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AUDITED BIENNIAL ACCOUNTS (2004–2005): SECTION I

**Report of the Executive Director on the
Financial Administration of the World Food
Programme for the Biennium 2004–2005**

NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for approval.

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

| | | |
|------------------------------------|---------------|-------------------|
| Chief Financial Officer (CFO): | Ms G. Casar | tel.: 066513-2885 |
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Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact Ms. C. Panlilio, Administrative Assistant, Conference Servicing Unit (tel.: 066513-2645).



Report of the Executive Director on the Financial Administration of the World Food Programme for the Biennium 2004–2005 (Section I) (WFP/EB.A/2006/6-A/1/1) is the first part of a three-part set of documents submitted to the Executive Board in accordance with General Regulation XIV.6 (b) and Financial Regulation 13.1, which provide for the submission of the audited biennial financial statements of WFP. The Report of the Executive Director sets out the operational and financial highlights of the financial administration of WFP during the biennium and concludes with recommendations to the Executive Board.

The other two parts of the audited biennial accounts are:

- Opinion of the External Auditor and the Audited Financial Statements 2004–2005 (Section II), (WFP/EB.A/2006/6-A/1/2), and
- Audit of the Financial Statements of the World Food Programme for 2004–2005 (Section III) (WFP/EB.A/2006/6-A/1/3), the Long-Form Report of the External Auditor providing information on th/e outcome of audit work during the biennium.



EXECUTIVE SUMMARY

Financial administration

The introduction of improved financial management and reporting in WFP has resulted in higher standards of performance and review and in increased transparency and accountability at all levels.

A consolidation of the finance and budget functions under a chief financial officer was implemented in June 2005 with the objective of achieving synergies between the two functional areas, placing increased focus on cost analysis and internal controls, and overseeing the transition to international accounting standards.

As part of the initiative to strengthen financial management, a more rigorous monthly closure of accounts process and a minimum monthly closure reporting package from regional bureaux and country offices were introduced in January and February 2005, respectively. These financial reporting improvements are intended to ensure the integrity of financial figures, to monitor financial management of field offices and to improve controls.

During the biennium under the strengthening financial management initiative, 19 international and 17 national finance officer posts were established and five regional financial analysts were recruited to enhance financial management in field offices. Training sessions and workshops on financial management issues were held for finance staff and for newly appointed country directors. The *Consolidated Finance Manual* was issued during the biennium to provide all WFP managers and finance staff with clear guidance on financial policies and procedures. Management reports were developed for country directors to assist in the review of the financial status of projects and in decision-making.

During 2005, the foreign exchange exposures of WFP were analysed, and a new foreign exchange management strategy to reduce risks was developed with the assistance of the World Bank Treasury.

The adoption of international accounting standards, which was endorsed by the Board in November 2005, is planned for 2008.

During the biennium three internal financing mechanisms supported the WFP immediate response to emergencies. These comprised the Working Capital Facility, the Immediate Response Account and the Direct Support Cost Advance Facility, which provided advances to projects of US\$150.9 million, US\$161.2 million and US\$186.7 million respectively.

WFP has worked with other United Nations funds and programmes throughout the biennium on common financial issues such as financial reporting on joint programmes, harmonized approach to cash transfers and adoption of international accounting standards.



Financial highlights

WFP ended the biennium with total income of US\$6.3 billion, an increase of US\$0.5 billion (8.7 percent) over the previous biennium. Expenditures totalled US\$6.2 billion during the biennium, an increase of US\$1.1 billion (21.6 percent) over the previous biennium.

Of the expenditures of US\$6.2 billion, 32.6 percent were for emergency operations, 30.6 percent for protracted relief and recovery operations, 8.2 percent for development operations, 4.1 percent for special operations, 9.3 percent for general fund and special accounts, and 15.1 percent for bilateral operations and trust funds. Support costs maintained similar ratios to total expenditures between the current and previous biennium.

The General Fund was used to cover write-offs of accounts receivable and contributions receivable totalling US\$7.6 million that were deemed irrecoverable after thorough review and analysis.

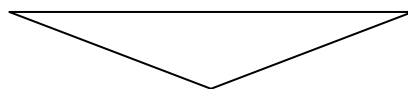
At the end of 2005, the total of cash and short-term investments was US\$1.1 billion, of which US\$895 million was held in short-term investments. Of the total cash and short-term investments, US\$463 million is fully committed under programme category funds, representing 90 days cash expenditures. US\$236 million is held under bilateral and trust-fund arrangements and US\$431 million is related to the General Fund and Special Accounts, including approved reserves that are used to support operational activities.

Long-term investments are earmarked for long-term loan repayments (US\$56.8 million) and for staff benefit funds (US\$62.2 million). Contributions receivable had a balance of US\$1.3 billion (US\$1.7 billion in 2003).

The PSA Equalization Account was utilized for a total of US\$151.8 million, of which US\$127.7 million was approved by the Board in October 2003 through the 2004–2005 Management Plan and US\$24.1 million in May 2004 for increasing the DSC Advance Facility. The balance of the Programme Support and Administrative Equalization Account at the end of 2005 is US\$122.1 million.

The External Auditor, after reviewing the 2004–2005 biennial accounts, rendered an unqualified opinion on the financial statements that they present fairly the results of the financial performance and position of WFP at the end of the biennium.

DRAFT DECISION*



The Board:

- i) approves the 2004–2005 Biennial Financial Statements of WFP, together with the Report of the External Auditor, pursuant to General Regulation XIV.6(b); and
- ii) notes the funding from the General Fund of US\$7.6 million during the biennium for the write-off of contributions and accounts receivable.

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations (document WFP/EB.A/2006/16) issued at the end of the session.



INTRODUCTION

1. In accordance with Article XIV.6(b) of the General Regulations and with Financial Regulations 13.1 and 13.2, the Executive Director has the honour to submit the financial statements of WFP for the biennium ending 31 December 2005.
2. The process of improving WFP's financial administration introduced in the previous biennium continued throughout 2004–2005. Following improvements in the quality and timeliness of financial reporting to the Board, donors and management, a number of initiatives were introduced to strengthen the overall financial administration of WFP.
3. The Management Plan for 2004–2005 identified nine Management Priorities, including increased transparency and accountability. Achievement of the aims of this priority involved a financial investment to increase the capacity of headquarters and the field through the recruitment of finance professionals and the training of managers in financial management. It also required the Secretariat to set challenging new standards of financial management and reporting designed to increase accountability at all levels. In addition to the initiatives undertaken as set out in this document the oversight functions, through the reconstitution of the Audit Committee and its terms of reference and through the work of both internal and external audit, ensure that finance management in WFP is held to progressively higher standards of performance. The challenges will continue in the present biennium as WFP continues to focus on further improvements to financial reporting, accountability and controls while meeting the new challenges of introducing audited annual accounts, adopting international accounting standards and improving WINGS support.
4. The initiatives, which are discussed in the document, include the reorganization and consolidation of the finance and budget functions under a chief financial officer, strengthening of financial management in the field offices, a comprehensive review of the foreign exchange policies, approval by the Board of improvements in financial reporting, including the introduction of international accounting standards by 2008, and more effective utilization of cash resources and reserves under the Working Capital Facility (WCF), Direct Support Cost Advance Facility (DSCAF) and the Immediate Response Account (IRA).
5. The report summarizes the operational and financial highlights of WFP's financial administration during the 2004–2005 biennium, pursuant to the provisions of Article XIV, paragraphs 2 and 3, of the General Regulations.

FINANCIAL MANAGEMENT

Reorganization of the finance function

6. In June 2005 and in line with the commitment by the Executive Director to improve the financial management of WFP, the responsibility for the finance and budget functions was consolidated under a chief financial officer. The chief financial officer provides advice on business decisions, strategic financial issues, governance compliance and effective preventative controls as well as ensuring financial accounting, analysis and reporting on a timely and accurate basis.



7. Following completion of a review of the finance and budget organizational structures in March 2006, the new chief financial officer structure was established, reporting through the Deputy Executive Director, Administration.
8. Reorganization of the finance function will aim for a stronger focus on cost analysis and internal controls, as well as preparing WFP for the transition to international accounting standards.

Strengthening financial management

⇒ Monthly closure and financial reporting

9. In January 2005, the Secretariat introduced a more rigorous monthly closure of the accounts designed to ensure that previously reported financial information does not change. This assures the integrity of the amounts reported and the quality of the related financial analysis as financial information is reported on a consistent basis.
10. A minimum monthly closure (MMC) reporting package was introduced in February 2005 as a tool to monitor the performance of field offices in reconciling and clearing all outstanding items on a timely basis. Country directors are required to sign off on the MMC reports as part of their responsibilities for the financial management of their offices.
11. The MMC has contributed to:
 - ensuring the implementation of a timely monthly closure;
 - strengthening and systematizing the oversight function of the regional bureaux;
 - identifying financial management problems in the field;
 - improving analytical skills of field finance officers; and
 - documenting the accountability of country directors.

Further refinements to monthly reporting for control purposes are planned for 2006 including the introduction of a monitoring system designed to identify financial exposures and control issues requiring immediate intervention.

⇒ Recruitment of finance officers and training

12. As part of the strengthening of financial management in field offices, an additional 19 international and 17 national officer posts were established during the biennium. This represents a 61 percent increase in international finance officers in the field (of whom there were 31 at the end of 2003) and a 68 percent increase in national officers (of whom there were 25 at the end of 2003). Five regional financial analysts were recruited to support the new business model resulting from the Business Process Review (BPR).
13. Orientation training for newly-recruited finance officers on WFP business and financial processes, internal controls, responsibilities of a finance officer and WFP specific technical skills was provided regularly during the biennium.
14. Training in financial management was also provided to newly-appointed country directors, covering WFP financial processes with emphasis on the responsibilities of country directors for internal controls and effective financial management.



15. Annual workshops were conducted with senior finance officers from headquarters, regional bureaux and country offices to discuss strategic issues on financial management and to clarify roles and responsibilities. Annual regional bureau workshops involving finance officers from country offices were held to prepare for the closure of the biennial financial accounts, introduce new initiatives, review audit response follow-up and provide advanced WINGS training.

⇒ *Finance Manual and management reports*

16. With the issuance of the *Consolidated Finance Manual* during the biennium, an important aspect of strengthening financial management – that of providing clear guidance on financial policies and procedures – was addressed. In addition, project management reports were developed in WINGS to provide country directors with concise reports on the status of the financial implementation projects, thereby improving project management and decision-making.

Foreign exchange policy

17. Significant progress was made during 2005 in analysing the foreign exchange exposures of WFP and in developing a new foreign exchange management strategy. In cooperation with the World Bank Treasury the main foreign exchange exposures of WFP relating respectively to (i) expenditure in Euro at WFP headquarters and (ii) contributions confirmed in currencies other than the US\$ base currency were analyzed in detail. Foreign exchange management strategies to reduce these risk exposures were reviewed by the Investment Committee.
18. In February 2006 a foreign exchange hedging strategy for Euro staff expenditure at Headquarters was implemented in order to increase significantly the certainty of the US\$ value of PSA staff expenditure in line with the Management Plan 2006–2007.

International accounting standards

19. In February 2005, the Board considered the “Report by the External Auditor on WFP Financial Reporting Standards” (WFP/EB.1/2005/5-E). The report recommended that consideration be given to the adoption by WFP of independent international accounting standards.
20. On the basis of a review by the Secretariat of the implications for WFP of the External Auditor’s recommendation and taking into consideration discussions on the subject within the United Nations, the Board endorsed the proposed move to international accounting standards at the second regular session in November 2005 (2005/EB.2/11).
21. Pending the adoption of international accounting standards planned for 2008, the Secretariat intends to introduce improvements in financial reporting in 2006, including recognition of expenditures on the delivery principle, market value reporting for investments and annual audited financial statements.
22. The second progress report on WFP implementation of IPSAS is being submitted to the current session of the Board for consideration. The report presents the budgetary estimates for the cost of transition to IPSAS over the next two years as amounting to US\$3.7 million.



Immediate Response Account (IRA), DSC Advance Facility (DSCAF) and Working-Capital Facility

23. With the availability of three internal financing facilities, WFP's ability to respond immediately to crisis situations and fill pipeline shortfalls improved considerably during the 2004–2005 biennium.

⇒ Immediate Response Account

24. The IRA is mainly funded by direct contributions from donors. Although the Board approved an annual target level of US\$70 million in October 2004, the IRA has maintained an average balance of only US\$31 million over the last two years. A total of US\$161.2 million was utilized for operations during the biennium. US\$139.3 million flowed into the IRA through either new contributions or recoveries from donor contributions to projects for which funding had been provided by the IRA. This situation was anticipated to some extent in October 2003 when the Board approved on an exceptional basis the reprogramming to IRA of US\$20 million from the PSA Equalization Account. From an opening balance of US\$32.7 million at 1 January 2004, the IRA ended the biennium with a balance of US\$30.8 million.

⇒ Direct Support Cost Advance Facility

25. In view of the need to finance support costs to operations, the Board approved setting aside US\$60 million for DSCAF in October 2003 through the 2004–2005 Management Plan. Advances are made for approved projects and are backed by the funds set aside as a reserve. Advances made during the biennium totalled US\$186.7 million, benefiting hundreds of projects; recoveries totalled US\$192.2 million, including recoveries of previous advances of US\$15.9 million.

⇒ Working-Capital Financing

26. The BPR initiative started with five pilot projects in February 2004, when the Board approved the use of the Operational Reserve to finance the projects based on forecast contributions. The financing later evolved into the establishment of a working capital advance ceiling of US\$180 million, as approved by the Board in February 2005. The use of the working-capital financing facility is based on forecast contributions from donors. A total of US\$150.9 million has so far been advanced, benefiting a number of projects in the Democratic Republic of the Congo (DRC), Indonesia, Palestine, the Sudan, Uganda, West Africa and Zimbabwe. Of this amount, US\$93.3 million was returned where the forecast contributions used as collateral were confirmed by donors.

27. Of the advances made during 2005, US\$6.2 million related to the DRC project has not been repaid and may require write-off in 2006.

United Nations system-wide activities

28. WFP has worked on financial issues with other United Nations Funds and Programmes throughout the biennium. WFP was part of the Financial Policies Working Group under the United Nations Development Group (UNDG), which provided guidance on financial reporting on joint programmes and on financial arrangements for the United Nations Joint Office in Cape Verde.



29. WFP was fully represented in the Inter-Agency Working Group on Resource Transfer Modalities, which developed the Harmonized Approach to Cash Transfers to Implementing Partners (HACT), launched in April 2005 and mandatory for all ExCom Agencies.
30. WFP was also part of the Task Force on Accounting Standards and played a major role in discussions leading to the decision by the High-Level Committee on Management (HLCM) for all United Nations organizations to adopt International Public Sector Accounting Standards (IPSAS) by 2010.

FINANCIAL HIGHLIGHTS

Income, expenditure and fund balances

⇒ *Summary of income and expenditure*

31. WFP's income for 2004–2005 was US\$6.3 billion, an increase of US\$0.5 billion (8.7 percent) over the previous biennium. Expenditures of US\$6.2 billion during the biennium showed an increase of US\$1.1 billion (21.6 percent) over the previous biennium. Expenditures in 2004–2005 represented 97.9 percent of income, which is an improvement over 2002–2003 when expenditures represented 87.6 percent of income levels.

TABLE 1: SUMMARY OF TOTAL INCOME AND EXPENDITURE OF WFP FUND

| | (US\$ million) | | |
|--|----------------|----------------|--------------------------|
| | 2004–2005 | 2002–2003 | % increase (decrease) |
| INCOME | | | |
| Commodity and service in-kind contributions | 1 039.3 | 1 139.1 | (8.8) |
| Other contributions (including OIP*) | 5 155.3 | 4 513.1 | 14.2 |
| Other income (interest, currency gain, etc.) | 115.5 | 151.3 | (23.7) |
| TOTAL INCOME | 6 310.1 | 5 803.5 | 8.7 |
| EXPENDITURE | | | |
| Commodities in-kind and purchased | 2 792.3 | 2 719.7 | 2.7 |
| Direct operational costs | 2 327.6 | 1 619.8 | 43.7 |
| Direct support costs | 672.1 | 509.9 | 31.8 |
| Indirect support costs | 385.1 | 232.2 | 65.8 |
| TOTAL EXPENDITURE | 6 177.1 | 5 081.6 | 21.6 |
| EXCESS OF INCOME OVER EXPENDITURE | 133.0 | 721.9 | (81.6) |

* Includes cash and commodity-in-kind contributions from OIP totalling US\$17.0 million (US\$913.1 million in 2002–2003).

⇒ *Expenditure by Programme Category*

32. The total expenditure of US\$6.3 billion categorized by Programme Category Funds and Other Funds is shown in Table 2.



TABLE 2: TOTAL EXPENDITURE

(US\$ million)

| | 2004–2005 | | 2002–2003 (Adjusted) | |
|--------------------------------------|----------------|--------------|-------------------------|--------------|
| | Amount | % | Amount | % |
| Programme Category Funds | | | | |
| Development | 515.3 | 8.2 | 423.1 | 8.3 |
| Emergency | 2 039.2 | 32.6 | 2 940.3 | 57.7 |
| Protracted relief and recovery | 1 913.7 | 30.6 | 1 149.0 | 22.5 |
| Special operations | 257.4 | 4.1 | 118.8 | 2.3 |
| Subtotal | 4 725.6 | 75.5 | 4 631.2 | 90.8 |
| Other Funds | | | | |
| General Fund and Special Accounts | 584.5 | 9.3 | 300.4 | 5.9 |
| Bilateral Operations and Trust Funds | 948.1 | 15.1 | 170.8 | 3.3 |
| TOTAL* | 6 258.2 | 100.0 | 5 102.4 | 100.0 |

* Before eliminations of US\$81.1 million in 2004–2005 and US\$20.8 million in 2002–2003 representing internal income of five special accounts.

33. The details of income and expenditure by programme category are shown in the Annex.
34. Expenditures on protracted relief and recovery operations showed a significant increase in 2004–2005 and were at similar levels to those under emergency operations, confirming that some WFP emergency projects are shifting to protracted relief mode. Development expenditures, while showing an increase of US\$82.2 million, remained at levels similar to 2002–2003 in terms of percentage of expenditures, at approximately 8.2 percent.
35. The increase in expenditures under Bilateral Operations and Trust Funds during 2004–2005 was mostly related to the technical support for Iraq's public distribution system, which had expenditure levels of US\$762 million in the biennium.
36. The General Fund and Special Account increases in expenditures in 2004–2005 were related to PSA and capacity-building initiatives and were negatively impacted by the strengthening of the Euro against the United States dollar.

⇒ *Support costs*

37. The increase in DSC expenditures was partly due to capacity-building initiatives undertaken during the biennium, namely security upgrade, results-based management, WINGS upgrade and strengthening of financial management.
38. The increase in PSA was mainly due to staff cost variance caused by the weakening of the United States dollar against the Euro.



39. Support costs in 2004–2005 were 17 percent of total expenditures, which compares favourably with 2000–2001 (19 percent) and 1998–1999 (18 percent). The lower percentage in 2002–2003 (15 percent) resulted from the high levels of expenditures for Iraq in that biennium.

TABLE 3: SUPPORT COST AS PERCENTAGE OF EXPENDITURE

(US\$ million)

| | 2004–2005 | | 2002–2003 (adjusted) | |
|---------------------|-----------|-----|-------------------------|-----|
| | Amount | % | Amount | % |
| Total expenditures | 6 177.1 | 100 | 5 081.6 | 100 |
| Support costs: | | | | |
| DSC | 672.2 | 11 | 509.9 | 10 |
| PSA | 385.1 | 6 | 232.2 | 5 |
| Total support costs | 1 057.3 | 17 | 742.1 | 15 |

⇒ *Fund balances*

40. At the end of December 2005, the total WFP fund balance consisted of the following:

TABLE 4: TOTAL FUND BALANCES BY PROGRAMME CATEGORY

(US\$ million)

| | 2004–2005 | | 2002–2003 | |
|---|----------------|--------------|----------------|--------------|
| | Amount | % | Amount | % |
| Programme Category Funds | | | | |
| Development | 227.0 | 15.4 | 246.0 | 13.4 |
| Emergency | 312.4 | 21.2 | 805.0 | 43.9 |
| Protracted relief and recovery | 444.8 | 30.2 | 558.6 | 30.5 |
| Special operations | 118.2 | 8.0 | 33.3 | 1.8 |
| Subtotal | 1 102.4 | 74.8 | 1 642.9 | 89.6 |
| General Fund and Special Accounts | 161.4 | 10.9 | 107.3 | 5.9 |
| Bilateral Operations and Trust Funds | 210.9 | 14.3 | 81.8 | 4.5 |
| TOTAL | 1 474.7 | 100.0 | 1 832.0 | 100.0 |



41. As at 31 December 2005, fund balances under the Programme Category Funds totalled US\$1.1 billion, the details of which are shown in the Annex. Of this amount, US\$463.5 million is in the form of cash and short-term investments. The remaining US\$638.9 million comprises contributions and other receivables of US\$1,363.1 billion, offset by accounts payable and obligations of US\$724.2 million, as shown in Statement II of the Financial Statements.
42. The US\$7.6 million of the General Fund was utilized in 2004–2005 under Financial Regulation 12.4 for writing off accounts receivable (US\$4.7 million) and contribution receivables (US\$2.9 million). The write-offs were a result of (i) over-expenditures in projects incurred in 2001 and 2002 arising from insufficient budgetary control in offices that were not using WINGS, (ii) the absence of detailed information on receivable balances migrated from the old systems in 2001 and (iii) 1997 to 2001 contributions against which expenditures were incurred but from which reimbursements could no longer be expected because the projects had been closed.
43. Following thorough analysis and recovery of all possible amounts, it was determined that further analysis would not bring positive results. The amounts were therefore written off in accordance with the Financial Regulations.

Assets, liabilities and reserves

⇒ *Cash and investments*

44. Cash held in banks and short-term investments at 31 December 2005 amounted to US\$1.1 billion, consisting of the following:

| TABLE 5: CASH AND SHORT-TERM INVESTMENTS | | |
|---|----------------|--------------|
| (US\$ million) | | |
| | 2005 | 2003 |
| Bank and cash holdings: | | |
| At headquarters | 194.2 | 100.3 |
| At country offices | 40.9 | 26.9 |
| Short-term investments | 895.1 | 780.2 |
| TOTAL | 1 130.2 | 907.4 |

45. Of total cash and short-term investments, US\$463 million is fully committed in programme category funds. This balance represents 90 days of cash expenditures, a reduction compared with the previous biennium when cash balances for programme category funds represented 102 days of cash expenditures. US\$236 million is held under bilateral and trust-fund arrangements; US\$431 million is related to the General Fund and special accounts, including approved reserves that are used to support operational activities. A separate document on cash balances is being presented to the 2006 Annual Session of the Board.



46. The long-term investment, which had a balance of US\$56.8 million at 31 December 2005 (US\$62.2 million at 31 December 2003), consists of United States Treasury STRIPS that are sufficient to pay off the principal and interest of the US\$106 million long-term loan.
47. Table 6 shows the long-term investments that are also held to fund the liabilities for staff benefit funds: the After-Service Medical Coverage Plan (ASMCP), the Compensation Plan Reserve Fund (CPRF) and the Separation Payment Scheme (SPS), which amount to US\$111.2 million.

TABLE 6: LONG-TERM INVESTMENTS – STAFF BENEFIT FUNDS

(US\$ million)

| | 2005 | 2003 |
|--------------|-------------|-------------|
| Bonds | 42.5 | 38.9 |
| Equities | 33.1 | 25.1 |
| TOTAL | 75.6 | 67.3 |

⇒ *Contributions receivable*

48. The contributions receivable had a balance of US\$1,318.8 million at 31 December 2005, of which US\$1,088.4 million is current – pledges confirmed in 2004–2005 – and US\$230.4 million is more than two years old.

TABLE 7: CONTRIBUTIONS RECEIVABLE

US\$ million

| Year of confirmation of pledges | 2004–2005 | | 2002–2003 | |
|---------------------------------|----------------|--------------|-----------------|--------------|
| | Amount | % | Amount | % |
| 2005 | 946.0 | 71.7 | - | - |
| 2004 | 142.4 | 10.8 | - | - |
| 2003 | 144.0 | 10.9 | 1 212.50 | 69.3 |
| 2002 | 76.5 | 5.8 | 302.9 | 17.3 |
| 2001 and prior | 9.9 | 0.8 | 233.2 | 13.3 |
| TOTAL | 1 318.8 | 100.0 | 1 748.60 | 100.0 |

49. The reduction in contributions receivable is mainly a result of write-downs of contributions in 2004–2005 and prior-period adjustments. New contributions and cash receipts in 2004–2005 were at levels similar to the previous biennium.



⇒ *Accounts receivable*

50. Accounts receivable represents prepaid expenses and amounts due to WFP, other than donor contributions. As at the end of 2005, the total accounts receivable, amounting to US\$219.1 million, had increased by 42 percent compared with the balance at the end of 2003, mainly because of increases in advances to vendors and in insurance claims receivables. In relation to total expenditures for the biennium, the accounts receivable in 2005 represent 3.5 percent (3.0 percent in 2003).

⇒ *Current liabilities*

51. Consistent with the increase in volume of operations, and with the inclusion of funds from financially closed projects as payables, current liabilities comprising accounts payable and outstanding obligations increased by 37.9 percent, from US\$656.8 million in 2003 to US\$905.4 million in 2005. As a percentage of total expenditures, however, the balance in 2005 was 14.6 percent (12.9 percent in 2003).

⇒ *Reserves*

52. Reserve balances at 31 December 2005 are shown in Table 8.

| TABLE 8: RESERVES | | |
|--|--------------|--------------|
| (In US\$ million) | | |
| | 2005 | 2003 |
| Operational Reserve | 57.0 | 57.0 |
| Immediate Response Account | 30.8 | 32.7 |
| DSC Advance Facility | 49.5 | 15.9 |
| PSA Equalization Account | 122.1 | 230.6 |
| Staff Cost Variance Equalization Account | - | 0.1 |
| Staff Safety and Security Account | - | 0.1 |
| TOTAL | 259.4 | 336.4 |

⇒ *Self-Insurance Account*

53. The Self-Insurance Account (SIA) is a special account used to record transactions of WFP's self-insurancescheme, which covers pre-delivery and transit commodity losses involving international cargo. At 31 December 2005, the SIA has a surplus of US\$29.6 million arising from a combination of relatively low loss rates and adequate recoveries from transporters.



⇒ *External audit*

54. After reviewing the 2004–2005 biennial accounts, the External Auditor rendered an unqualified opinion on the financial statements that they present fairly the results of the financial performance and position of WFP at the end of the biennium. The External Auditor also submitted a long-form report that sets out the main audit findings and recommendations.
55. An initial response to the recommendations is provided in the document Follow-up on the Recommendations of the External Auditor at the current session of the Board. After careful review of the recommendations the Secretariat will submit a more detailed report and action plan with timelines to the Board at its Second Regular Session in November 2006.

RECOMMENDATIONS

56. The Executive Director recommends that the Board:
- i) approve the 2004–2005 Biennial Financial Statements of WFP, together with the report of the External Auditor, pursuant to General Regulation XIV.6(b); and
 - ii) note the funding from the General Fund of US\$7.6 million during the biennium for the write-off of contributions and accounts receivable.



**PROGRAMME CATEGORY FUNDS STATEMENT OF INCOME AND EXPENDITURE AND FUND BALANCES
FOR THE BIENNIUM ENDED 31 DECEMBER 2005 (US\$ thousand)**

| | Development | Emergency relief | Protracted relief and recovery | Special operations | Total 2004–2005 | Prior period 2002–2003 |
|---|-----------------|------------------|--------------------------------|--------------------|------------------|------------------------|
| INCOME | | | | | | |
| Commodity in-kind contributions | 106 528 | 335 887 | 513 190 | – | 955 605 | 1 086 118 |
| Service-in-kind contributions | 2 635 | 7 229 | 5 095 | 20 462 | 35 421 | 32 293 |
| Other contributions | 454 943 | 1 639 415 | 1 558 610 | 346 293 | 3 999 261 | 3 491 652 |
| Contribution from Office of Iraq Programme | | 17 022 | | | 17 022 | 815 976 |
| Currency exchange adjustments | (10 048) | (5 489) | (12 822) | (1 531) | (29 890) | 51 938 |
| Miscellaneous income | | | | 8 387 | 8 387 | |
| Transfer of indirect support cost contributions to General Fund | (23 555) | (132 066) | (142 006) | (23 454) | (321 081) | (345 817) |
| TOTAL INCOME INCLUDING TRANSFER | 530 503 | 1 861 998 | 1 922 067 | 350 157 | 4 664 725 | 5 132 160 |
| EXPENDITURE | | | | | | |
| Commodities in-kind | 87 801 | 353 177 | 521 320 | – | 962 298 | 1 706 340 |
| Commodities purchased | 248 244 | 451 874 | 485 264 | – | 1 185 382 | 966 651 |
| Ocean transport and related costs | 60 976 | 220 586 | 242 910 | – | 524 472 | 433 259 |
| Landside transport storage and handling | 64 063 | 739 777 | 436 365 | – | 1 240 205 | 947 664 |
| Other direct operational costs | 13 057 | 58 121 | 37 928 | 229 475 | 338 581 | 195 910 |
| Direct support costs | 41 201 | 215 678 | 189 948 | 27 876 | 474 703 | 381 450 |
| TOTAL EXPENDITURE | 515 342 | 2 039 213 | 1 913 735 | 257 351 | 4 725 641 | 4 631 274 |
| Excess (shortfall) of income over expenditure | 15 161 | (177 215) | 8 332 | 92 806 | (60 916) | 500 886 |
| Fund balances, beginning of period | 246 016 | 803 539 | 560 085 | 33 253 | 1 642 893 | 1 627 341 |
| Contribution adjustments | (32 775) | (277 923) | (85 462) | (6 578) | (402 738) | (422 555) |
| Prior period adjustments | (8 692) | (28 657) | (38 478) | (3 601) | (79 428) | (66 204) |
| Transfers between funds and accounts | 3 152 | (8 932) | (2 187) | 26 | (7 941) | 4 165 |
| Transfers to reserves | 4 088 | 1 634 | 2 528 | 2 271 | 10 521 | (741) |
| FUND BALANCES, END OF PERIOD | 226 950 | 312 446 | 444 818 | 118 177 | 1 102 391 | 1 642 892 |
| Breakdown of contribution adjustments: | | | | | | |
| Reprogramming of unused fund balances | (4 757) | (45 859) | (17 625) | (1 228) | (69 469) | (65 631) |
| Refund of unused fund balances | (5 680) | (45 636) | (8 826) | (4 016) | (64 158) | (44 595) |
| Write-off of contribution receivables | – | – | – | – | – | (439) |
| Write-down of contribution receivables | (22 338) | (186 428) | (59 011) | (1 334) | (269 111) | (311 889) |
| TOTAL | (32 775) | (277 923) | (85 462) | (6 578) | (402 738) | (422 554) |



ACRONYMS USED IN THE DOCUMENT

| | |
|--------|---|
| ASMCP | After-Service Medical Coverage Plan |
| CPRF | Compensation Plan Reserve Fund |
| CFO | chief financial officer |
| DEV | development |
| DOC | direct operational costs |
| DSC | direct support cost |
| DSCAF | Direct Support Cost Advance Facility |
| EMOP | emergency operation |
| GF | General Fund |
| HACT | Harmonized Approach to Cash Transfers |
| HLCM | High-level Committee on Management |
| IEFR | International Emergency Food Reserve |
| IPSAS | International Public Sector Accounting Standards |
| IRA | Immediate Response Account |
| ISC | indirect support costs |
| MMC | minimum monthly closure reporting package |
| PRRO | protracted relief and recovery operation |
| PSA | Programme Support and Administrative (budget) |
| SO | special operation |
| SPR | standard project report |
| SPS | separation payment scheme |
| STRIPS | separate trading of registered interest and principal of securities |
| UNDG | United Nations Development Group |
| WCF | Working Capital Facility |
| WINGS | WFP Information Network and Global System |

