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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
الأغذية والزراعة
للأمم المتحدة

FINANCE COMMITTEE

Hundred and Sixtieth Session

Rome, 2 - 6 November 2015

Audited Accounts - FAO Commissary 2014

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 2014 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 that 2014 was a difficult year. Sales were marginally lower compared to 2013 after the loss of petrol coupons sales; though operating expenses were reduced due to changes in staffing levels this still resulted in a net loss of EUR 39,636 after 1% deduction of gross sales revenue to the staff welfare fund. The Commissary continues to explore ways to diversify its portfolio with additional product lines, while streamlining and growing its best sellers.
- The Commissary's net working capital closed at EUR 3.0 million, with EUR 1.8 million held in inventory and EUR 1.8 million in cash and cash equivalents, all financed by a EUR 1.4 million working capital fund and EUR 1.5 million in retained earnings.
- During the year the Commissary rolled out a new enterprise resource planning (ERP) system to enhance operational efficiency and improve inventory management. This system is designed to aid in delivery of IPSAS compliant accounts.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is requested to review, and approve, the 2014 Audited Accounts of the FAO Commissary.

Draft Advice

- **The Finance Committee hereby approves the 2014 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 2014, 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 2014, 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
Commission on Audit
Republic of the Philippines

Quezon City, Philippines

Date: 07 August 2015

**FAO STAFF COMMISSARY FUND
BALANCE SHEET**

31 December 2014

(With Corresponding Figures for 2013)

(Expressed in Euro)

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	3	1,792,435	2,074,478
Stocks	2(d), 4	1,788,176	1,406,563
Prepayments	5	1,096	1,060
Accounts Receivable	6	<u>32,579</u>	<u>25,443</u>
		<u>3,614,286</u>	<u>3,507,544</u>
Non-Current Assets			
Property, Plant and Equipment - net of			
Accumulated Depreciation	2(c), 7	<u>48,474</u>	<u>35,281</u>
TOTAL ASSETS		<u><u>3,662,760</u></u>	<u><u>3,542,825</u></u>
LIABILITIES AND FUND BALANCES			
Current Liabilities			
Trade Payables	8	404,961	224,457
Other Accounts Payable	9	68,869	70,240
Payable to Staff Welfare Fund	10	34,102	35,263
FAO Commissary Account	11	46,654	65,055
Deposit Guaranty	12	<u>9,560</u>	<u>9,560</u>
		<u>564,146</u>	<u>404,575</u>
Terminal Emoluments Reserve	13	<u>216,926</u>	<u>166,356</u>
		<u>781,072</u>	<u>570,931</u>
Fund Balances			
Working Capital Fund	14	1,359,848	1,620,899
Retained Earnings		<u>1,521,840</u>	<u>1,350,995</u>
		<u>2,881,688</u>	<u>2,971,894</u>
TOTAL LIABILITIES AND FUND BALANCES		<u><u>3,662,760</u></u>	<u><u>3,542,825</u></u>

The accompanying Notes are integral part of the financial statements

ROBERTO BONAFEDE
Commissary Manager



BERNARD SOY
Commissary Accounts



FAO STAFF COMMISSARY FUND

STATEMENT OF INCOME AND EXPENSES

For the Year Ended 31 December 2014

(With Corresponding Figures for 2013)

(Expressed in Euro)

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
INCOME			
Sales	16	10,464,578	12,468,458
Cost of Goods Sold	4, 15	<u>8,064,345</u>	<u>9,821,948</u>
Gross Trading Surplus		2,400,233	2,646,510
Other Income	17	35,255	10,077
Gain/(Loss) on Foreign Exchange		<u>(46,693)</u>	<u>(27,196)</u>
		<u>2,388,795</u>	<u>2,629,391</u>
EXPENSES			
Personnel	18	1,376,746	1,495,058
General Operating Expenses	19	861,869	889,455
Support Cost Reimbursement to FAO	20	66,324	66,324
Depreciation	2c, 7	<u>18,888</u>	<u>25,500</u>
		<u>2,323,827</u>	<u>2,476,337</u>
OPERATING INCOME		64,968	153,054
Contribution to Staff Welfare Fund	10	<u>(104,604)</u>	<u>(124,685)</u>
NET INCOME		<u>(39,636)</u>	<u>28,369</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 2014

(With Corresponding Figures for 2013)

(Expressed in Euro)

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Working Capital Fund			
Balance at beginning of year		1,620,899	1,773,486
Adjustment to 13 percent level	14	<u>(261,051)</u>	<u>(152,587)</u>
Balance at end of the year		<u>1,359,848</u>	<u>1,620,899</u>
Retained Earnings			
Balance at beginning of year		1,350,995	1,103,196
Net income		(39,636)	28,369
Adjustment on terminal emolument reserve	13	(50,570)	66,843
Transfer from /(to) working capital fund	14	<u>261,051</u>	<u>152,587</u>
Balance at end of the year		<u>1,521,840</u>	<u>1,350,995</u>
Fund balance at end of year		<u>2,881,688</u>	<u>2,971,894</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 2014

(With Corresponding Figures for 2013)

(Expressed in Euro)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Net income	(39,636)	28,369
Adjustments to reconcile net income to net cash provided by operating activities:		
Add: Depreciation	18,888	25,500
Add: Loss on de-capitalised assets	12,919	
Decrease (Increase) in Inventory	(381,613)	865,057
Decrease (Increase) in Prepayments	(36)	(103)
Decrease (Increase) in Accounts Receivable	(7,135)	13,820
Increase (Decrease) in Trade Payables	180,504	(133,362)
Increase (Decrease) in Other Accounts Payable	(1,372)	(26,209)
Increase (Decrease) in Payable to Staff Welfare Fund	(1,161)	(2,265)
Increase (Decrease) in Deposit Guaranty	-	(25,000)
Increase (Decrease) in FAO Commissary Account	(18,401)	107,752
Net cash used by operating activities	<u>(237,043)</u>	<u>853,559</u>
Cash flows used in investing activities:		
Acquisition of equipment	(45,000)	(12,261)
Net cash used in investing activities	<u>(45,000)</u>	<u>(12,261)</u>
Cash flows used in financing activities:		
Dividends paid	-	-
Net cash used in financing activities	<u>-</u>	<u>-</u>
Increase (Decrease) in cash and cash equivalents	(282,043)	841,298
Cash at beginning of year	<u>2,074,478</u>	<u>1,233,180</u>
Cash at end of year	<u><u>1,792,435</u></u>	<u><u>2,074,478</u></u>

FAO STAFF COMMISSARY FUND
NOTES TO FINANCIAL STATEMENTS
31 DECEMBER 2014

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 and some adoption of IPSAS standards.

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.

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 2014.

d) 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.

e) Foreign currencies

Assets and liabilities in currencies other than Euro have been translated at the UN operational rate of exchange at 31 December 2014. 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

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

	<u>2014</u>	<u>2013</u>
	€	€
Cash in bank	783,393	1,565,744
Cash float – FAO salesroom	6,500	6,900
Petty cash – Commissary Manager	1,242	534
Cash float– WFP Salesroom	1,300	1,300
Short-term time deposit	1,000,000	500,000
Balance at 31 December	€ 1,792,435	2,074,478

One year maturity deposit held with Banca Popolare di Sondrio carried at cost yielding 1.75%.

4 Stocks

Inventory are made up as follows:

<u>2014</u>	FIFO Value	Net Realizable Value	Loss due to write-down to NRV
Tobacco	160,814	160,814	
Spirits and Liqueurs	90,598	90,598	
Beer, Wine and Champagne	263,054	263,054	
Non-alcoholic drinks	92,449	92,449	
Cosmetics and Perfumery	486,221	486,221	
Food, Groceries and Assortments	695,040	695,040	
Balance at 31 December	€ 1,788,176	1,788,176	

<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	
Beer, Wine and Champagne	141,776	141,776	
Non-alcoholic drinks	47,828	47,828	
Cosmetics and Perfumery	415,898	415,468	430
Food, Groceries and Assortments	524,316	520,279	4,037
Balance as at 31 December	€ 1,411,030	1,406,563	4,467

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 €108,880; of which €42,973 was reimbursed by suppliers and €38,702 is to be recovered from the Contractor. The resultant net amount of €23,663 was recognized as part of cost of sales (this includes an additional recovery of €3,542 relating to prior year's discrepancy). Refer note no.15

<u>Summary</u>	€
Operational and year-end discrepancies -	108,880
Less: Actual reimbursement by supplier -	(42,973)
To be claimed from contractors -	<u>(38,702)</u>
Net discrepancy	- 27,205
Less: Actual recovery for the year	- <u>(3,542)</u>
Charged to cost of sales	- <u>23,663</u>

5 Prepayments

Prepayments are made up as follows:

	<u>2014</u>	<u>2013</u>
Insurance - Motor vehicle	1,096	1,060
Balance at 31 December	€ 1,096	1,060

6 Accounts receivable

Accounts receivable are made up as follows:

	<u>2014</u>	<u>2013</u>
Official Reception sales	5,552	19,051
Goods sold to FAO		300
DG Official Reception sales	594	4,832
Trade Receivable	11,853	
Bank Interest	14,580	1,260
Balance at 31 December	<u>€ 32,579</u>	<u>25,443</u>

7 Property, Plant and Equipment

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

	<u>Software</u>	<u>Cold Room</u>	<u>Furniture</u>	<u>IT Equipment</u>	<u>Motor Vehicle</u>	<u>Total</u>
Cost						
1 January 2014		69,940	404,075	120,711	106,255	700,981
Additions	45,000					45,000
Disposals			(20,936)	(35,949)	(2,957)	(59,842)
31 December 2014	<u>45,000</u>	<u>69,940</u>	<u>383,139</u>	<u>84,762</u>	<u>103,298</u>	<u>686,139</u>
Accumulated Depreciation						
1 January 2014		69,940	395,231	100,981	99,548	665,700
Charges for year	7,500		2,414	5,474	3,500	18,888
Disposals			(14,668)	(29,298)	(2,957)	(46,923)
31 December 2014	<u>7,500</u>	<u>69,940</u>	<u>382,977</u>	<u>77,157</u>	<u>100,091</u>	<u>637,665</u>
Net Book Value						
31 December 2014	<u>37,500</u>	<u>-</u>	<u>162</u>	<u>7,605</u>	<u>3,207</u>	<u>48,474</u>
31 December 2013			<u>8,844</u>	<u>19,730</u>	<u>6,707</u>	<u>35,281</u>

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>2014</u>	<u>2013</u>
Accrued expenses	68,869	70,240
Balance as at 31 December	<u>€ 68,869</u>	<u>70,240</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 2014 and its movements for the year ended were as follows:

	<u>2014</u>	<u>2013</u>
Balance as at 1 January	€ 35,263	37,528
Contribution to Staff Welfare Fund (one per cent)	104,604	124,685
	139,867	162,213
Amount paid during the year	<u>105,765</u>	<u>126,950</u>
Balance as at 31 December	<u>€ 34,102</u>	<u>35,263</u>

11 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.

12 Deposit guaranty

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

13 Terminal emoluments reserve

This account represents the calculated expenses for repatriation grants and unused annual leave balances for Professional and General Service Staff, with 50 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:

	<u>2014</u>	<u>2013</u>
Balance at 1 January	€ 166,356	233,199
Adjustment of over provision for terminal emoluments	<u>50,570</u>	<u>(66,843)</u>
Balance at 31 December	€ <u><u>216,926</u></u>	<u><u>166,356</u></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>2014</u>	<u>2013</u>
Stock as at 1st January	€ 1,406,563	2,271,620
Purchases	8,422,295	8,967,520
Stocks available for sale	9,828,858	11,239,140
Less: Stocks as at 31 December (at NRV)	1,788,176	1,406,563
Cost of goods sold	8,040,682	9,832,577
Add: Inventory discrepancy (reimbursement)	23,663	(10,629)
Cost of Goods Sold as at 31 December	€ <u><u>8,064,345</u></u>	<u><u>9,821,948</u></u>

16 Sales Revenue

Sales account composed of the following:

	<u>2014</u>	<u>2013</u>
Cash sales	10,411,739	12,415,629
Credit sales	48,626	52,829
Promotions and bonus	4,213	
Total	€ <u><u>10,464,578</u></u>	<u><u>12,468,458</u></u>

* Promotions – being saleable promotional items supplied by vendors, with a commercial value.

17 Other income

This account consists of:

	<u>2014</u>	<u>2013</u>
Concessionaire Management fees	11,946	
Advertisement and Publicity	7,221	
Interest on short-term deposit	16,088	9,447
Miscellaneous income*		630
Total	€ <u><u>35,255</u></u>	<u><u>10,077</u></u>

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

18 Personnel

The account reflects payroll cost as charged by FAO. Payroll cost includes compensation for four Professionals and sixteen GS staff members, with one GS staff member retiring mid-year 2014.

19 General operating expenses

This account consists of:

	<u>2014</u>	<u>2013</u>
Contractor	678,296	724,152
Bank Charges	37,783	40,070
Supplies	2,370	3,968
Insurance	15,189	20,177
Communications	6,692	10,796
Travel	4,703	2,124
Truck maintenance and fuel	19,304	18,623
Stationery	1,125	8,033
Software license	50,860	14,787
Data Equipment rentals	11,856	13,937
Renovations*	12,214	32,788
Advertising & Publicity	7,968	
Expensed de-capitalised assets	12,919	
Cash differences	590	
Balance at 31 December	€ <u>861,869</u>	<u>889,455</u>

* Renovations – these are improvements to the perfumery salesroom and lighting ambience.

20 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>2014</u>	<u>2013</u>
Utilities and maintenance	30,870	30,870
Internal audit	25,214	25,214
External audit	10,240	10,240
	<u>€ 66,324</u>	<u>66,324</u>