



WORLD INTELLECTUAL PROPERTY ORGANIZATION (WIPO)

GENEVA

2006-2007 BIENNIUM

**Report by the Auditor
to the Assembly of the Member States of WIPO**

GENERAL

Terms of reference

1. At the forty-third series of meetings held in Geneva from September 24 to October 3, 2007, the General Assembly of the World Intellectual Property Organization (WIPO), the WIPO Coordination Committee and the Assemblies of the Paris, Berne, Madrid, Hague, Nice, Lisbon, Locarno, IPC, PCT and Vienna Unions renewed the mandate of the Swiss Government as Auditor of the accounts of WIPO and the Unions administered by WIPO and of the accounts of the technical assistance projects carried out by the Organization up to and including 2011 (paragraph 272 of document A/43/16).
2. The Government of the Swiss Confederation mandated me, as Director of the Federal Audit Office, to audit the accounts of WIPO and the Unions mentioned above. I entrusted several qualified colleagues from the Federal Audit Office with carrying out interim checks in the course of the period under consideration, and from April to June 2007, with auditing the accounts as at December 31, 2007, at the headquarters of the International Bureau in Geneva. The checks were completed on June 11, 2008.
3. My terms of reference are stipulated in Regulation 6.2 of the WIPO Financial Regulations and defined by the Terms of Reference Governing Audit annexed to those Regulations.

Financial Regulations

4. In addition to the relevant provisions of the various Conventions, the 2006-2007 financial period was governed by the provisions of the Financial Regulations and Rules which entered into force on January 1, 1992 (and September 15, 1998), as well as by the United Nations System Accounting Standards (UNSAS). It should be noted that new Financial Regulations and Rules came into force on January 1, 2008, which introduced deadlines for the preparation of financial statements and their submission to the Audit Committee and to the External Auditor, and made the Controller responsible for preparing the financial management report. These elements were considered when auditing the 2006-2007 financial period. The budget governing the financial period was approved by the Assemblies of the Member States at the forty-first series of meetings, held in Geneva from September 26 to October 5, 2005 (paragraph 194(i) of document A/41/17). The "revised" budget presented or mentioned in the Management Report has not been approved by the Assemblies of the Member States.

Subject of the audit

5. The audit covered by this report relates to entries during the 2006-2007 biennium in the income and expenditure accounts and the balance sheet, and also to items in the balance sheet as at December 31, 2007, for WIPO and the Unions administered by it.

6. The accounts for the 2006-2007 biennium of the International Union for the Protection of New Varieties of Plants (UPOV) and those of the 2007 financial period for the (closed) WIPO pension fund, as well as the 2007 interim audit of the project for the construction of the new administrative building have been covered by separate audit reports.
7. A performance audit in the area of inventory management was also carried out. The checks consisted of an audit based on the INTOSAI¹ auditing standards (AS 1.0.38 and 1.0.40). These auditing standards specify that “...*government auditing includes regularity and performance audit...*” and that “...*performance audit is concerned with the audit of economy, efficiency and effectiveness...*”. The result of this audit is included in a separate report.

Information and documents

8. I wish to express my thanks for the obliging manner in which the information and documents were supplied by all the WIPO officials whom we approached.
9. In the course of the audit, my colleagues had regular meetings with Mrs. C. Graffigna, Executive Director and Controller, and Mr. P. Favatier, Director of the Finance Department, and their staff.
10. A list of the disputes, appeals or proceedings in progress against WIPO was obtained, including the relevant provisions.

CHECKS AND FINDINGS

General

11. Checks were carried out in accordance with the usual, generally accepted international auditing standards and with the Swiss Auditing Standards published by the Fiduciary Chamber (2004 edition)², whilst also observing the additional Terms of Reference for Audit forming an integral part of the Financial Regulations of WIPO.
12. Issues of minor importance which were clarified and discussed with the relevant persons during the course of the work are not commented on in this document.
13. Other points requiring improvements were brought to the attention of the Office of the Controller and the Finance Department during the final discussion on June 11, 2008. Recommendations were made at that time and were approved. They are included in a note which was sent to the Director General of WIPO. I have not reproduced in this report the points concerned or the related proposals for improvements in order to draw the attention of the Assemblies of the Member States only to the recommendations which I regard as essential.

¹ International Organization of Supreme Audit Institutions.

² These Swiss Auditing Standards are intended to give effect to all International Standards on Auditing (ISA) published on June 30, 2003, by the International Auditing and Assurance Standards Board (IAASB).

14. Where checks were carried out by random sampling, my colleagues selected the samples based on the risks or the relative size of the amounts recorded under the headings examined.

FOLLOW-UP TO RECOMMENDATIONS MADE IN PREVIOUS REPORTS

15. The recommendations made in my 2004-2005 report which were acted upon are not included in this document. The following comments concern those which were in the process of being implemented or for which the measures indicated by WIPO were not yet put in place at the time of the audit.

Internal audit (Recommendation No. 2/2004-2005)

16. In my previous report I stated that it would be desirable for the Internal Audit and Oversight Division to be strengthened. In that regard, various measures had been taken by the WIPO Secretariat with a view to recruiting additional specialized staff members. At the time of the current audit, the recruitment of the additional specialized staff members provided for in the 2008-2009 budget had not yet been finalized. Steps to subcontract certain auditing work have been taken. On the same date, my colleagues noted a delay in the performance of the audit program due to take place in 2008, namely that two assignments from the first quarter and two from the second quarter had not yet been completed. The risk coverage as defined in the internal audit plan and submitted to the Audit Committee therefore appears to be called into question for the 2008 financial year.

Processing of advances to UNDP (Recommendation No. 3/2004-2005)

17. According to the justification principle, expenses paid on behalf of WIPO by the UNDP resident representatives, for which interoffice vouchers (IOV) have been received, should be recorded in the accounts on the basis of the actual expenditure rather than on the basis of the associated unpaid commitments. I recommended that immediate measures be taken to clear the backlog observed in the processing of IOVs for 2006.
18. A very marked improvement has been observed in the processing of IOVs. As at December 31, 2007, the backlog now represents just 7.8 per cent of IOVs from 2007 (compared to 45.6 per cent as at December 31, 2005, for IOVs from 2005), despite an increase of 26 per cent in annual activity volumes with the UNDP. At the time of the audit, a balance of around SFR389,000 in 2007 IOVs was still being processed.

Recovery of direct taxes paid to the Government of the United States of America (Recommendation No. 4/2004-2005)

19. The Government of the United States of America has not yet made the reimbursement to WIPO of the direct taxes amounting to SFR1,910,775.23 relating mainly to the years 2004 to 2007, entered on the assets side of the balance sheet under "Sundry debtors". Furthermore, the United States Government has made some reimbursements without supplying details (taxpayers concerned and taxation years). A request for confirmation of the sums outstanding and details of the sums involved has been sent to the authorities responsible for this matter.
20. I reiterate my support to the WIPO Secretariat in its attempts to secure the rapid settlement of the sums owed by the Government of the United States of America. However, if the action taken should have no effect between now and the next closing of the accounts, it would be necessary to regard this debt as a doubtful debt and therefore create a provision on the liabilities side of the balance sheet.

Reserve fund levels (Recommendation No. 5/2004-2005)

21. At the end of the financial year under review, I think that the status of the Reserve Funds has improved considerably for certain Unions. The reserves even exceed the level recommended in my previous report (25 per cent of expenditure). On the other hand, the financial status of the Hague and Lisbon Unions is more worrying. The 2008-2009 budget provides for measures to improve this situation. I encourage WIPO to monitor the implementation of these measures in order to ensure the financial balance of these Unions and increase the level of the Reserve Funds in such a way as to allow them to perform the function for which they were set up.

FINANCIAL AUDITS

Budget

22. The initial budget for the 2006-2007 biennium was approved by the Assemblies of the Member States at the forty-first series of meetings, held in Geneva from September 26 to October 5, 2005 (paragraph 194(i) of document A/41/17).
23. The initial budget for 2006-2007, as submitted to the Assemblies of the Member States, was as follows for WIPO and all the Unions administered by it:

<u>SFR (thousands)</u>	<u>Expenditure</u>	<u>Income</u>	<u>Result</u>
Initial budget	531,000	531,000	0

24. Under Financial Regulation 4, the Director General may make transfers from one heading of the budget to another up to a limit of five per cent, when such transfers are necessary to ensure the proper functioning of the service. Table 3 of the 2006-2007 Financial Management Report provides a summary of the actual and budgeted expenditure and income by Union. In view of the fact that the five per cent flexibility is based on the total amount of budgeted expenditure, that means that the budgets by program or by sub-program, as approved by the Member States, may be exceeded.

Another form of flexibility is also used whereby the budget is revised according to the true workload of the worldwide protection systems and services. The flexibility formulas take account of the direct link that exists between overall workload fluctuations and the staffing needs of the world protection systems and services. Those formulas provide for a reasonable increase in the number of posts if the workload increase exceeds the forecast, and for a reduction if the workload is lower than forecast. Workload fluctuations affect staffing needs mainly in the departments responsible for processing applications, but also in support services.

Budget implementation

26. Tables 7 and 8 of the 2006-2007 Financial Management Report provide, for the first time, a comparison between the initial budget and the adjusted budget for the flexibility clauses, as well as after taking into account the provision for separation from service. I welcome this increased transparency in budgetary management. I noted that it was not possible to submit the revised budget for 2006-2007 (document A/43/3), which contained the proposal to allocate six per cent of the overall salary costs to the provision for separation from service, for approval by the Assemblies of the Member States held in September 2007. This allocation is, however, in accordance with WIPO's accounting principles.
27. In Tables 11 and 14 of the 2006-2007 Financial Management Report, the initial budget is also compared with the actual income and expenditure.
28. In the context of certifying the expenditure for the biennium under review, my colleagues identified the means used to monitor expenditure developments in relation to the budget. They also compared the changes in expenditure from one biennium to the next.
29. It was identified that the needs of several programs have changed between the initial budget and the 2006 and 2007 work plans. These changes concern in particular staff missions and third-party travel, as well as translation services. These needs – deemed to be justified by the Controller – have led to successive changes to the related budget allocations. Changes in allocations are established for each program and linked to the budget allocation for the program concerned.
30. The link between the needs of the program and the use by type of expenditure allocated to the program is not established clearly. The changes in expenditure by type range from -91.6 per cent to 76 per cent compared to the initial budget, whereas the total actual expenditure exceeds the initial budget by only 0.3 per cent.

Recommendation No. 1: In order to improve cost management, I believe that budget allocations should be authorized and should be subject to monitoring by program and type of expenditure. This would allow the control mechanisms to be aligned with the financial information published.

31. More specifically, to allow such monitoring, key indicators should be developed systematically to allow monitoring of changes in expenditure for each program according to type. This step should be taken alongside the development of indicators for the performance of the program for the period, which is currently carried out separately. Even partial linking of resources by type with the objectives set for each program would improve the capacity to predict changes in expenditure and, therefore, the quality of the budgets established.

Accounts

32. The financial statements checked are those shown in Tables 23, 35, 36, 37, 38, 39 and 40 of the 2006-2007 Financial Management Report (document FMR/2006-2007, English version), as well as the “Notes concerning the 2006-2007 Financial Management Report” set out at the end of that document.
33. The overall result of the 2006-2007 accounts, in comparison with 2004-2005, is as follows:

<u>SFR (thousands)</u>	<u>2004-2005</u>	<u>2006-2007</u>
Income	522,729	609,290
Expenditure	<u>(511,233)</u>	<u>(532,615)</u>
Excess income compared to expenditure	11,496	76,675

34. The accounting principles have not changed since the previous biennium. A description of the main accounting practices is provided in the “Notes concerning the 2006-2007 Financial Management Report”.
35. It is anticipated that when the accounts for the 2010 financial year are closed, the accounts will be presented according to the IPSAS³. In this context, the adoption of these standards requires the presentation of a comparable financial year established according to the same standards.

Result of the financial year

36. The way in which the result has been allocated to the different Unions is shown in Table 23 of the 2006-2007 Financial Management Report. For further details, I refer the reader to that Table.

³ International Public Sector Accounting Standards

Balance sheet as at December 31, 2007

37. The total of the WIPO balance sheet as at December 31, 2007, amounted to SFR 429,240,489.96. The audited balance sheet is given in Tables 36, 37 and 39 of the 2006-2007 Financial Management Report. The reader is referred to those Tables for more details.

Liquid assets

38. The balances as at December 31, 2007, of the various treasury accounts were compared with those obtained from statements or from certificates issued by the banks.
39. The reconciliations of the different cash accounts and bank accounts were analyzed to assess the quality of control carried out for the liquid assets.

Fund movements and bridging accounts

40. My colleagues audited the internal control system and fund movement processes (cash-desk, post office, banks), as well as the settlement of bridging accounts and deposit and investment transfers made during the 2006-2007 biennium.
41. On the basis of supporting documents and value dates, they used random sampling to audit fund transfers, spot exchange transactions and investment account transactions with the Confederation, in addition to interest accounting entries. They also checked the declaration, recovery and accounting of withholding tax.

Outstanding contributions

42. The total contributions outstanding as at December 31, 2007, stand at SFR11 million, compared to SFR11.8 million at the end of the previous biennium. Most of the unpaid contributions date back several years. Table 19 of the 2006-2007 Financial Management Report gives the details of the situation. The situation regarding outstanding contributions has stabilized over the previous two biennia, but it remains a matter for concern. In principle, the Reserve Funds of the contribution-financed Unions would be sufficient to cover the contributions in arrears. To date, there is no legal basis for this however.

Accounting of unliquidated obligations (ULO)

43. WIPO has decided to make the creation of unliquidated obligations (ULO) subject to receipt of the goods or service concerned. My colleagues examined the implementation of the directive issued by the Office of the Controller on this matter (Closure of the 2006-2007 financial period - Creation of unliquidated obligations December 14, 2007). To that end, they compared the main unliquidated obligations with the proof of receipt of the goods or service in question. They also noted that there had been a strengthening of the checks carried out as regards the creation of unliquidated obligations with a view to limiting unjustified cases. I welcome these steps and support continued efforts in this regard.

Expenditure allocation – expenditure distribution keys by Union

44. The expenditure allocated to the different Unions is established based on distribution keys defined when the budget is established. My colleagues ensured that the distribution keys were applied in accordance with the budget.
45. Expenditure has indeed been distributed according to the keys used to prepare the 2006-2007 budget. However, the keys for the 2008-2009 budget were determined on a different basis to those for 2006-2007, leading to a change in accounting method for the next biennium. This change has been made in order to specify the distribution keys and to consider the capacity of the Unions to contribute. Given that these keys are regarded as more representative, with the help of the Office of the Controller, my colleagues compared the distribution of expenditure for 2006-2007 according to the old and new keys. The effect which the application of the new keys would have had for the 2006-2007 biennium on the amount of the reserves of the different Unions is shown below:

Reserve Funds and Working Capital Funds	As at December 31, 2007 according to Financial Management Report (in thousands of francs)	As at December 31, 2007 according to 08/09 key (in thousands of francs)	Difference (in thousands of francs)
Contribution-financed Unions	24,475	25,976	1,501
PCT Union	138,909	152,883	13,974
Madrid Union	41,774	27,809	(13,965)
Hague Union	(340)	909	1,249
Lisbon Union	112	(742)	(854)
Arbitration Center ^(a)	(1,298)	(3,203)	(1,905)
Total	203,631	203,631	(0)

(a) With the new distribution key, the costs of the Arbitration Center are allocated across all Unions. However, they are presented separately to allow a comparison with the figures from the 2006-2007 Financial Management Report. The results above would be different if the Reserve Funds as at December 31, 2007 had been adjusted to take into account the allocation of the Arbitration Center to each Union.

46. As shown in the Table above, the new distribution keys would result in reserves by Union which were noticeably different to those resulting from the application of the keys from the 2006-2007 budget. Furthermore, I noted that the new keys are heavily influenced by the income level of the different Unions. This could lead to effects which could be contrary to the desire expressed by the Member States when the budget for 2008-2009 was accepted. The Annex to the budget recommends distributing indirect expenses based on capacity to pay (point 2.2 of Annex 1).

Recommendation No. 2: With a view to auditing the 2008-2009 accounts, I encourage WIPO to continue adapting the distribution keys for 2008-2009 in order to:

- ensure a distribution of expenditure according to the elements generating costs, so that as much expenditure as possible is allocated directly;
- ensure, through simulations, that the keys remain stable in the face of different scenarios.

Funds-in-trust (FIT)

47. Assets and liabilities in connection with FIT projects appear in accounts separate from those of WIPO. The consolidated financial statements for FIT as a whole and the details of each project, which have been checked, are shown in the section entitled “Trust funds” of the 2006-2007 Financial Management Report.
48. The money paid by the providers of funds is deposited individually in separate bank accounts. The balances of the various accounts as at December 31, 2007, were compared with the figures in statements or certificates issued by the banks.

OPERATIONAL AUDITS

Staff expenses

49. On the basis of staff records, my colleagues inspected a number of files of staff members at grades P5 and above. They verified the conformity of staff expenses with the guidelines contained in the Administrative Manual, the accuracy of the salary references and the levels of the exchange rates and the multipliers used. They also verified the accuracy of the calculations of gross salaries, post adjustments, family allowances, housing grants and representation allowances, and also pension fund and medical insurance contributions.
50. Other benefits paid to certain beneficiaries, such as allowances for relocation, housing, education fees and home leave, were checked in terms of the right to such allowances, the method used to determine the amounts and their proper entry into the accounts.

Credit cards

51. The processes for granting and using the two official credit cards were examined in detail. The use of a credit card as a means of payment may be regarded as marginal compared to the total payments made by bank or postal transfer. My colleagues observed that the separation of duties and the system of internal control are in place and are operating properly.

Inventory management and reconciliation

52. As at December 31, 2007, the inventories according to the accounts and the inventory management software (FMAC) show significant unreconciled differences (around SFR272,000). These discrepancies may be due in particular to the lack of bar code on goods recorded in the accounts or may result from the entry of conflicting information when the goods are recorded in the inventory.
53. Furthermore, invoices are sent to the addressees for confirmation of receipt of the goods concerned. This is necessary given that not all goods are signed for at the off-loading platform provided for that purpose.

Recommendation No. 3: To allow more regular monitoring of the items to be listed, I think that persons taking delivery of goods should attach to the invoice the delivery note with the bar-code number allocated by the Organization and Material Resources Section. This would enable the Finance Department to obtain not only confirmation of receipt, but also the relevant bar codes. Furthermore, alternative measures have been put forward in my report on the audit of results relating to inventories. Their implementation would facilitate the monitoring of inventory and limit the number of reconciling items.

Entry into force of new Financial Regulations and IT tools available

54. In the context of the assessment of internal controls, my colleagues sought to identify changes in the information system. They did not observe any major changes for the 2006-2007 biennium. However, an IT tool (E-TA tool) has been introduced for processing travel requests. Other steps have not yet been taken, which is due in part to the lack of budget allocations.
55. The new distribution of tasks established through the Financial Regulations in force since January 1, 2008, involves greater accessibility of documents by more people. It also entails increased decentralization of certain controls. This in turn leads to an increase in information flows. The possibility of adapting IT resources (such as PeopleSoft modules) has been considered by WIPO. In this context, several new reports have been made available to program managers to allow better monitoring of their expenses. Other measures are necessary to facilitate the organization of the additional information flow.

Recommendation No. 4: I encourage WIPO to continue its efforts to adapt the information system by taking into account new requirements arising from the introduction of the new Financial Regulations (and the IPSAS in the near future). As part of this effort, the cost-benefit ratio of the adaptations recommended will be decisive. In any case, this effort should be coordinated with any steps taken in response to Recommendation No. 5 below concerning the “documentation of operational processes and their financial impact”, as well as the following recommendations made in my report on the audit of information technologies (document A/43/INF/5):

- No. 2, modernization of the user interfaces and joint reprogramming of the CASPRO and CASPIA applications;
- No. 5, introduction of the PeopleSoft Purchasing module;
- No. 6, introduction of the PeopleSoft Assets module;
- No. 11, planning the gradual incorporation of IT solutions surrounding the AIMS system with a view to achieving productivity gains;
- No. 13, documentation of the AIMS system including business and financial processes.

Documentation of operational processes and their financial impact

56. In the context of the interim audits, my colleagues examined certain processes and their related controls. They observed that there was no uniform documentation of the operational processes and their financial impact. The new Financial Regulations clarify the distribution of certain tasks, in particular control tasks. However, control activities are not described fully. The authorization of all expenditure by the Controller is no longer mentioned. This makes it difficult to check the procedures necessary for the introduction of the new Financial Regulations. It also leads to possible gaps in control in the absence of more specific guidelines, in particular as regards the achievement of the objectives set in the former Financial Regulations under Regulation 10.1(d).
57. With the entry into force of the new Financial Regulations, it would be wise to introduce new control procedures. This would allow the main operational processes to be listed with their effect on financial activities, as well as the controls on which WIPO relies to ensure proper accounting.
58. References such as COSO⁴ or COBIT⁵ should be used to establish documentation relating to internal controls and information systems. With regard to the extent of this documentation (processes and controls to include), the Director General should define the key elements of financial governance. The controls and processes listed must ensure the implementation of effective and cost-efficient financial management, as well as proper accounting. I can already mention the following elements of control which I regard as essential:

⁴ The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a non-profit committee which, in 1992, established a standard definition for internal control and created a framework for evaluating its effectiveness.

⁵ The COBIT reference (Control Objectives for Information & related Technology) is a reference for the governance of information systems and the audit of information systems, released by the Information Systems Audit and Control Association (ISACA) in 1996.

- the definition of the control objectives allocated to the certifying officers in order to define the limits of their role, as well as the checks they have to carry out (Do they have a role as management controller? Are they responsible for certifying procedures? Do they have the power to make operational decisions or only the power to carry out checks?);
- the separation of tasks between officials preparing the files for the program manager and the certifying officer (the certifying officer should not have produced the documents he is to check);
- the mechanisms guaranteeing the independence of the certifying agent in relation to the program manager;
- the mechanisms/controls for budgetary monitoring, in particular the management of expenditure in excess of budgeted amounts beyond any additional allocations;
- monitoring of the budget by program and by type of expenditure (which allows checks to be carried out concerning how and how often the budget is used and for what purpose).

Recommendation No. 5: It would be in WIPO's interest to take advantage of the introduction of the new control procedures relating to the introduction of the new Financial Regulations, in order to document these and in turn allow follow up.

Processes relating to the closing of accounts

59. When checking the financial statements, my colleagues checked the composition of the balances of several accounts appearing on the balance sheet. This work was based in part on the reconciliations carried out by the Finance Department.
60. A number of gaps were identified in the reconciliation process. The lack of resources is regarded as the main motivation behind the choices made by the Finance Department as regards the priorities established for closure. Following these observations, additional work was carried out. This work did not reveal any material impact and, consequently, the management of closure risks is under no circumstances called into question.

Process of preparing the management report

61. The Financial Regulations and Rules have been reviewed with a view to identifying the changes faced by the Auditor in the context of auditing the financial statements for the 2006-2007 biennium.

62. Deadlines for the submission of the financial statements to the Audit Committee and to the Auditor have been introduced under the new Financial Regulations. Responsibility for preparing the Financial Management Report has been assigned to the Controller. The report is prepared by several individuals and contains information originating from several departments. Furthermore, with a view to enhancing transparency, the quantity of information contained in this report is increasing. This trend should continue with the introduction of the IPSAS.

Risk management

63. In the context of the review of the appropriateness of internal controls, I entrusted my colleagues with the task of identifying the extent of the tools introduced by WIPO to assess risks and determine the controls necessary for the preparation of the financial statements.
64. My team obtained a key-risk analysis produced by Internal Audit. This analysis was not based on a document prepared by the management. A register of key risks and control measures undertaken to manage these risks has not been formalized by the management.

Internal audit

65. The Internal Audit and Oversight Division is responsible for most of the internal supervisory functions (audits, investigations, inspections and evaluations), but not for monitoring.
66. My colleagues had the opportunity to meet the Internal Auditor on several occasions. Meetings were organized regularly for the purposes of information, coordination and assessment of his examinations. Of the documents produced by the Internal Auditor, the half-yearly or biennial program performance reports were examined. I wish to thank the Internal Auditor for the work that he has done and for his valuable assistance.

Fees concerning the international registration of marks (Madrid Agreement)

67. My colleagues made an examination by random sampling of a number of applications for the registration and renewal of marks. They satisfied themselves that the fees payable corresponded to the schedule of fees in force and that they had been paid. In addition, they checked that the distribution of the related income had been correctly entered in the appropriate accounts. They can confirm that the marks from the files inspected have indeed been published in the Gazette of International Marks.

Registration fees for the international deposit of industrial designs (Hague Agreement)

68. My colleagues made an examination by random sampling of a number of applications for the deposit and renewal of industrial designs. They satisfied themselves that the fees payable corresponded to the schedule of fees in force and that they had been paid. In addition, they checked that the distribution of the related income had been correctly entered in the appropriate accounts. They also checked that the files inspected had been published in the Industrial Designs Bulletin.
69. On the basis of a number of publications of designs, my colleagues checked that the relevant fees had been collected and properly entered in the accounts.

Fees under the Patent Cooperation Treaty (PCT Union)

70. My colleagues examined the internal audit system and the processes for ensuring the correct and full recording of the registration fees under the PCT Union. They satisfied themselves that the various fees, supplements and surcharges payable in various currencies corresponded to the scales in force, and that the amounts transferred by receiving Offices had been recorded.
71. I asked my colleagues to conduct an analytical examination of the income. This examination allowed a comparison of the accounting policies applied to the recognition of income from PCT fees with the setting of the same income at the time the budget was established. This analysis explains the discrepancies observed between budgeted income and actual income for 2006-2007.
72. The forecasts and statistics for PCT income are established based on the number of applications on their date of filing with the receiving Office. For budgetary purposes, the number of applications is adjusted to take into account any delays in the submission of applications by national receiving Offices based on experience from previous years.
73. The entry of income in the accounts is based essentially on the receipt of the funds relating to applications. It is adjusted to take into account any delays in payment by the receiving Offices. The aim of the adjustments is to make it easier to define the point at which income is generated, i.e. the point at which the significant risks and economic advantages linked to receipt of the fees are transferred to WIPO. The definition of this point is at WIPO's discretion given the numerous implications linked to the payment of fees.
74. It should be noted that the activities mentioned above are all carried out by different departments. Furthermore, these activities as a whole do not create a direct link between the income recognized and the cost generated by processing these applications for a given period. The calculation methods used are similar to those in the previous biennium.

Recommendation No. 6: In order to improve recognition of income, it would be useful to compare the different approaches to estimating income. This would make data more easily comparable. It would also be possible to specify the point at which income is generated in order better to reflect the operational activity in the accounts, and ensure a stronger link between the expenditure and income generated as a result of processing the applications received and the work relating to all other fees paid.

Contributions

75. My colleagues checked that contributions had been recorded properly and completely. They also checked the procedures for invoicing and collection, as well as the internal control system for this process.

PERFORMANCE AUDIT

Inventory management

76. As already mentioned in the preamble, a performance audit covering inventory management was also carried out. The result of this audit is contained in a separate report.

Expenditure for staff missions

77. Our examination, by random sampling, of the expenditure incurred for missions consisted in verifying compliance with the rules in force (Chapter VII of the Staff Regulations and Rules). In addition, my colleagues satisfied themselves that the criteria of regularity and economy had been observed and that the recording in the accounts had been done properly. They noted that the expenditure checked complied with the relevant rules and that it had been the subject of an expenditure commitment and authorization. They also analyzed the procedure for selecting the new travel agency.
78. The Travel and Missions Support Section consists of five employees, three staff members and two temporary employees. Until June 2007, the entire procedure was carried out without the help of an IT tool. A project to introduce an IT tool for the management and follow-up of travel authorizations led, in July 2007, to the introduction of the E-TA/E-Works tool, the pilot of which was tested by one department and used during checks by four departments.
79. Two employees deal with visas, certifying signatures, VAT breakdowns and diplomatic privileges for staff members. These activities account for around 60 per cent of their work each year according to the information received. In the Finance Department, the Meetings and Interoffice Vouchers Unit consists of seven members of staff working 80 per cent on travel-related matters, equivalent to 5.6 posts.

80. According to the offer made by the CWL travel agency based on the sales figures communicated by WIPO, the travel agency mandate relates only to the commission received by the agency for the work done on behalf of WIPO, which amounts to an estimated SFR300,000 per annum. A new call for tenders was launched at the beginning of 2008 concerning the services currently provided by CWL. At the date of the audit, travel management required a total of 10.6 posts.
81. Until the E-TA tool is used across the board, it is too early to pass judgment on the input processes, in order to determine whether they are capable of ensuring a satisfactory level of security and whether control measures exist in a cost-efficient manner. Nevertheless, this solution may provide substantial savings in terms of time and human resources if it is interfaced with AIMS (accounting system).
82. Tickets are generally issued quite late. An internal memorandum dated 1998 (2/98) provides for the sending of the travel authorization form at least ten days before departure; this memorandum is no longer up to date. Nowadays, deadlines for the issue of tickets are imposed by airlines. In general, travel is planned and approved well in advance. It appears in the internal timetable and the cost is approved at the budgetary level. However, my colleagues observed that WIPO was not benefiting systematically from the discounts granted by the travel agency due to long delays in the processing of travel authorizations.
83. Given that there is no interface between E-TA/E-Works and AIMS, information is entered twice in the respective systems. According to document WO/PBC/12/4(c), WIPO intends to introduce enterprise resource planning (ERP) from 2008. According to the current timeline, the travel chapter is in phase II, planned for 2009-2010.

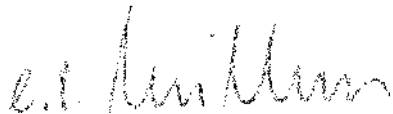
Recommendation No. 7: In order to obtain better terms, I believe that airline tickets could be issued earlier. This would mean simplifying the internal procedure for processing requests. Creating an interface between E-TA/E-Works and AIMS would stop data being inputted twice and would therefore lead to substantial time savings. Or better still, as part of the enterprise resource planning (ERP), the travel chapter could be moved to phase I (deployment in 2008-2009).

84. The objectives concerning travel management for the 2006-2007 biennium are set in Strategic Goal V: Greater Efficiency of Management and Administrative Support Processes in WIPO, in Program 30 covering travel and procurement.
85. The performance indicators chosen up to 2004-2005 were too generous to allow subsequent checking of the objectives achieved. Any quantitative criteria (amount, percentage, time) allowing a comparison of the objectives to be achieved with the actual figures or allowing monitoring over time were non-existent.

86. For the biennium under review, the performance indicators were reviewed and may be verified and analyzed afterwards. These indicators nonetheless proved to be unsuitable for measuring performance and achievement of the objectives set.
87. With regard to the 2008-2009 biennium, these approximations will no longer be used and a clearer, more straightforward and verifiable objective has been formulated (average price per mile traveled, see Annex IV, page 209, of document WO/PBC/12/3). I welcome this effort to develop indicators allowing better monitoring of activity and the related budget.

CONCLUSION

88. As a result of the work done, I am able to issue the audit opinion annexed to this report and drawn up in conformity with paragraph 5 of the Terms of Reference Governing Audit (annexed to the WIPO Financial Regulations).



K. Grüter
Director
FEDERAL AUDIT OFFICE
OF THE SWISS CONFEDERATION
(Auditor)

Annex: Audit opinion



Annex to 1.8028.944.00333.03

AUDIT OPINION

I have examined the financial statements of the World Intellectual Property Organization (WIPO) constituted by Tables 23, 35, 36, 37, 38, 39 and 40 of and the Notes to the French version of the 2006-2007 Financial Management Report (document FMR 2006-2007), in addition to the financial statements for the Funds-in-Trust in the same document for the financial period ending on December 31, 2007. My work was completed on June 11, 2008. The establishment of those financial statements is the responsibility of the Director General. My role consists in expressing an opinion on them in the light of the audit which I have undertaken.

I conducted my audit in accordance with the Swiss Auditing Standards published by the Fiduciary Chamber (2004 edition)⁶. Those standards require me to plan and carry out the audit in such a way as to gain reasonable assurance that the financial statements are free of serious errors. An audit consists *inter alia* in examining, by sampling and to the extent considered necessary by the External Auditor in the circumstances, the supporting documents provided to back up the amounts and the data appearing in the financial statements. I consider that the audit which I undertook provides a reasonable basis for the opinion that I present here.

In my opinion, the financial statements give a satisfactory account, on all essential points, of the financial position as at December 31, 2007, and of the results of operations and movements of funds for the financial period ending on that date, in accordance with the specified accounting policies of WIPO, which are set forth in the Notes on the 2006-2007 Financial Management Report and which have been applied in a manner consistent with the previous accounting period.

In addition, it is my opinion that the WIPO operations that I checked by sampling in the course of my audit were on all essential points consistent with the Financial Regulations and the authority given by the deliberative bodies of the Organization.

Pursuant to paragraph 6 of the Terms of Reference Governing External Audit, annexed to the WIPO Financial Regulations, I have also drawn up a detailed report on my auditing of the financial statements of WIPO, which is dated July 14, 2008.

Bern, July 14, 2008.

K. Grüter
Director
FEDERAL AUDIT OFFICE
OF THE SWISS CONFEDERATION
(Auditor)

⁶ These Swiss Auditing Standards are intended to give effect to all International Standards on Auditing (ISA) published on June 30, 2003, by the International Auditing and Assurance Standards Board (IAASB).