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Food and Agriculture
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Продовольственная и
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Organización de las
Naciones Unidas para la
Alimentación y la Agricultura

منظمة
الأغذية والزراعة
للأمم المتحدة

FINANCE COMMITTEE

Hundred and Fifty-sixth Session

Rome, 3 - 7 November 2014

Audited Accounts - FAO Commissary 2013

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

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EXECUTIVE SUMMARY

- The FAO Staff Commissary was established under Article XII, Section 27(j) (ii) of the Headquarters Agreement between the Government of the Italian Republic and the FAO, and administered through Manual Section 103, Annex D. The Commissary is part of the FAO and preparation of its financial statements is the responsibility of the management of the Staff Commissary on behalf of the Director-General FAO.
- The accounts of the FAO Commissary are audited by the External Auditor on an annual basis, and the attached 2013 Audited Accounts are presented herewith with an unqualified opinion from the External Auditor.
- The annual Audited Accounts of the FAO Commissary are submitted to the Finance Committee for approval in line with Resolution 16/97 adopted by the FAO Conference at its 29th Session in November 1997.
- Management wishes to draw the Finance Committee's attention to the fact that 2013 was a breakeven year. Though sales in 2013 were marginally lower compared to 2012 after the loss of petrol coupons sales, operating expenses were also reduced due to changes in staffing levels resulting in a net profit of EUR 28,369 after 1% deduction of gross sales revenue to the staff welfare fund.
- The Commissary's net working capital closed at EUR 3.1 million, with EUR 1.4 million held in inventory and EUR 2.1 million in cash and cash equivalents, all financed by a EUR 1.6 million working capital fund and EUR 1.4 million in retained earnings.
- To enhance operational efficiency and improve inventory management the Commissary rolled out a new enterprise resource planning (ERP) system in the first half of 2014. This system is designed to deliver 2014 IPSAS compliant accounts.
- Following a significant reduction in the revenue base by approximately 15% due to the loss of petrol coupon sales which were replaced by a fuel card system, the Commissary is exploring and implementing ways to compensate for this loss during 2014 by diversifying its portfolio with additional product lines, whilst streamlining and growing its best sellers.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is requested to review, and approve, the 2013 Audited Accounts of the FAO Commissary.

Draft Advice

- **The Finance Committee hereby approves the 2013 Audited Accounts of the FAO Commissary.**



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

Mr. Dennis Aitken

Assistant Director-General a.i.
Corporate Services, Human Resources
and Finance Department
FAO Headquarters
Rome, Italy

Report on the financial statements

We have audited the accompanying financial statements of the FAO Staff Commissary Fund, which comprise the Balance Sheet as at 31 December 2013, and the Statement of Income and Expenses, Statement of Changes in Fund Balances, and the Statement of Cash Flows for the year then ended, and the supporting explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting principles. 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.

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 issued by the International Auditing and Assurance Standards Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 FAO Staff Commissary Fund as at 31 December 2013, and the results of its operations and cash flows for the year then ended, in accordance with generally accepted accounting principles.

Report on other legal and regulatory requirements

Further, in our opinion, the transactions of the FAO Staff Commissary Fund 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 its Statutes and the Financial Regulations and Rules of the Food and Agriculture Organization and legislative authority.



Lito Q. Martin

Director, External Audit

Quezon City, Philippines

Date: 30 June 2014

FAO STAFF COMMISSARY FUND**BALANCE SHEET**

31 December 2013

(With Corresponding Figures for 2012)

(Expressed in Euro)

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	3	2,074,478	1,233,180
Stocks	2(d), 4	1,406,563	2,271,620
Prepayments	5	1,060	957
Accounts Receivable	6	25,443	39,263
		<u>3,507,544</u>	<u>3,545,020</u>
Non-Current Assets			
Property, Plant and Equipment - net of Accumulated Depreciation	2(c), 7	35,281	48,520
TOTAL ASSETS		<u>3,542,825</u>	<u>3,593,540</u>
LIABILITIES AND FUND BALANCES			
Current Liabilities			
Trade Payables	8	224,457	357,819
Other Accounts Payable	9	70,240	96,449
Payable to Staff Welfare Fund	10	35,263	37,528
FAO Commissary Account	11	65,055	(42,697)
Deposit Guaranty	12	9,560	34,560
		<u>404,575</u>	<u>483,659</u>
Terminal Emoluments Reserve	13	166,356	233,199
		<u>570,931</u>	<u>716,858</u>
Fund Balances			
Working Capital Fund	14	1,620,899	1,773,486
Retained Earnings		1,350,995	1,103,196
		<u>2,971,894</u>	<u>2,876,682</u>
TOTAL LIABILITIES AND FUND BALANCES		<u>3,542,825</u>	<u>3,593,540</u>

The accompanying Notes are integral part of the financial statements

ROBERTO BONAFEDE
Commissary Manager

BERNARD SOY
Commissary Accounts


STATEMENT OF INCOME AND EXPENSES

For the Year Ended 31 December 2013

(With Corresponding Figures for 2012)

(Expressed in Euro)

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
INCOME			
Sales		12,468,458	13,642,201
Cost of Goods Sold	4, 15	<u>9,821,948</u>	<u>10,590,952</u>
Gross Trading Surplus		2,646,510	3,051,249
Other Income	16	10,077	65,672
Gain/(Loss) on Foreign Exchange		<u>(27,196)</u>	<u>(13,476)</u>
		<u>2,629,391</u>	<u>3,103,445</u>
EXPENSES			
Personnel	17	1,495,058	1,790,843
General Operating Expenses	18	889,455	823,577
Support Cost Reimbursement to FAO	19	66,324	66,183
Depreciation	2c, 7	<u>25,500</u>	<u>29,638</u>
		<u>2,476,337</u>	<u>2,710,241</u>
OPERATING INCOME			
		153,054	393,204
Contribution to Staff Welfare Fund	10	<u>(124,685)</u>	<u>(136,422)</u>
NET INCOME		<u>28,369</u>	<u>256,782</u>

The accompanying Notes are integral part of the financial statements

FAO STAFF COMMISSARY FUND
STATEMENT OF CHANGES IN FUND BALANCES

For the Year Ended 31 December 2013

(With Corresponding Figures for 2012)

(Expressed in Euro)

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
Working Capital Fund			
Balance at beginning of year		1,773,486	1,763,590
Adjustment to 13 percent level	14	<u>(152,587)</u>	<u>9,896</u>
Balance at end of the year		<u>1,620,899</u>	<u>1,773,486</u>
Retained Earnings			
Balance at beginning of year		1,103,196	1,011,543
Net income		28,369	256,782
Adjustment on terminal emolument reserve	13	66,843	(5,233)
Transfer from /(to) working capital fund	14	152,587	(9,896)
Dividends paid	20	-	(150,000)
Balance at end of the year		<u>1,350,995</u>	<u>1,103,196</u>
Fund balance at end of year		<u>2,971,894</u>	<u>2,876,682</u>

The accompanying Notes are integral part of the financial statements

FAO STAFF COMMISSARY FUND

STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2013

(With Corresponding Figures for 2012)

(Expressed in Euro)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Net income	28,369	256,782
Adjustments to reconcile net income to net cash provided by operating activities:		
Add: Depreciation	25,500	29,638
Add: Loss on disposal of non current assets		27
Decrease (Increase) in Stocks	865,057	(56,378)
Decrease (Increase) in Prepayments	(103)	(957)
Decrease (Increase) in Accounts Receivable	13,820	(3,060)
Decrease (Increase) in Miscellaneous Receivable		3,505
Increase (Decrease) in Trade Payables	(133,362)	(835,305)
Increase (Decrease) in Other Accounts Payable	(26,209)	(94,111)
Increase (Decrease) in Payable to Staff Welfare Fund	(2,265)	(10,112)
Increase (Decrease) in Deposit Guaranty	(25,000)	(29,640)
Increase (Decrease) in FAO Commissary Account	107,752	(325,429)
Increase (Decrease) in Trust Liability		(59,556)
Net cash used by operating activities	853,559	(1,124,596)
Cash flows used in investing activities:		
Acquisition of equipment	(12,261)	(14,605)
Net cash used in investing activities	(12,261)	(14,605)
Cash flows used in financing activities:		
Dividends paid	-	(150,000)
Net cash used in financing activities	-	(150,000)
Increase (Decrease) in cash and cash equivalents	841,298	(1,289,201)
Cash at beginning of year	1,233,180	2,522,381
Cash at end of year	2,074,478	1,233,180

FAO STAFF COMMISSARY FUND
NOTES TO FINANCIAL STATEMENTS
31 DECEMBER 2013

1. Introduction

The FAO Staff Commissary Fund was established in 1951 to facilitate duty free importation of goods by international staff under Article XII, Section 27(j) (ii), and Annex D of the Headquarters' Agreement between the Government of the Italian Republic and FAO. Access to the Commissary was given to all FAO staff members as of 1 December 1971, following an exchange of letters with the Italian Government, which stated that the agreed quantities of goods to be imported would be computed according to the total number of FAO staff.

The Commissary is part of FAO and preparation of its financial statements is the responsibility of the management of the Commissary on behalf of the Director General of FAO.

2. Basis of Preparation of the Financial Statements

(a) Accounting Convention

The financial statements of the FAO Staff Commissary Fund have been prepared on the accrual basis of accounting using the historic cost convention.

(b) The Financial Statements are expressed in euros, the functional currency of the FAO Staff Commissary Fund.

(c) Property, plant and equipment

The cost of equipment is calculated based on historical cost. Depreciation is calculated using the straight-line method to write-off the cost of fixed assets over their estimated useful life of five years. The first year's depreciation of new assets is based on the actual number of months the asset has been in service.

(d) Recognising that the Organization estimates a useful life of four years for all computer equipment, all of the Commissary's computer equipment has been depreciated using a four-year straight-line method in 2013.

(e) Stocks

Stocks are stated at landed cost. The cost of stocks is determined using the first-in, first-out (FIFO) method and shall be measured at the lower of cost and net realisable value (NRV). The amount of any write-down of stocks to NRV and all losses of stocks shall be recognized as an expense in the period the write-down or loss occurs.

(f) Foreign currencies

Assets and liabilities in currencies other than Euro have been translated at the UN operational rate of exchange at 31 December 2013. Income and expenditure items have been recorded at the rate of exchange in effect at the date of transaction. Any eventual differences arising when payment is made are reflected under the income and expenditure statement.

(g) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and short-term highly –liquid investments with maturities of three months.

3. Cash and Cash Equivalents

Cash in bank and on hand are made up as follows:

	<u>2013</u>	<u>2012</u>
	€	€
Cash in bank	1,565,744	924,766
Petty cash – FAO salesroom	6,900	6,900
Petty cash – Commissary Manager	534	214
Petty Cash – WFP Salesroom	1,300	1,300
Short-term time deposit	500,000	300,000
Balance at 31 December	€ <u><u>2,074,478</u></u>	<u><u>1,233,180</u></u>

Three months maturity deposit held with Banca Popolare di Sondrio carried at cost yielding 1.50%.

4. Stocks

Stocks are made up as follows:

<u>2013</u>	FIFO Value	Net Realizable Value	Loss due to write-down to NRV
Tobacco	195,325	195,325	
Spirits and Liqueurs	85,887	85,887	
Wine	141,776	141,776	
Aperitifs and Champagne	47,828	47,828	
Cosmetics and Perfumery	415,898	415,468	430
Food, Groceries and Assortments	524,316	520,279	4,037
Petrol/Oil coupons	-	-	-
Balance as at 31 December	€ <u><u>1,411,030</u></u>	<u><u>1,406,563</u></u>	<u><u>4,467</u></u>

2012

Tobacco	€	371,756	371,756	
Spirits and Liqueurs		72,606	72,606	
Wine		128,072	128,056	16
Aperitifs and Champagne		44,684	44,684	
Cosmetics and Perfumery		457,361	456,889	472
Food, Groceries and Assortments		760,356	756,634	3,722
Petrol/Oil coupons		440,995	440,995	-
Balance as at 31 December	€	2,275,830	2,271,620	4,210

The loss incurred on write-down of slow moving stocks to net realizable value was directly absorbed in the cost of goods sold. Also, the cost of broken/lost/expired stocks included in the discrepancy reports aggregated to €64,207.53. Of the total amount, €14,321.54 was recognized as part of the cost of goods sold, of which a total of € 10,629 has been recovered from the contractor (€ 9,292 recovery in relation to 2012 and € 1,337 for year 2013) and € 49,885.99 was reimbursed by suppliers. Refer to note 15.

Sale of Petrol and Oil coupons was discontinued in the last quarter of 2013.

5. Prepayments

Prepayments are made up as follows:

	<u>2013</u>	<u>2012</u>
Insurance - Motor vehicle	1,060	957
Balance at 31 December	€ <u>1,060</u>	<u>957</u>

6. Accounts receivable

Accounts receivable are made up as follows:

	<u>2013</u>	<u>2012</u>
Official party sales	19,051	11,339
Goods sold to FAO	300	22,608
Director General party sales	4,832	5,316
Bank Interest	1,260	
Balance at 31 December	€ <u>25,443</u>	<u>39,263</u>

7. Property, Plant and Equipment

This account consists of cold room, furniture, equipment and motor vehicles, summarized as follows:

	<u>Cold Room</u>	<u>Furniture</u>	<u>Equipment</u>	<u>Motor Vehicle</u>	<u>Total</u>
Cost					
1 January 2013	69,940	401,577	110,948	106,255	688,720
Additions	-	2,498	9,763	-	12,261
31 December 2013	69,940	404,075	120,711	106,255	700,981
Accumulated Depreciation					
1 January 2013	69,940	382,254	91,958	96,048	640,200
Charges for year	-	12,977	9,023	3,500	25,500
31 December 2013	69,940	395,231	100,981	99,548	665,700
Net Book Value					
31 December 2013	-	8,844	19,730	6,707	35,281
31 December 2012	-	19,323	18,990	10,207	48,520

8. Trade payables

This account represents balances of payables due to the Commissary's various creditors as at 31 December.

9. Other accounts payable

Other accounts payable are made up as follows:

	<u>2013</u>	<u>2012</u>
Accrued expenses	70,240	96,449
Balance as at 31 December	€ <u>70,240</u>	<u>96,449</u>

10. Payable to Staff Welfare Fund

In accordance with Conference Resolution 18/93, effective with the year ending 31 December 1992, the equivalent of one per cent of total sales shall be transferred to the Staff Welfare Fund and that the Director-General decide whether any net profits of the Commissary are to be carried forward to the next year or transferred to the Staff Welfare Fund.

The composition of the Payable to Staff Welfare Fund as at 31 December 2013 and its movements for the year ended were as follows:

	<u>2013</u>	<u>2012</u>
Balance as at 1 January	€ 37,528	47,640
Contribution to Staff Welfare Fund (one per cent)	124,685	136,422
	162,213	184,062
Amount paid during the year	126,950	146,534
Balance as at 31 December	€ <u>35,263</u>	<u>37,528</u>

11. FAO Commissary account

This account represents the balance payable to FAO for support cost reimbursements and other inter-company transactions with FAO such as staff costs, supplies and fixed assets. In year 2012, this account had a credit / positive balance and was presented under the Liabilities Section of the Balance Sheet. Considering that the nature of this account is a payable and is usually presented under the Liabilities Section.

12. Deposit guaranty

This account pertains to deposits made by the concessionaires, refundable upon expiry of the contracts.

13. Terminal emoluments reserve

This account represents the calculated expenses for repatriation grants and unused annual leave balances of Professional and General Service Staff. At the Seventy-fourth session of Finance Committee held in September 1992 it was decided, as the Commissary is a self-sufficient unit and is requested to operate without cost to the Organisation, to accrue in full for known liabilities in accordance with generally accepted accounting principles applicable to commercial concerns.

The movements in the Terminal emoluments reserve during the years are as follows:

	<u>2013</u>	<u>2012</u>
Balance at 1 January	€ 233,199	227,966
Adjustment of over provision for terminal emoluments	(66,843)	5,233
Balance at 31 December	€ <u>166,356</u>	<u>233,199</u>

14. Working capital fund

At the Sixth session of the FAO Conference held from 19th November to the 6th December 1951, it was decided that the Commissary should establish a fund for the purchase of stocks for the Commissary, the fund to be reimbursed from the proceeds of sale of such stocks.

At the Ninety-second session of the Council held in November 1987, it was decided that the Working Capital Fund should be maintained at a level of 12 per cent of annual turnover. Subsequently at the Seventy-second session of the Finance Committee held from 16th to the 26th September 1991, it was decided that the level of the Working Capital Fund should be increased from 12 per cent to 13 per cent of turnover.

15. Cost of goods sold

	<u>2013</u>	<u>2012</u>
Stock as at 1st January	€ 2,271,620	2,215,242
Purchases	8,967,520	10,675,831
Stocks available for sale	11,239,140	12,891,073
Less: Stocks as at 31 December (at NRV)	1,406,563	2,271,620
Cost of goods sold	9,832,577	10,619,453
Add: Reimbursement of inventory discrepancy	(10,629)	(28,501)
Cost of Goods Sold as at 31 December	€ 9,821,948	10,590,952

16. Other income

This account consists of:

	<u>2013</u>	<u>2012</u>
Interest on bank accounts	9,447	7,992
Miscellaneous income*	630	57,680
Balance at 31 December	€ 10,077	65,672

* Miscellaneous income is that income realized that is not directly related to the sale of standard products and services.

17. Personnel

The account reflects payroll cost as charged by FAO. Payroll cost includes compensation for Commissary staff including one Professional and one GS staff members dealing with car import privileges. Their cost is absorbed by mark-ups on petrol coupons, ensuring thereby that Commissary customers not entitled to petrol do not subsidise the services of the Car Import Office.

18. General operating expenses

This account consists of:

	<u>2013</u>	<u>2012</u>
Contractor	724,152	685,552
Bank Charges	40,070	41,208
Supplies	3,968	30,258
Insurance	20,177	18,622
Communications	10,796	14,872
Travel	2,124	6,964
Truck maintenance and fuel	18,623	16,271
Stationery	8,033	6,179
Renovations	32,788	-
Computer services	13,937	3,651
Software license	14,787	-
Balance at 31 December	€ <u>889,455</u>	<u>823,577</u>

19. Support cost reimbursement to FAO

At the Twenty-fifth session of the FAO Conference held from 11th to the 30th November 1989, it was decided that the Commissary should reimburse FAO in respect of services provided to the Commissary and that the related actual costs should be charged to the Commissary on an estimated basis henceforward. The Support Cost Reimbursement to FAO consists of:

	<u>2013</u>	<u>2012</u>
Utilities and maintenance	30,870	30,729
Internal audit	25,214	25,214
External audit	10,240	10,240
	€ <u>66,324</u>	<u>66,183</u>

20. Dividends

In line with the 69th Resolution of the Seventh FAO Conference Session, on Commissary reserves, the Director General and Joint Commissary Committee in year 2012 approved withdrawal of Euro 150,000 from the retained earnings reserve towards staff welfare initiatives meant to provide modest conveniences. Projects that benefited from these funds were covered parking for bicycles, motorcycles and scooters, mother's room, improved lighting and acoustics in the cafeteria and start-up fund for the childcare facility.