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Food and Agriculture
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Продовольственная и
сельскохозяйственная организация
Объединенных Наций

Organización de las
Naciones Unidas para la
Alimentación y la Agricultura

منظمة
الغذية والزراعة
للأمم المتحدة

FINANCE COMMITTEE

Hundred and Sixty-fourth Session

Rome, 7 - 11 November 2016

Audited Accounts - FAO Commissary 2015

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 2015 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 note that 2015 was substantially a positive year, with marginally higher total sales compared to 2014 despite the interruption in the sale of tobacco products at the WFP Commissary from November 2015.
- The Commissary's net working capital closed at EUR 3.0 million, with EUR 1.9 million held in inventory and EUR 1.2 million in cash and cash equivalents, all financed by a EUR 1.4 million working capital fund and EUR 1.6 million in retained earnings. The FAO staff Commissary closed the year with a net income of EUR 60,054 after 1% statutory deduction of gross sales revenue to the Staff Welfare Fund.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is requested to review, and approve, the 2015 Audited Accounts of the FAO Commissary.

Draft Advice

- **The Finance Committee hereby approves the 2015 Audited Accounts of the FAO Commissary.**



Republic of the Philippines

COMMISSION ON AUDIT

Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

Ms. Fernanda Guerrieri

Assistant Director-General

Corporate Services Department (CS)

Food and Agriculture Organization of the United Nations

Via delle Terme di Caracalla – 00153 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 2015, 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 2015, 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 of External Audit
Commission on Audit
Republic of the Philippines

Quezon City, Philippines

7 June 2016

FAO STAFF COMMISSARY FUND
BALANCE SHEET
As at 31 December 2015
(With Corresponding Figures for 2014)
(Expressed in Euro)

	Note	2015	2014
ASSETS			
Current Assets			
Cash and Cash Equivalents	2(f), 3	1,210,977	792,435
Investments	4	1,000,000	1,000,000
Inventory	2(d), 5	1,946,318	1,788,176
Prepayments	6	-	1,096
Accounts Receivable	7	23,917	32,579
		4,181,212	3,614,286
Non-Current Assets			
Property, Plant and Equipment - net	2(c), 8	4,958	10,974
Intangible Assets - net	9	28,500	37,500
		33,458	48,474
TOTAL ASSETS		4,214,670	3,662,760
LIABILITIES AND FUND BALANCES			
Current Liabilities			
Trade Payables	10	72,547	258,811
Accounts Payable	11	371,062	-
Accruals and Provisions	12	291,692	146,150
Payable to Staff Welfare Fund	13	33,825	34,102
FAO Commissary Account	14	90,395	46,654
Other Current Liabilities	15	186,921	68,869
		1,046,442	554,586
Non-Current Liabilities			
Terminal Emoluments Reserve	17	137,987	216,926
Deposit Guaranty	16	9,560	9,560
		147,547	226,486
Fund Balances			
Working Capital Fund	18	1,392,438	1,359,848
Retained Earnings		1,628,243	1,521,840
		3,020,681	2,881,688
TOTAL LIABILITIES AND FUND BALANCES		4,214,670	3,662,760

The accompanying Notes are integral part of the Financial Statements.

ROBERTO BONAFEDE
FAO Commissary Manager



RICHARD NICHOLS
FAO Commissary Accounts



FAO STAFF COMMISSARY FUND
STATEMENT OF INCOME AND EXPENSES

For the Year Ended 31 December 2015

(With Corresponding Figures for 2014)

(Expressed in Euro)

	Note	2015	2014
INCOME			
Sales	19	10,647,830	10,460,365
Cost of Goods Sold	5, 20	8,205,509	8,060,132
Gross Trading Surplus		2,442,321	2,400,233
Other Income	21	32,098	35,255
Loss on Foreign Exchange		(24,192)	(46,693)
		2,450,227	2,388,795
EXPENSES			
Personnel	22	1,422,285	1,376,746
General Operating Expenses	23	778,340	861,869
Support Cost Reimbursement to FAO	24	66,324	66,324
Depreciation	2c, 8, 9	16,746	18,888
		2,283,695	2,323,827
OPERATING INCOME		166,532	64,968
Contribution to Staff Welfare Fund	14	(106,478)	(104,604)
NET INCOME/(LOSS)		60,054	(39,636)

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 2015
(With Corresponding Figures for 2014)
(Expressed in Euro)

	Note	2015	2014
Working Capital Fund			
Balance at beginning of year		1,359,848	1,620,899
Adjustment to 13 percent level	17	32,590	(261,051)
Balance at end of the year		1,392,438	1,359,848
Retained Earnings			
Balance at beginning of year		1,521,840	1,350,995
Net income/(loss)		60,054	(39,636)
Adjustment on terminal emolument reserve	17	78,939	(50,570)
Transfer (to)/from working capital fund	18	(32,590)	261,051
Balance at end of the year		1,628,243	1,521,840
Fund balance at end of year		3,020,681	2,881,688

The accompanying Notes are integral part of the Financial Statements.

FAO STAFF COMMISSARY FUND
STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2015
(With Corresponding Figures for 2014)
(Expressed in Euro)

	2015	2014
Cash flows from operating activities:		
Net (loss) / income	60,054	(39,636)
Add/deduct: Adjustments to reconcile net income to net cash		
Provided/(used) by operating activities:		
Depreciation	16,745	18,888
Loss on de-capitalised assets	3	12,919
Decrease in Inventory	(158,142)	(381,613)
Decrease/(Increase) in Prepayments	1,096	(36)
Decrease/(Increase) in Accounts Receivable	8,662	(7,135)
Increase/(Decrease) in Trade Payables	(40,722)	180,504
Increase in Accounts Payable	371,062	-
Increase/(Decrease) in Other Accounts Payable	118,052	(1,372)
Decrease in Payable to Staff Welfare Fund	(277)	(1,161)
Increase/(Decrease) in FAO Commissary Account	43,741	(18,401)
Net cash provided/(used) by operating activities	420,274	(237,043)
Cash flows used in investing activities:		
One-year bank deposit	-	(1,000,000)
Acquisition of equipment	(1,732)	(45,000)
Net cash used in investing activities	(1,732)	(1,045,000)
Increase/(Decrease) in cash and cash equivalents	418,542	(1,282,043)
Cash at beginning of year	792,435	2,074,478
Cash at end of year	1,210,977	792,435

The accompanying Notes are integral part of the Financial Statements.

**FAO STAFF COMMISSARY FUND
NOTES TO FINANCIAL STATEMENTS
31 DECEMBER 2015**

1. Introduction

The FAO Staff Commissary Fund (FAOSCF) 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 the 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 FAOSCF is part of the 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 FAOSCF 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 FAOSCF.

(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.

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

(d) Inventory

Inventory is stated at landed cost. The cost of inventory 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 inventory to NRV and all losses of inventory shall be recognized as an expense in the period the write-down or loss occurs.

(e) Foreign currencies

Assets and liabilities in currencies other than Euro have been translated at the UN operational rate of exchange at 31 December 2015. 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.

(f) 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 one year.

3. Cash and Cash Equivalents

This account is composed of the following:

	2015	2014
Cash in bank	1,201,881	783,393
Cash on hand	9,096	9,042
Balance at 31 December	1,210,977	792,435

4. Investments

One -year maturity deposit held with Banca Popolare di Sondrio carried at cost yielding 0.60%. Total amount invested amounts to € 1,000,000, which placement date was in May 2015. The FAOSCF has been investing this amount in a fixed deposit account because it provides with a higher interest rate than depositing money in a regular savings account. Further, the account helps to act as a fall back in the event of a cash flow squeeze or can be used to meet future cash requirements.

5. Inventory

Inventory is composed of the following:

	2015	2014
Tobacco	360,189	168,814
Spirits and Liqueurs	53,948	90,598
Beer, Wine, and Champagne	124,939	263,054
Non-alcoholic drinks	106,602	92,449
Cosmetics and Perfumery	653,196	486,221
Food, Groceries and Assortments	647,444	695,040
Balance at 31 December	1,946,318	1,788,176

The loss incurred on write-down of slow moving stocks to net realizable value was absorbed directly to cost of goods sold. Year-end inventory count discrepancy plus operational discrepancies of broken/lost/expired aggregated to €100,559; of which €44,571 was reimbursed by suppliers and €13,784 is to be recovered from the Contractor. The resultant net amount of €42,204 was recognized as part of cost of sales. Refer to Note No.18

	2015	2014
Operational and year-end discrepancies	100,559	108,880
Less: Actual reimbursement by supplier	(44,571)	(42,973)
To be claimed from contractor	(13,784)	(38,702)
Net discrepancy	42,204	27,205
Less: Actual recovery for the year	-	(3,542)
Charged to cost of sales	42,204	23,663

6. Prepayments

This account is composed of the following:

	2015	2014
Insurance - Motor vehicle	-	1,096
Balance at 31 December	-	1,096

7. Accounts Receivable

Accounts receivable is composed of the following:

	2015	2014
Trade Receivable	15,695	11,853
Intercompany Receivable	4,462	6,146
Interest Receivable	3,760	14,580
Balance at 31 December	23,917	32,579

This account represents balances of receivables due from the FAOSCF's various debtors at 31 December.

8. Property, Plant and Equipment

This account consists of the following:

	Machinery & Equipment	Furniture & Fixtures	IT Equipment	Motor Vehicles	Total
Cost					
1 January 2015	69,940	383,139	84,762	103,298	641,139
Additions	-	-	1,732	-	1,732
Disposals	-	-	(7,283)	-	(7,283)
31 December 2015	69,940	383,139	79,211	103,298	635,588
Accumulated Depreciation					
1 January 2015	69,940	382,977	77,157	100,091	630,165
Charges for year	-	162	4,376	3,207	7,745
Disposals	-	-	(7,280)	-	(7,280)
31 December 2015	69,940	383,139	74,253	103,298	630,630
Net Book Value					
31 December 2015	-	-	4,958	-	4,958
31 December 2014	-	162	7,605	3,207	10,974

9. Intangible Assets

This account pertains to cost of software, which net book value is shown below:

	2015	2014
Cost		
1 January 2015	45,000	45,000
Additions / Disposal		
31 December 2015	45,000	45,000
Accumulated Amortization		
1 January 2015	7,500	
Charges for year	9,000	7,500
Disposals		
31 December 2015	16,500	7,500
Net Book Value	28,500	37,500

10. Trade Payables

This account represents balances of payables (goods received & invoiced but not yet paid) due to the Commissary's various creditors as at 31 December.

11. Accounts Payable

The accounts payable account is used to revert the book overdrafts as at 31 December 2015 to Cash in Bank.

12. Accruals and Provisions

These accounts represent the respective accruals and provisions of expenses incurred but not yet paid. These accounts include accrued inventory costs (goods received but not yet invoiced).

13. 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 payable to staff welfare fund is classified as an intercompany payable account.

The composition of the Payable to Staff Welfare Fund as at 31 December 2015 and its movements for the year ended were as follows:

	2015	2014
Balance as at 1 January	34,102	35,263
Contribution to Staff Welfare Fund (one per cent)	106,478	104,604
	140,580	139,867
Amount paid during the year	106,755	105,765
Balance as at 31 December	33,825	34,102

14. FAO Commissary account

This account represents the balance payable to FAO for support cost reimbursements and other inter-company transactions with the FAO such as staff costs, supplies and fixed assets. The FAO commissary account is classified as an intercompany payable account.

15. Other Current Liabilities

This account represents any other payable liabilities.

16. Deposit Guaranty

This account pertains to deposit made by the concessionaire, refundable upon expiry of the contracts.

17. Terminal Emoluments Reserve

This account represents the calculated expenses for repatriation grants and unused annual leave balances for Professional and General Service Staff, with 40 leave days being the maximum payable. 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:

	2015	2014
Balance at 1 January	216,926	166,356
Adjustment of over provision for terminal emoluments	(79,939)	50,570
Balance at 31 December	137,987	216,926

18. 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.

19. Sales Revenue

Sales account is composed of the following:

	2015	2014
Cash sales	10,624,203	10,411,739
Credit sales	23,627	48,626
Total	10,647,830	10,460,365

20. **Cost of Goods Sold**

	2015	2014
Inventory as at 1st January	1,788,176	1,406,563
Purchases	8,321,447	8,418,082
Inventory available for sale	10,109,623	9,824,645
Less: Inventory as at 31 December (at NRV)	1,946,318	1,788,176
Cost of goods sold	8,163,305	8,036,469
Add: Inventory discrepancy - net	42,204	23,663
Cost of Goods Sold	8,205,509	8,060,132

21. **Other Income**

This account consists of:

	2015	2014
Concessionaire Management fees	17,957	11,946
Advertisement and Publicity	6,979	7,221
Interest Income	7,162	16,088
Total	32,098	35,255

22. **Personnel**

The account reflects payroll cost as charged by FAO. Payroll cost includes compensation for four Professionals and fifteen GS staff members. CSAC absorbed 51% of the cost of a P-4 staff member from the TCS division as CSAD requested a commissary review report to be prepared.

	2015	2014
Staff Salaries – Professional Category	482,146	432,076
Staff Salaries – General Service Category	865,778	903,805
Consultants	74,361	40,865
Total	1,422,285	1,376,746

23. General Operating Expenses

This account consists of:

	2015	2014
Contractor	667,888	678,296
Bank Charges	43,294	37,783
Supplies	2,823	2,370
Insurance	15,225	15,189
Communications	6,139	6,692
Travel	3,148	4,703
Truck maintenance and fuel	3,884	19,304
Stationery	1,153	1,125
Software license	20,996	50,860
Data Equipment rentals	13,266	11,856
Renovations	9	12,214
Advertising & Publicity	398	7,968
Expensed de-capitalized assets	-	12,919
Cash differences	117	590
Total	778,340	861,869

24. 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:

	2015	2014
Utilities and Maintenance	30,870	30,870
External and Internal Audit Fees	35,454	35,454
Total	66,324	66,324