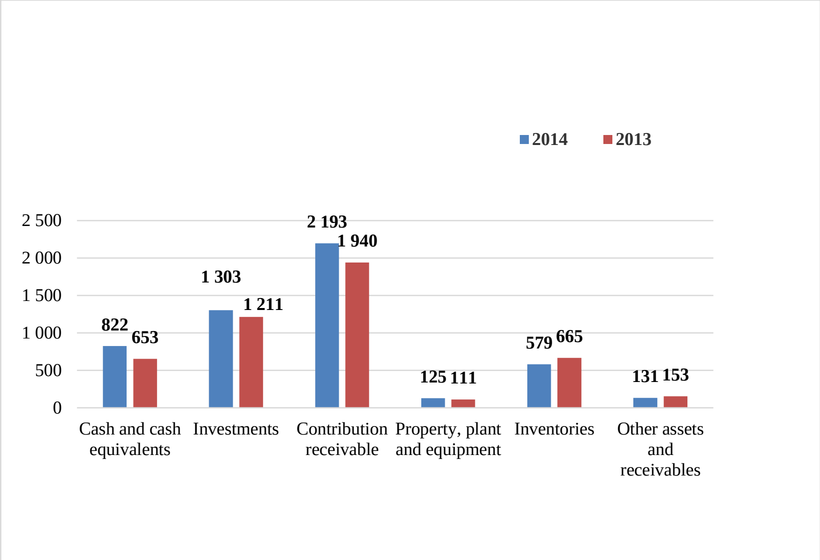
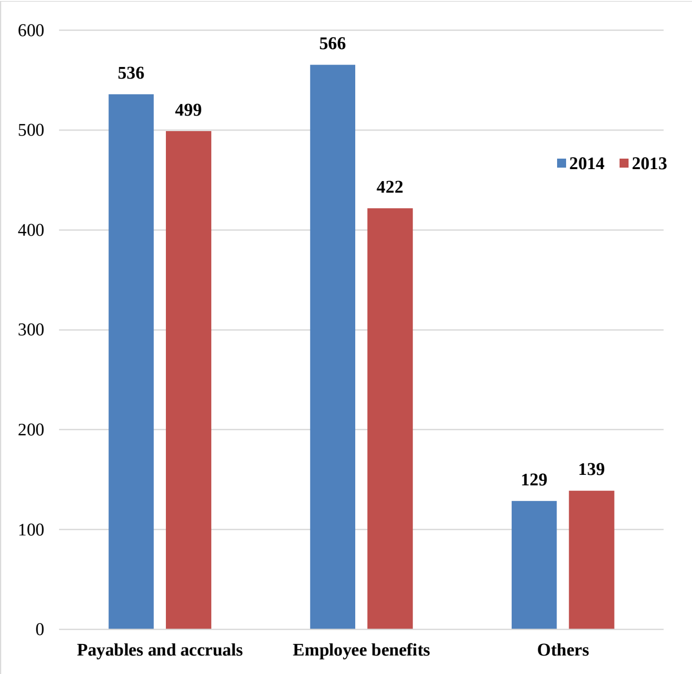


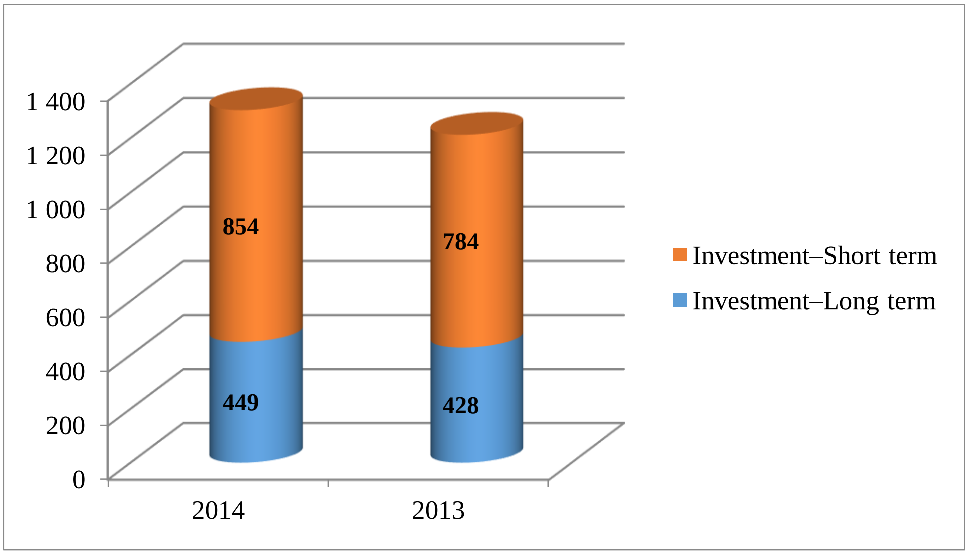
Chart 5: WFP Liabilities (*USD million*)



Investments and Returns

25. Total investments of WFP stood at USD 1.30 billion at the end of 2014 (USD 1.21 billion at the end of 2013), as shown in Chart 6. There was an increase in short-term investments as well as in long-term investments during the year. Return on investments decreased by USD 19.0 million, largely impacted by the foreign currency loss element on the long-term investments of USD 10.4 million.

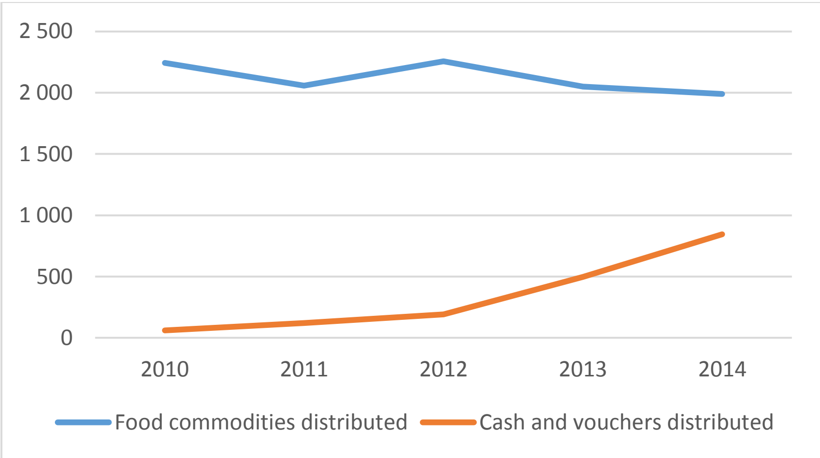
Chart 6: Investments (*USD million*)



WFP Operations

26. WFP operations concern the distribution of aid either through food or through cash and vouchers. The distribution of aid through these tools – food distribution and cash and vouchers distribution – during the five-year period 2010–2014 is shown in Chart 7, from which it is apparent that WFP has increasingly been using the cash and vouchers tool, with the result that the tonnage of food distributed has been decreasing while food aid extended through cash and vouchers has been increasing over recent years.

Chart 7: WFP Operations: 2013 and 2014 (*USD million*)



Fund Balances and Reserves

27. The reserves of WFP stood at USD 331.4 million on 31 December 2014, which was an increase of USD 58.9 million compared to 2013 (USD 272.5 million). Fund balances represent the unexpended portion of contributions that are intended to be utilised in future operational requirements of the Programme. These are the residual interest in WFP's assets after deducting all liabilities. Fund balances and reserves, as on 31 December 2014, were USD 3.92 billion which increased from USD 3.67 billion in 2013.

Budget Utilisation

28. The budgetary process of WFP has an inherent uncertainty in funding by the contributors. The uncertainty in funding might have had an effect in the low and sub-optimal utilisation of budgetary allocations as shown in Table 2 during the financial year 2014. The final budget of WFP for 2014 was USD 8.19 billion. From Table 2 showing utilisation for different components of the budget, it may be seen that except for the Programme Support and Administrative (PSA) budget which covers WFP's indirect support costs which are not linked to any specific operation, the utilisation was low in respect of all other components. For example, in respect of food budget, the utilisation was 56.9 percent, in respect of cash and vouchers, it was 54.7 percent and in respect of total direct project costs, it was 57.3 percent. The total final budget utilization in 2014 was 58.8 percent as compared to 63.7 percent in 2013.

Table 2: Budget Utilisation 2014				
Components	**Original budget (*USD million*)**	**Final budget (*USD million*)**	**Utilisation – 2014 (*percent*)**	**Utilisation – 2013 (*percent*)**
Food Budget	**3 698.8**	**4 978.3**	**56.9**	**59.0**
Food Transfers	2 256.2	3 053.1	55.5	59.2
External Transport	266.6	296.9	45.6	45.9
LTSH (landside transport, storage and handling)	925.5	1 277.5	60.7	62.6
ODOC (other direct operational costs)	250.4	350.9	64.1	58.3
Cash and Vouchers (C&V)	**1 127.0**	**1 493.3**	**54.7**	**67.2**
C&V Transfers	1 017.6	1366.0	56.3	68.3
Delivery C&V	41.7	0.0	0.0	0.0
Other C&V	67.7	127.3	24.5	46.2
Capacity Development and Augmentation	**333.7**	**552.9**	**54.7**	**74.1**
Direct Operational Costs	**5 159.5**	**7 024.5**	**56.2**	**61.2**
Direct Support Costs	697.3	879.9	65.9	69.2
Total Direct Project Costs	**5 856.8**	**7 904.4**	**57.3**	**62.2**
Regular Programme Support and Administrative	281.8	281.8	99.5	99.3
Capital and Capacity Funds	**9.2**	**9.2**	**95.3**	**95.1**
Total Indirect Costs	**291.0**	**291.0**	**99.4**	**99.0**
TOTAL	**6 147.8**	**8 195.4**	**58.8**	**63.7**

29. The management stated that budgetary utilization within the year was constrained by the amount, timing and predictability of contributions, as well as, inherent operational constraints. The Executive Director's Statement also confirms that the gap between final project cost budget and utilisation reflected these constraints.

VI. Changes made in the Financial Statements of 2014 at the Instance of Audit

30. During the course of our audit, WFP carried out certain changes/corrections at the instance of our audit. Some of the significant changes are given below:

(i) We observed that intangible assets under construction included an internally generated intangible asset, system support for forward purchase valuing USD 1.3 million. As this expenditure had already been recognized as an expense in 2013, it should not be recognized as part of the cost of an intangible asset at a later date in terms of Para 70 of IPSAS 31. While accepting to rectify the error, the management stated that the error occurred due to the way the 2013 entry was coded. They added that henceforth, a change in the manner by which any adjusting journal voucher will be recorded has been documented to ensure these types of postings will not be picked up by the settlement programme. In addition, as a preventive control, the relevant Asset Master Record (AMR) and internal order will be blocked after the adjustment is completed.

(ii) Following notes forming part of the Financial Statements have been amplified/enhanced:

- Note 2.4 on Inventories,
- Note 2.6 on Long-Term Investments,
- Note 4.8 on Depreciation and Amortization, and
- Note 8.2 on Legal or Contingent Liabilities and Contingent Assets

VII. Audit Observations

WINGS II – COMPAS Reconciliation

31. The WINGS II system of WFP records transactions on food commodity stocks until the stage of expensing of inventory while COMPAS captures the information on the movement of stocks. The two systems do not run on the same platform and have different validation rules with different data quality checks. The data migration between the two systems is facilitated by a WINGS-COMPAS Interface for food commodity management that was introduced in 2009 as an interim solution. The Logistics wing (ODLF) at WFP HQ carries out physical count reconciliation between COMPAS and WINGS on an annual basis on the tonnage of food stock. RMFG (General Accounts Branch) then manually processes a journal voucher adjustment to align WINGS system stock and the physical count on the basis of the report generated by ODLF.

32. We had recommended last year that the process of reconciliation carried out between SAP and COMPAS system needed to be strengthened, particularly in relation to the reconciling items arising from closed projects.

33. We observed that the difference in inventory stock has come down from 13,966 mt in 2013 to 3,994 mt in 2014. We acknowledge management’s efforts in bringing down the difference between the two systems during 2014.

34. WFP stated that the two systems, WINGS and COMPAS, operate using different sets of data validation rules and requirements and until the full LESS (Logistics Execution

Support System) roll-out, misalignments between the two systems will continue to occur. WFP added that they will continue to place strong emphasis on timely reconciliation between the two systems.

Property, Plant and Equipment

35. Asset accounting in WFP is guided by IPSAS 17 Property, Plant and Equipment, as well as by their own accounting policies based on IPSAS. WFP provided details of property, plant and equipment in the form of an AMR derived from the WINGS II system. The AMR contained 11,263 records having distinct Asset Numbers as on 31 December 2014. We had recommended last year that in respect of asset management, controls surrounding the asset class determination, and adherence to the fixed asset capitalization threshold should be strengthened.

36. We examined the AMR and various reports in WINGS II and observed the following discrepancies/deficiencies in recording and accounting of individual assets as well as deficiencies in IT controls and incorrect customization in the system:

37. As per Note 2.7 on Financial Statements, Property, Plant and Equipment are capitalized if their cost is greater than or equal to the threshold limit of USD 5,000. We observed that assets valuing less than the threshold limit had been capitalized instead of expending them in the year of acquisition during the year 2014. The gross value of such assets was USD 32,379 which should have been expensed. This indicates that the system was not properly customized and data validation process and input controls were not adequate to prevent such occurrences on a regular basis. While accepting the errors, WFP stated that there were regular controls in place to properly capitalize assets above the set threshold and by using the Asset Monitoring Report developed in 2014, they were able to significantly reduce the number of capitalization errors during the year as compared with previous years.

38. We observed that in certain cases, assets having the same description were classified under two different categories. The gross value of such assets in 2014 was USD 65,071. This indicates that the classification of such assets was not properly mapped into the system. WFP agreed that there were misclassified assets and assured that corrective action will be taken in 2015.

Recommendation 1

We reiterate that the monitoring system to record capitalization of assets above the threshold limit of USD 5,000 and for asset classification may be strengthened.

39. The management accepted the audit recommendation.

Post-Closure Adjustments

40. We had recommended in 2013 that a stronger system of procedural checks and accounting controls be instituted to improve timely recording, including improving accuracy of closing accrual adjustments and to improve accuracy of data in the document date field.

41. We observed that during 2014, WFP recorded 48,007 entries for post-closure adjustments, which had old dates, prior to 1 January 2014. Such late entries constituted 4.58 percent of the total number of documents entered in the system during 2014.

42. WFP stated that there were sufficient controls in place to ensure the underlying correctness of the transaction recorded and that the flexibility of the IT controls on the document date field were in line with the validation process of the transactions.

Recommendation 2

WFP may continue to strengthen its mechanism for timely recording of data in the system to reduce post-closure adjustment and delayed entries.

43. The management accepted the audit recommendation.

VIII. Fraud and Presumptive Fraud

44. We noted that frauds reported in 2014 to the Office of Inspector General comprised vendor fraud, theft and misappropriation of food commodities, non-food items and cash involving WFP staff and third parties valued at USD 850,436, of which no amount had been recovered.

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

45. We noted total losses written off amounting to USD 16.6 million in 2014. These included contribution receivable of USD 4.4 million related to write-off of receivables from donors; food commodity losses of USD 11.8 million involving 17,220 mt occurring after the food arrived in the recipient country.

X. Internal Controls

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

XI. Progress on Implementation of Recommendations of the External Auditor

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

48. We await further action on the following recommendations:

- Implementation of Information Security Management System (Annual Accounts 2010);
- Disclosure of information on actual funds available during the year to improve understanding and usability of the budget (Annual Accounts 2013); and
- Streamlining and standardizing the management of Trust Funds in the RBs and COs (Annual Accounts 2013).

XII. Acknowledgement

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

Shashi Kant Sharma
Comptroller and Auditor General of India
External Audit
1 April 2015

ACRONYMS USED IN THE DOCUMENT

AMR	Asset Master Record
ASM	After-Service Medical Plan
BMIP	Basic Medical Insurance Plan
C&V	cash and vouchers
CAG	Comptroller and Auditor General of India
CERF	Central Emergency Response Fund
CO	country office
COMPAS	Commodity Movement Processing and Analysis System
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPRF	Compensation Plan Reserve Fund
DOC	direct operational costs
EMG	Executive Management Group
ERM	enterprise risk management
FAO	Food and Agriculture Organization of the United Nations
IPSAS	International Public Sector Accounting Standards
IRA	Immediate Response Account
ISC	indirect support costs
MIP	United Nations Medical Insurance Plan
MMR	minimum monitoring requirement
MSCI	Morgan Stanley Capital International
OSRB	other separation-related benefits
PACE	Performance and Competency Enhancement programme
PP&E	Property, Plant and Equipment
PREP	Preparedness and Response Enhancement Programme
PSA	Programme Support and Administrative (budget)
PSAEA	PSA Equalization Account
RB	regional bureau
SOP	standing operating procedure
STRIPS	United States Treasury Separate Trading of Registered Interest and Principal of Securities
TPA	third-party agreement
UNJSPF	United Nations Joint Staff Pension Fund
UNORE	United Nations Operational Rates of Exchange
WINGS II	WFP Information Network and Global System II