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Продовольственная и
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Объединенных Наций

Organización de las
Naciones Unidas para la
Alimentación y la Agricultura

منظمة
الغذية والزراعة
للأمم المتحدة

FINANCE COMMITTEE

Hundred and Sixty-ninth Session

Rome, 6 - 10 November 2017

Audited Accounts - FAO Commissary 2016

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

**Ms Fernanda Guerrieri
Assistant Director-General
Corporate Services Department
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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 2016 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
- Following closure of the Commissary salesrooms, an in-depth review is being undertaken to ascertain any statutory or managerial irregularities, as well as the integrity and suitability of internal controls. This review will inter alia inform finalization of a future business model for the Commissary.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is requested to review, and approve, the 2016 Audited Accounts of the FAO Commissary

Draft Advice

- **The Finance Committee hereby approves the 2016 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

Opinion

We have audited the accompanying financial statements of the FAO Staff Commissary Fund (FAOSCF), which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss, statement of changes in equity, and the statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the FAOSCF as at 31 December 2016, and the results of its operations, changes in equity, and cash flow for the year then ended, in accordance with Generally Accepted Accounting Principles (GAAP).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the FAOSCF in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Notes 15 and 19 of the financial statements, which describe the effects of the change in the accounting treatment for employee benefit obligation wherein the accumulated Terminal Emoluments liability for unused annual leave balances and calculated expenses for repatriation grant has been released to Other Income account of the FAOSCF and transferred to FAO's ASMC and Termination Payments Fund (TPF) liabilities accounts in 2016. Likewise, emphasis is given to Note 23, which provides the basis on the on-going revision of the business model of the Commissary to guarantee its financial viability. Pending the decision on the final business model, the FAOSCF suspended all ordering of items as of May 2017 and aimed to exhaust the current stocks by the end of 2017. Our opinion is not modified in respect of these matters.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the FAOSCF's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the FAOSCF or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the FAOSCF's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economics decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercised professional judgment and maintained professional skepticism throughout the audit. We also:

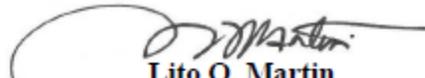
- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtained an understanding of internal control relevant to the audit 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 FAOSCF's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the FAOSCF's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Further, in our opinion, the transactions of the FAOSCF 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 FAO Financial Regulations.


Lito Q. Martin
Director of External Audit
Commission on Audit
Republic of the Philippines

Quezon City, Philippines
16 June 2017

FAO STAFF COMMISSARY FUND
STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

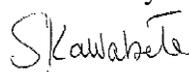
(With Corresponding Figures for 2015)

(Expressed in Euro)

	Note	2016	2015
ASSETS			
Current Assets			
Cash and Cash Equivalents	2(d), 3	2,539,789	1,210,977
Investments	4	-	1,000,000
Inventory	2(e), 5	1,965,989	1,946,318
Accounts Receivable	6	36,831	23,917
		4,542,609	4,181,212
Non-Current Assets			
Property, Plant and Equipment - net	2(f), 7	6,071	4,958
Intangible Assets - net	8	53,736	28,500
		59,807	33,458
TOTAL ASSETS		4,602,416	4,214,670
LIABILITIES AND EQUITY			
Current Liabilities			
Trade Payables	9	980,957	443,609
Accruals and Provisions	10	(26,870)	291,692
Payable to Staff Welfare Fund	11	35,841	33,825
FAO Commissary Account	12	270,677	90,395
Other Current Liabilities	13	178,861	186,921
		1,439,465	1,046,442
Non-Current Liabilities			
Terminal Emoluments Reserve	15	-	137,987
Deposit Guaranty	14	9,560	9,560
		9,560	147,547
Equity			
Working Capital Fund	16	1,325,573	1,392,438
Retained Earnings		1,827,817	1,628,243
		3,153,390	3,020,681
TOTAL LIABILITIES AND EQUITY		4,602,416	4,214,670

The accompanying Notes are integral part of the Financial Statements.

SHOKO KAWABATA
FAO Commissary Manager



RICHARD NICHOLS
FAO Commissary Accounts



FAO STAFF COMMISSARY FUND
STATEMENT OF PROFIT OR LOSS
For the Year Ended 31 December 2016
(With Corresponding Figures for 2015)
(Expressed in Euro)

	Note	2016	2015
INCOME			
Sales Revenue	17	10,196,719	10,647,830
Cost of Sales	2(e), 5, 18	8,015,968	8,205,509
Gross Profit		2,180,751	2,442,321
Other Income	19	162,943	32,098
Gain/(Loss) on Foreign Exchange	2(c)	42,099	(24,192)
		2,385,793	2,450,227
EXPENSES			
Personnel	20	1,257,796	1,422,285
General Operating Expenses	21	849,038	778,340
Support Cost Reimbursement to FAO	22	64,566	66,324
Depreciation and Amortization	2(f), 7, 8	25,302	16,746
		2,196,702	2,283,695
NET PROFIT BEFORE CONTRIBUTION TO STAFF WELFARE FUND			
Contribution to Staff Welfare Fund	11	189,091 (101,967)	166,532 (106,478)
NET PROFIT AFTER CONTRIBUTION TO STAFF WELFARE FUND			
		87,124	60,054

The accompanying Notes are integral part of the Financial Statements.

SHOKO KAWABATA
FAO Commissary Manager

S. Kawabata

RICHARD NICHOLS
FAO Commissary Accounts

Richard Nichols

FAO STAFF COMMISSARY FUND
STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2016
(With Corresponding Figures for 2015)
(Expressed in Euro)

	Note	2016	2015
Working Capital Fund			
Balance as at beginning of the year		1,392,438	1,359,848
Adjustment to 13 percent level	16	(66,865)	32,590
Balance as at end of the year		1,325,573	1,392,438
Retained Earnings			
Balance as at beginning of the year		1,628,243	1,521,840
Add: Prior period errors/adjustments	8,9	45,586	-
		1,673,829	1,521,840
Add: Changes in equity for the year:			
Net profit after contribution to Staff Welfare Fund		87,124	60,054
Adjustment on terminal emolument reserve	15, 19	-	78,939
Transfer from/(to) working capital fund	16	66,864	(32,590)
		153,988	106,403
Balance as at end of the year		1,827,817	1,628,243
Equity as at end of the year		3,153,390	3,020,681

The accompanying Notes are integral part of the Financial Statements.

SHOKO KAWABATA
FAO Commissary Manager

S. Kawabata

RICHARD NICHOLS
FAO Commissary Accounts

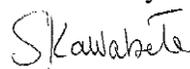
Richard Nichols

FAO STAFF COMMISSARY FUND
STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2016
(With Corresponding Figures for 2015)
(Expressed in Euro)

	2016	2015
Cash flows from operating activities:		
Net Profit after contribution to Staff Welfare Fund	87,124	60,054
Add/deduct: Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and Amortization	25,302	16,745
Loss on de-capitalized assets	-	3
(Increase) in Inventory	(20,734)	(158,142)
Decrease in Prepayments	-	1,096
(Increase)/Decrease in Accounts Receivable	(12,914)	8,662
Increase in Trade Payables	537,347	330,340
(Decrease)/Increase in Accruals and Provisions	(318,562)	0
(Decrease)/Increase in Other Accounts Payable	(8,060)	118,052
Increase/(Decrease) in Payable to Staff Welfare Fund	2,016	(277)
Increase in FAO Commissary Account	180,282	43,741
(Decrease) in Terminal Emoluments Reserve	(137,987)	-
Net cash provided by operating activities	333,814	420,274
Cash flows provided by/(used in) investing activities:		
Proceeds from the termination of one-year bank deposit	1,000,000	-
Acquisition of equipment	(5,002)	(1,732)
Net cash provided by/(used in) investing activities	994,998	(1,732)
Increase in cash and cash equivalents	1,328,812	418,542
Cash and cash equivalents as at beginning of the year	1,210,977	792,435
Cash and cash equivalents as at end of the year	2,539,789	1,210,977

The accompanying Notes are integral part of the Financial Statements.

SHOKO KAWABATA
FAO Commissary Manager



RICHARD NICHOLS
FAO Commissary Accounts



**FAO STAFF COMMISSARY FUND
NOTES TO FINANCIAL STATEMENTS
31 DECEMBER 2016**

1. The Reporting Entity

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. Significant Accounting Policies

(a) Basis of Preparation of the Financial Statements

The Financial Statements of the FAOSCF have been prepared on the accrual basis of accounting in accordance with the generally accepted accounting principles.

(b) Functional Currency

The Financial Statements are expressed in euros, the functional currency of the FAOSCF.

(c) Foreign Currency Transactions

Foreign currency transactions are translated into Euros using the United Nations Operational Rate of Exchange (UNORE), which approximated the exchange rates prevailing at the dates of the transactions. The UNORE are set once a month, and revised mid-month if there are significant exchange rate fluctuations relating to individual currencies.

Monetary assets and liabilities denominated in foreign currencies are translated into EURO using the closing rate of the UNORE as at the end of the reporting period. Non-monetary items carried at historical cost using the historical exchange rate that existed at the date when item was recognized.

Realized and unrealized foreign exchange gains and losses from the settlement of foreign currency transactions and from the translation at year-end are reflected under the statement of profit or loss.

(d) 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 or less.

(e) 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.

(f) 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.

3. Cash and Cash Equivalents

This account is composed of the following:

	2016	2015
Cash in bank	2,529,984	1,201,881
Cash on hand	9,805	9,096
Balance as at 31 December	2,539,789	1,210,977

4. Investments

The FAOSCF has not been investing any amount in 2016. Upon maturity of investment, the funds have been deposited to the regular bank account.

5. Inventory

Inventory is composed of the following:

	2016	2015
Tobacco	370,162	360,189
Spirits and Liqueurs	89,840	53,948
Beer, Wine, and Champagne	177,174	124,939
Non-alcoholic Drinks	73,141	106,602
Cosmetics and Perfumery	501,244	653,196
Food, Groceries, and Assortments	754,427	647,444
Balance as at 31 December	1,965,989	1,946,318

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 €142,201, of which suppliers reimbursed €57,572 and €48,435 is to be recovered from the Contractor. The resultant net amount of €36,194 was recognized as part of cost of sales. Refer to Note 18.

	2016	2015
Operational and year-end discrepancies	142,201	100,559
Less: Actual reimbursements by supplier	(57,572)	(44,571)
To be claimed/actual recovery from contractors	(48,435)	(13,784)
Charged to cost of sales	36,194	42,204

6. Accounts Receivable

Accounts receivable is composed of the following:

	2016	2015
Trade Receivable	29,958	15,695
Intercompany Receivable	6,873	4,462
Interest Receivable	-	3,760
Balance as at 31 December	36,831	23,917

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

7. Property, Plant and Equipment

This account consists of the following:

	Machinery & Equipment	Furniture & Fixtures	IT Equipment	Motor Vehicles	Total
Cost					
1 January	69,940	383,140	79,211	103,298	635,589
Additions	-	763	4,239	-	5,002
31 December	69,940	383,903	83,450	103,298	640,591
Accumulated Depreciation					
1 January	69,940	383,140	74,253	103,298	630,630
Charges for the year	-	152	3,737	-	3,889
31 December	69,940	383,292	77,990	103,298	634,520
Carrying Amount					
31 December 2016	-	611	5,460	-	6,071
31 December 2015	-	-	4,958	-	4,958

8. Intangible Assets

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

	2016	2015
Cost		
1 January	45,000	45,000
Additions	46,648	-
31 December	91,648	45,000
Accumulated Amortization		
1 January	16,500	7,500
Charges for the year	21,412	9,000
31 December	37,912	16,500
Carrying Amount	53,736	28,500

The addition comprises the cost of software previously recognized as expense and capitalized during the year.

9. Trade Payables

This account represents balances of payables (goods received & invoiced but still unpaid) due to the Commissary's various creditors as at 31 December. Identified errors/adjustments of prior periods had been aptly corrected during the year.

10. 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).

11. 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 2016 and its movements for the year ended were as follows:

	2016	2015
Balance as at 1 January	33,825	34,102
Contribution to Staff Welfare Fund (one per cent)	101,967	106,478
	135,792	140,580
Amount paid during the year	99,951	106,755
Balance as at 31 December	35,841	33,825

12. 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.

13. Other Current Liabilities

This account represents any other payable liabilities.

14. Deposit Guaranty

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

15. Terminal Emoluments Reserve

Previously accrued FAO Commissary staff's terminal emoluments, namely the after-service medical coverage (ASMC) and unused annual leaves upon separation, are confirmed as having been included in FAO's ASMC and Termination Payments Fund (TPF) liabilities which FAO Commissary participates by making yearly contributions, hence, do not need to be carried as a FAO Commissary liability and thus released to other income.

The balances of the Terminal Emoluments Reserve as at 31 December 2015 & 2016 are as follows:

	2016	2015
Balance as at 1 January	137,987	216,926
Adjustment of over provision for terminal emoluments	(137,987)	(78,939)
Balance as at 31 December	-	137,987

16. 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.

17. Sales Revenue

Sales account is composed of the following:

	2016	2015
Cash sales	10,172,555	10,624,203
Credit sales	24,164	23,627
Total	10,196,719	10,647,830

18. Cost of Sales

	2016	2015
Inventory as at 1st January	1,946,318	1,788,176
Purchases	7,999,445	8,321,447
Inventory available for sale	9,945,763	10,109,623
Less: Inventory as at 31 December (at NRV)	1,965,989	1,946,318
Cost of sales before inventory discrepancy	7,979,774	8,163,305
Add: Inventory discrepancy - net	36,194	42,204
Cost of Sales after inventory discrepancy	8,015,968	8,205,509

19. Other Income

This account consists of:

	2016	2015
Concessionaire Management fees	15,946	17,957
Advertisement and Publicity	6,580	6,979
Interest Income	2,430	7,162
Miscellaneous income	137,987	-
Total	162,943	32,098

In reference to Note 15, Miscellaneous Income consists of accrued annual leave & repatriation grant reserve that has been released from the Terminal Emoluments liability account.

20. Personnel

The account reflects payroll cost as charged by FAO. Payroll cost includes compensation for three Professionals and thirteen GS staff members.

	2016	2015
Staff Salaries – Professional Category	344,704	482,146
Staff Salaries – General Service Category	840,741	865,778
Consultants	72,351	74,361
Total	1,257,796	1,422,285

21. General Operating Expenses

This account consists of:

	2016	2015
Contractor	704,034	667,888
Bank Charges	73,324	43,294
Supplies	3,042	2,823
Insurance	11,639	15,225
Communications	9,413	6,139
Travel	7,528	3,148
Truck maintenance and fuel	3,551	3,884
Stationery	1,577	1,153
Software license	17,331	20,996
Data Equipment rentals	10,405	13,266
Renovations	6,960	9
Advertising & Publicity	-	398
Cash differences	234	117
Total	849,038	778,340

22. 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:

	2016	2015
Utilities and Maintenance	29,112	30,870
External and Internal Audit Fees	35,454	35,454
Total	64,566	66,324

23. Events After the Reporting Date

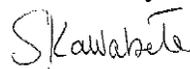
Following a comprehensive special review of the Commissary by FAO Internal Audit (issued in November 2016) and the ban (announced in May 2017) on the sale on FAO premises of tobacco (i.e. about 41 percent of the Commissary gross margin), it became clear that the business model of the Commissary needed to be fundamentally revised to guarantee the financial viability of the facility. The need to move to a new business model was accelerated by the decision of the external contractor, Sanital, currently working in the Commissary not to renew its contract with FAO beyond its expiration date of 30 June 2017.

At the date of the EAUD review of the 2016 financial statement, the review of the Commissary, its refocus on the initial purpose of the facility and the definition of a new

business model is on-going. While a preferred business model is at present under consideration, it needs to be further analyzed in terms of its feasibility as well as discussed with the Italian authorities to ensure full compliance with the Headquarters Agreement (31 October 1950) between FAO and the Italian Government, including as regards the privileges and immunities of FAO's officers.

Pending a decision on the final model, and in view of the non-extension of the agreement with the external contractor at the end of June 2017, all ordering of items have been suspended as of May 2017 and measures are being put in place which will allow to exhaust the current stocks by the end of 2017.

SHOKO KAWABATA
FAO Commissary Manager



RICHARD NICHOLS
FAO Commissary Accounts

