

## **Assemblies of the Member States of WIPO**

**Sixty-Second Series of Meetings**  
**Geneva, October 4 to 8, 2021**

REPORT BY THE EXTERNAL AUDITOR

*prepared by the Secretariat*

1. The present document contains the “Report by the External Auditor” (document WO/PBC/33/5), submitted to the WIPO Program and Budget Committee (PBC) at its thirty-third session (September 13 to 17, 2021).
2. Any decision of the PBC in respect of those documents will appear in the “List of Decisions Adopted by the Program and Budget Committee” (document A/62/7).

[Document WO/PBC/33/5 follows]

## **Program and Budget Committee**

**Thirty-Third Session**  
**Geneva, September 13 to 17, 2021**

### **REPORT BY THE EXTERNAL AUDITOR**

*prepared by the Secretariat*

1. This document comprises the following items:
  - (i) The Independent Auditor's report which contains the opinion of the External Auditor on the financial statements of the World Intellectual Property Organization (WIPO) for the year ended December 31, 2020; and
  - (ii) Report of the External Auditor for the financial year 2020 to the 62<sup>nd</sup> Series of Meetings of the Assemblies of the Member States of WIPO (also known as the "long form report"). This report contains the External Auditor's recommendations arising from the audit work undertaken during the year 2020.
2. The following decision paragraph is proposed.
  3. *The Program and Budget Committee (PBC) recommended to the Assemblies of WIPO, each as far as it is concerned, to take note of the "Report by the External Auditor" (document WO/PBC/33/5).*

[Report by the External Auditor follows]

## **INDEPENDENT AUDITOR'S REPORT TO THE GENERAL ASSEMBLY OF THE WORLD INTELLECTUAL PROPERTY ORGANIZATION**

### **Opinion on financial statements**

I have audited the financial statements of the World Intellectual Property Organization for the year ended 31 December 2020, which comprise the statement of financial position, the statement of financial performance, statement of changes in net assets, statement of cash flow, the statements of comparison of budget and actual amounts for the year then ended, and the related notes, including the significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the World Intellectual Property Organization as at 31 December 2020 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

### **Opinion on regularity**

In my opinion, in all material respects, the revenue and expenses have been applied to the purposes intended by the General Assembly and the financial transactions conform to the Organization's Financial Regulations.

### **Basis for opinion(s)**

I conducted my audit in accordance with International Standards on Auditing (ISAs) and the Organization's Financial Regulations. My responsibilities under these are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report.

The ISAs require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the World Intellectual Property Organization in accordance with the ethical requirements that are relevant to my audit of the financial statements. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinions.

### **Other Information**

Management is responsible for the other information. The other information comprises information included in the Annual Financial Report and the Statement on Internal Control. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### **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 International Public Sector Accounting Standards, 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 World Intellectual Property Organization'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 World Intellectual Property Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the World Intellectual Property Organization's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

My responsibilities are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my 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 economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess 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 obtain audit evidence that is sufficient and appropriate to provide a basis for my 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;
- obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the World Intellectual Property Organization's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude 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 World Intellectual Property Organization'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. However, future events or conditions may cause the World Intellectual Property Organization to cease to continue as a going concern; and
- evaluate 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.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that revenue and expenses reported in the financial statements have been applied to the purposes intended by the General Assembly and the financial transactions confirm to the Financial Regulations which govern them.

I communicate 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 I identify during my audit.

### **Report**

I have also issued a long-form audit report on the results of my audit.

(signed) **Gareth Davies**  
**Comptroller and Auditor General**

National Audit Office,  
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London. SW1W 9SP  
United Kingdom **21 June 2021**

JUNE 2021

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**World Intellectual Property Organization**

**External Auditor's Report on the 2020 WIPO  
Financial Statements**

The aim of the audit is to provide independent assurance to member states; to add value to the WIPO's financial management and governance; and to support your objectives through the external audit process.

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The Comptroller and Auditor General is the head of the National Audit Office (NAO), the United Kingdom's Supreme Audit Institution. The Comptroller and Auditor General and the NAO are independent of the United Kingdom Government and ensure the proper and efficient spending of public funds and accountability to the United Kingdom's Parliament. The NAO provides external audit services to a number of international organizations, working independently of its role as the Supreme Audit Institution of the United Kingdom.

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# Introduction

1 The World Intellectual Property Organization (WIPO) was established in 1970 by the 1967 WIPO Convention. The history of WIPO can be traced as far back as the 1883 Paris Convention for the Protection of Industrial Property. The purpose of WIPO is to lead the development of a balanced and effective international intellectual property system. As of May 2021, the organisation comprised some 193 Member States and is financed primarily through fees charged for its services through its treaty unions, particularly the Patent Cooperation Treaty, Madrid and Hague Unions. WIPO also receives assessed and voluntary contributions.

2 In addition to our opinions on WIPO's financial statements, this report presents the key findings and recommendations arising from our work, including our observations on financial management and governance. We have also considered WIPO's business continuity arrangements in light of the ongoing pandemic. Our main substantive focus was on the management of projects financed from reserves (special projects). We have also followed up the progress made implementing our previous recommendations.

3 The original drafting language of this report is English. The English version is the authoritative text.

## Key observations

### **Audit opinions on the financial statements**

4 Our audit comprised the examination of the 2020 financial statements and associated transactions and events for that year. It was conducted in accordance with International Standards on Auditing and the Financial Regulations. Those standards require that the C&AG and his staff comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. We provided unqualified audit opinions, without modification, on the financial statements. The financial statements remain of high quality, supported by sound systems of internal controls and reporting. In the context of COVID-19 working practices, this has shown good organisational resilience.

5 As a consequence of COVID-19, the 2020 audit was completed remotely. While it was not without challenge and resulted in additional effort by both Finance Division and the NAO team, we have been able to obtain sufficient appropriate evidence to support our audit opinion.



## Financial management

### Financial performance

**6** For 2020, WIPO has achieved a retained surplus of CHF 135.9 million (2019: CHF 97.7 million), representing some 29.0 per cent of revenue earned. Together with other movements within the financial statements, net assets increased to CHF 387.1 million (2019: CHF 364.2 million). Revenues increased by CHF 11.2 million (2.5 per cent) to CHF 468.3 million driven by higher numbers of published applications primarily through the PCT union. During the same period, expenditures decreased by CHF 35.6 million (8.9 per cent) to CHF 365.8 million. Expenditure reductions resulted from pandemic restrictions curtailing travel and conference expenditures. As a technology enabled organization, it is important that WIPO considers how the experience of the pandemic can inform its strategy on future ways of working.

**7** The overall results for the year were further improved as a result of net investment gains of CHF 33.4 million (2019: CHF 42.1 million). There was some volatility in the value of investments following the initial impact of the pandemic, but WIPO's investments recovered by the year end, leading to a net unrealised gain.

**8** WIPO reported an actuarial loss of CHF 114.9 million (2019 gain: CHF 3.9 million) due to increases in the valuation of the Organization's employee benefit liabilities. Employee benefits represent the greatest area of risk to WIPO's financial health and are the subject of later comment. As a result of all movements net assets have continued to grow, increasing from CHF 364.2 million at 31 December 2019 to CHF 387.1 million at 31 December 2020.

**9** The initial budget estimates for revenue of CHF 433.9 million and the budget for expenditure CHF 381.1 million were revised to CHF 448.3 million (3.3 per cent) and CHF 369.8 million (-3.0 per cent) respectively during the year. However, final budget outturns were significantly different as a result of the impact of the pandemic on expenditures and a stronger than anticipated stream of applications. WIPO reported revenue and expenditure on the budget basis of CHF 462.9 million and CHF 327.9 million respectively.

**10** With continued trends in the pipeline of applications remaining strong, a healthy reserve position and relatively high levels of cash and other current investments, we concluded that management's assertion around the going concern of WIPO remained appropriate. The Organization is well placed to respond to the continued global economic uncertainty. The financial performance and position for each Union demonstrates how reliant the Organization is on the PCT and Madrid Unions which, especially the PCT, compensate for the deficits reported by the Hague and Lisbon Unions.

**11** We highlight the continued growth of the employee benefits liabilities. These comprise most significantly the staff member's after-service health insurance, their repatriation entitlements and accumulated leave liabilities. During 2020, the overall liability for these staff benefits has increased from CHF 356.2 million to CHF 495.3 million. Assuming current assumptions remain consistent, WIPO forecasts that the liability for the after-service health insurance is projected to increase to CHF 580.1 million at 31 December 2024 – an increase of 28.1 per cent. These benefits will consume a growing proportion of WIPO's future revenues. In view of this, we have highlighted the need for continued focus on how future costs might be controlled.

**12** WIPO's annual financial report provides a detailed financial commentary to accompany its financial statements. It is important for all organisations to challenge how they use the accompanying financial commentary on a regular basis, obtaining feedback from the users of the statements. There remains scope for WIPO to further complement existing communications to provide relevant insight and a more holistic view of what has been delivered with resources such as including more key performance information on the outcomes from its operational activities. Alongside this, the commentary on key financial risks should also be amplified. The trend analysis on future ASHI liabilities is a good example where WIPO has provided this kind of focused attention.

## **Governance and internal control**

**13** Effective governance and internal control are an integral part of the mechanisms the Organization uses to provide assurance over the use of resources to Member States. We have continued to be impressed by the pro-active approach WIPO takes in developing its internal control framework and reported on progress in developing its second line of defence; the Statement on Internal Control; and the external quality assessment of Internal Oversight Division (IOD). We also considered the effectiveness of WIPO's business continuity planning in the circumstances of the pandemic.

**14** WIPO's staff have predominantly worked remotely since early 2020. WIPO's Administration Information Management System (AIMS) provides many of its core administrative systems and staff were provided laptops enabling remote access to key systems. Workflows within AIMS ensure that transactions and other activities were properly processed, authorised and reviewed. Appropriate read-only remote access to systems has also facilitated our work enabling us to confirm we have not identified any significant control weaknesses or evidenced a deterioration in the control environment.

**15** WIPO has continued to strengthen the way in which it operates the second line of defence, which in 2020 has broadened its coverage of controls which now totals 381 controls across the organisation of which 91 per cent are at least considered to be deployed and reliable with no inconsistency between how the control should operate and how it operates. WIPO continues to perform greater validation checks and tests around these management assessments and has now formalised its data analytics strategy to guide further enhancements in the coming years. We plan to perform more substantive work on this area when restrictions are eased.

**16** WIPO's Statement on Internal Control is aligned to the seven components of its Accountability Framework which provides Member States with a good degree of confidence in the control processes. In compiling the Statement, the Director General took due regard to the interim assurance statement provided by the former DG. Important highlights in the 2020 statement included details of the key risks faced during the year and how these were mitigated, particularly the programme delivery and financial risks faced by WIPO and the developments in the control activities outlined above. The Director General has also highlighted that the business continuity arrangements have worked effectively with the organisation largely moving to a virtual working environment during the pandemic. We note that the Statement could be further enhanced by focusing on the results of IOD's work. The involvement of IOD is, in our view, essential as they should be a prime source of assurance for the Director General over the effectiveness of internal control processes.

**17** During the year, an external quality assessment was performed on IOD. This is

good practice and required periodically under the professional standards to which IOD subscribes in its charter. The evaluation found that IOD is achieving high standards of proficiency. Overall, it was found to *generally conform* to the mandatory elements of the International Professional Practices Framework and the Internal Oversight Charter and have established action plans to address the gaps identified by the assessor. Included in this is the extent of the scope and coverage of an annual opinion to support the Statement on Internal Control which would provide positive assurance to the Director General and Member States.

**18** We considered WIPO's organisational preparedness for the pandemic. In line with many other organisations, WIPO had a documented framework in place bringing together the main components of its preparedness and resilience planning. This framework usefully draws on good practice and guidance from other organisations, including the World Health Organisation (WHO) and wider UN network. WIPO's risk register showed it had identified the risk of significant business disruption to some of its key services and investments caused by a disastrous event, external hazard, economic volatility or pandemic, in advance of the COVID-19 outbreak. The Corporate Business Continuity Plan combines individual action plans for critical functions operating in headquarters. WIPO also had crisis management and pandemic plans in place ahead of the pandemic. While few predicted an impact of such severity, WIPO's level of preparedness was strong in our opinion and compared to other bodies.

**19** Business continuity plans for each critical function were at different stages of maturity immediately prior to the pandemic. Some critical business functions like the Hague and Madrid registries had not developed comprehensive plans at the time the pandemic started and not all plans had been signed off by program managers. Plans targeting critical support functions like estates and IT tended to be more developed, which reflects the fact that they are critical business enablers. Overall, while we have identified areas for improvement the Organization successfully moved to remote operations with limited disruption to its continued provision of critical services to users. WIPO also demonstrated that it largely had in place the critical building blocks for business resilience. WIPO expects to complete a comprehensive review of lessons learned from WIPO's business continuity response in 2021.

## **Projects financed from reserves**

**20** WIPO's current policy on reserves was approved in 2015 and established the key principles for their use. We examined the strategy for using reserves in the context of the Capital Master Plan (CMP) and how this links to wider strategy and the decision-making process for the selection and reporting of the projects which it comprises. We note the CMP is not integrated within the overall strategic plan. Our review has looked at the evolution of the CMP and overall governance including project selection and oversight.

**21** Over time, the funds dedicated to the CMP have been increasing and the project portfolio has become increasingly ambitious. Unlike many other international organisations, WIPO does not have the same incentives or pressures to demonstrate the need for prioritisation or cost efficiency. This makes it more important that the CMP and the individual project business cases are transparent and robust, subject to effective challenge processes and to ensure that outcomes are evaluated to feedback into the CMP and project management processes.

**22** We could not clearly determine how the current projects had been prioritised against other potential plans or determine the relativity of need between the individual component projects within the CMP. Investment decisions should be driven by need and a clear identification of opportunities linked to WIPO's objectives. It is important that WIPO consider the level of funds dedicated to projects alongside other investment opportunities such as enhancing technical co-operation programmes, minimising the financial risk to the organisation by reducing its employee benefit liabilities or reviewing its fee structure.

**23** Good governance is critical to the success of projects. The CMP is comprised of individual projects, each of which has a project brief for Member States to consider as part of the approval process. We noted that, in an earlier definition, special projects had to be "extra-ordinary" which stressed the importance of the uniqueness of the investment. Member States broadened this out to a wider more encompassing definition which meant projects could be funded for more general purposes, such as estate maintenance. We found that in some cases there was a strong rationale for a proposed project to be funded as part of the CMP, but less so in others especially projects to maintain facilities and systems which would normally be part of the regular funding strategy of an organisation.

**24** A mix of strategic and routine maintenance projects within the CMP risks losing strategic focus and challenges the concept of the CMP being based upon a coherent portfolio of special and significant projects. We also noted that the current arrangements do not distinguish between very large investments and those of a much smaller scale. Member States may wish to consider criteria which would require more information and data to inform decisions where projects exceed a certain threshold and to require various elements of milestone reporting or assurance where they represent significant cost or reputational risk.

**25** The preparation of a business case is an important step in any project to confirm a project's alignment within the organisation's priorities and objectives, quantify the amount and timing of resources and to set expected outcomes. Good business plans enable decision makers to make informed judgements on whether projects should progress. The business case is presented as Project Initiation Documents (PIDs) and we reviewed a selection of these identifying key areas where we felt the detail and

analysis could have been strengthened to provide a stronger basis for the project approval. We felt that the consideration of options should be more detailed and that alternative ways to deliver the outcomes should have been more fully considered. PIDs did not always have a clear baseline and the degree of measurable change attributed to each option was limited and not specific. Without detailed articulation of targets and measurement criteria it will be difficult for WIPO to demonstrate that the overall project objectives have been achieved and value for money obtained.

**26** We found that project budgets were high level with little granularity and limited information on the full lifecycle costs in the initial PIDs. As special projects sit outside the mainstream activities, they can be high profile and carry uncertainties and risks. We found that many risks were generic in nature and the documentation was not necessarily tailored to the individual project. In our view, the PIDs could be enhanced to provide greater articulation of the business case and provide a clearer focus for the management of the project and its outcomes. This will better enable WIPO to measure expected benefits from the investment at the onset of the project to support a ranking process.

**27** The 2018/19 Performance Report set out the progress of CMP project activities during the period January to December 2019, including the key milestones reached and resource utilisation rates for 20 ongoing projects. These projects had total budgets of CHF83.8 million and associated expenses to that date of CHF44.2 million. Many of the features we identified in our critique of the PIDs we found replicated in the detailed project progress overviews. We noted some significant changes in risk and budgets from the initial proposals and that the status reports lacked real impact measurement. In our view, while the Status report clearly highlights project attributes, it could provide Member States with a greater measure of value added by the projects.

**28** In effecting these enhancements, we feel that WIPO will be better placed to demonstrate the impact of the use of reserves and how they meet the objectives of the Organization, increasing transparency and accountability over the use of the funds. In response to our draft report, WIPO informed us it found value in the recommendations and indicated that they intend to address some of these immediately through the CMP proposal that was being developed for the PBC this year. Consequently, while the proposal was to be presented alongside the Program and Budget to the July session of the PBC, the Secretariat will now submit the CMP to the September meeting. This will allow the CMP proposal to be better aligned to our recommendations and enhance the strategic nature of the CMP and embed it within the wider objectives of WIPO.

### **Previous recommendations**

**29** As of May 2021, of the 20 recommendations from 2019 and previous years that remained open, we considered that six (30 per cent) had been implemented. Thirteen recommendations (65 per cent) remain in progress, these mostly relate to our 2018 recommendations on Human Resources Management and our recommendations made last year on external Offices which have future implementation dates and therefore we would not have expected them to have been fully implemented within the past year. Human Resources have revised the implementation date for three recommendations due to staffing constraints and the impact of the Pandemic. One recommendation has not been implemented.

**30** Given the importance of HR management to the Organization it is our intention to perform a substantive follow-up against these recommendations and review the status of the WIPO people strategy during our 2021 audit. Appendix One contains a more detailed commentary on the status of previous recommendations.

## Part One

### Financial management

#### Overall audit results

**1.1** The External Auditor has audited WIPO's financial statements for the year ended 31 December 2020 which comprise the Statement of Financial Position, Statement of Financial Performance, Statement of Cash Flow, Statement of Changes in Net Assets, Statement of Comparison of Budget and Actual Amounts and the related notes. The audit opinion confirms that the financial statements present fairly, in all material respects, the financial position of the Organization as at 31 December 2020 and of its financial performance and cash flows for the year then ended. It also confirms their proper preparation in accordance with International Public Sector Accounting Standards and that, in all material respects, the transactions underlying the financial statements have been made in accordance with the Financial Regulations and applied to the purposes intended by Member States.

**1.2** In the circumstances of the COVID-19 pandemic, the continued attainment of an unqualified audit opinion in time for the governing body sessions is an achievement, particularly with changes in circumstances, for example homeworking. It represents the first year where all closedown and external audit activities have been undertaken fully remotely. It represents significant work in ensuring the availability of information to prepare a quality financial statement and in enabling audit access to all the required records. The audit progressed successfully, and we were able to get responses to all audit enquiries without any impact on the quality of audit evidence, enabling the audit to be completed in time to meet the governing body requirements.

#### Financial performance

**1.3** In 2020 WIPO reported an overall surplus for the year of CHF 135.9 million (2019: CHF 97.7 million) which, together with CHF 1.8 million of revaluation gains on the valuation of the Organization's New Building land and offset by actuarial losses on WIPO's post-employment liabilities of CHF 114.9 million, increased net assets to CHF 387.1 million at December 2020 (2019: CHF 364.2 million). This surplus represents some 29.0 per cent of revenues earned (2019: 21.4 per cent). Revenue in 2020 of CHF 468.3 million (2019: CHF 457.0 million) represents an increase of 2.5 per cent from the previous year. Despite the impact of the pandemic, applications received by the Organization's primary unions have remained strong with fees for published applications increasing by CHF 21.2 million from CHF 420.3 million in 2019 to CHF 441.4 million.

**1.4** WIPO also benefitted from the performance of its investment portfolio in 2020. Following the initial impact of the pandemic, WIPO had unrealised losses in the first quarter of CHF 32.1 million. WIPO's investments subsequently recovered as the markets improved resulting in overall unrealised investment gains for the year of CHF 33.4 million (2019: gains of CHF 42.1 million).

**1.5** WIPO incurred expenditures of CHF 365.8 million, a reduction of CHF 35.6 million (8.9 per cent) on expenditures of CHF 401.5 million reported in 2019. As discussed in the accompanying Financial Report, restrictions over movement and mass gatherings has significantly impacted travel for missions and participation in conferences and

meetings during the year. Expenditure on travel, training and grants has decreased by 90.0 per cent from CHF 17.5 million in 2019 to CHF 1.8 million in 2020 and contractual services, which include costs for conferences and translators, has decreased by 7.8 per cent from CHF 96.1 million to CHF 88.6 million.

**1.6** Much of the reduction in expenditure results from enforced cancellation and virtual hosting of meetings and events. As a technology enabled organization, it is important that WIPO formally considers how the experience of the pandemic can inform its strategy on future ways of working. Many organisations are seeking to capitalise on more efficient working practices to minimise the costs and negative consequences of travel, while recognising that some interactions benefit and remain appropriate in person.

**R1: WIPO should undertake an assessment of ways of working to identify how lessons learned from the pandemic working practices can serve to minimise unnecessary travel where in person contact does not provide a significant benefit to the outcomes.**

### Financial position

**1.7** The net investment gain and the operational surplus have contributed to gross assets increasing by 13.5 per cent to CHF 1,390.9 million at 31 December 2020 (2019: CHF 1,225.9 million). This is primarily due to the net increases in the value of the Organization's investments of CHF 240.4 million offset by reductions in cash and cash equivalents of CHF 62.5 million. During 2020, gross liabilities increased by 16.5 per cent to CHF 1,003.8 million (2019: CHF 861.6 million). This is primarily due to the increase in the Organization's employee benefits from CHF 356.2 million at 31 December 2019 to CHF 495.3 million at 31 December 2020. This increase is predominantly due to changes in assumptions underpinning the post-employment liabilities and has been further explored later in this report. The combined effect was to increase net assets to CHF 387.1 million at December 2020 (2019: CHF 364.2 million). The significant impact on WIPO's financial health of the changes in the ASHI liability have been mitigated by continuing significant surpluses contributing to the growth in investment assets.

### Financial health

**1.8** We use ratio analysis of an organisation's financial health on all our international audits to show how financial positions change over time (Figure 1). They express the relationship of one item of account against another. For example, there are CHF 0.63 of current assets for every CHF 1 of current liabilities. This might normally be a cause for concern, but this low level is mitigated by the significant pipeline of future work evidenced by the high value of advance receipts (CHF 321.5 million). While unlikely, should the need arise, WIPO could liquidate its longer-term investments for cash-flow purposes.



**Figure 1: WIPO Key financial ratios 2017-2020**

Ratio	2020	2019	2018	2017
<b>Total assets: Total liabilities</b>	1.39	1.42	1.32	1.25
Assets: Liabilities				
<b>Current ratio</b>				
Current assets: Current liabilities	0.63	0.56	0.60	0.68
<b>Cash ratio</b>				
Cash and cash equivalents: Current liabilities	0.28	0.38	0.44	0.53

### Notes

<sup>1</sup>. A high current ratio indicates an entity's ability to pay off its short-term liabilities.

<sup>2</sup>. A high asset to liability ratio is a good indicator of solvency.

<sup>3</sup>. The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash and cash equivalents there are in current assets to cover current liabilities.

Source: Audited Financial Statements of WIPO

**1.9** Overall, WIPO continues to enjoy a sound financial situation. The Organization has healthy reserves which are significantly backed by cash and investments. It has earmarked funds (Strategic Cash and Investments) of some CHF 211.2 million for its accumulated employee benefit liabilities, most notably to provide after-service health insurance to former staff members which currently total CHF 452.8 million. We have further explored the Organization's post-employment benefits later in the report. By funding these liabilities, WIPO minimises long-term risks to Member States in having to make good these liabilities through assessed contributions if revenues fall.

**1.10** As explored more in the Financial Report, alongside the cash and investments, the financial statements report fixed assets totalling CHF 382.5 million (2019: CHF 388.0 million). WIPO has retained reserves of CHF 387.1 million which include the special project reserves of CHF 28.2 million which we discuss in part two of our report. Overall, due to WIPO's cash generating business model it has made substantial investments in its property estate and holds significant retained reserves more than sufficient to meet its total liabilities.

### 2020-2021 Program and Budget performance

**1.11** The Program and Budget for WIPO is prepared each biennium on a modified accrual basis. As the first year of the biennium, Statement V of the financial statements presents a comparison of the budget and actual amounts for 2020. A reconciliation of the budget performance to the revenue and expenditure figures reported in the performance statement is presented in Note 17 to the financial statements.

**1.12** The original budget for the biennium 2020-2021 was approved by the General Assembly with allocations for revenue and expenditure for 2020 of CHF 433.9 million and CHF 381.1 million respectively<sup>1</sup>. Including investment gains/losses, this provided

<sup>1</sup> Program and Budget for 2020/21 – Annex VII

for a budgeted surplus of CHF 52.0 million. Budget revisions during the year led to a final forecast budget surplus of CHF 77.7 million.

**Figure 2: 2020 Budgetary performance of WIPO (CHF Millions)**

	<b>Original Allocation</b>	<b>Revised Allocation</b>	<b>Outturn</b>	<b>(Excess)/ Surplus</b>
<b>Income</b>	433.9	448.3	462.9	14.6
<b>Expenditures</b>	(381.1)	(369.8)	(327.9)	41.9
<b>Investment gains/losses</b>	<u>(0.8)</u>	<u>(0.8)</u>	<u>33.4</u>	<u>34.2</u>
<b>Net result</b>	52.0	77.7	168.5	90.7

Source: Audited Financial Statements of WIPO

**1.13** During 2020, WIPO earned revenue of CHF 462.9 million and reported net investment gains of CHF 33.4 million. Expenditure reported on the budget basis was CHF 327.9 million, resulting in a surplus of CHF 168.5 million. This budgeting surplus compares with a surplus presented on an IPSAS basis of CHF 135.9 million. A reconciliation between the IPSAS and budget surplus is presented in note 17 of the financial statements and is predominantly due to depreciation, the increases in the employee benefit liabilities and the expenditure on the projects funded from reserves. WIPO present explanations for both changes between the original and final budget after transfers, and material variances between the budget and actual amounts within the WIPO Performance Report 2020.

**1.14** Changes in the revenue budget relate to updated forecasts produced by WIPO's Statistics Division for the PCT, Madrid and Hague unions. The approved changes to expenditure included reductions of CHF 2.3 million of personnel and CHF 9.0 million of non-personnel budgets. Reductions in the personnel budgets arose primarily due to savings achieved on posts and the reduction in non-personnel budgets arose primarily from deferring activities until 2021. Explanations for variances to outturn can be found in the 2020 WIPO Performance Report.

**Figure 3: Outturn against budgets (CHF Millions)**

<b>Fee revenue</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Original budget	412.7	399.6	386.6	362.3	352.6
Outturn	441.4	420.3	400.6	391.6	361.6
<b>Variance</b>	<b>28.7 (7.0%)</b>	<b>20.6 (5.2%)</b>	<b>14.0 (3.6%)</b>	<b>29.3 (8.1%)</b>	<b>9.0 (2.5%)</b>
<b>Expenses</b>					
Original budget	381.1	366.4	359.4	356.7	350.4
Outturn	327.9	366.9	339.4	366.5	322.2
<b>Variance</b>	<b>53.2 (14%)</b>	<b>-0.5 (0%)</b>	<b>20.0 (6%)</b>	<b>-9.9 (-3%)</b>	<b>28.2 (8%)</b>
<b>Budget surplus<sup>2</sup></b>					
<b>Planned</b>	<b>52.0m</b>	<b>54.9</b>	<b>48.9m</b>	<b>26.4m</b>	<b>22.9m</b>
<b>Actual</b>	<b>168.5m</b>	<b>122.3m</b>	<b>74.6m</b>	<b>56.3m</b>	<b>62.5m</b>

Source: Audited Financial Statements of WIPO

**1.15** As highlighted in figure 3, each year WIPO exceeds its fee revenue target. In the first year of each biennial budget period and across each biennium it consistently underspends against its expenses budget. Consequently, the overall budget surplus each year is considerably higher than original expectations. WIPO informed us that they model the expected level of fee revenue and use this to determine the expenditure budget. In developing the program budget, WIPO's chief economist identifies a range of activity levels and uses the lower base case to set its assumptions. We have agreed with WIPO to review this in more detail next year.

**1.16** Note 22 to the financial statements, provides a view of the financial performance by each Union. This demonstrates how reliant the Organization is on the PCT and Madrid Unions which, especially the PCT, compensate for the deficits reported by the Hague and Lisbon Unions of CHF11.0 million and CHF 1.3 million respectively. Following a decision at the 59th Series of Meetings in 2019, the PCT Union has assumed the financing of these deficits. The total accumulated deficits, reported as negative net assets, in the Hague and Lisbon Unions were CHF 64.7 million and CHF 4.9 million respectively. In 2020 the level of fee revenue for Hague was CHF 6.7 million (2019: CHF 5.3 million) and Lisbon CHF 7,000 (2019: CHF 14,000) it is unlikely that these Unions will be able to address their cumulative deficits.

<sup>2</sup> This is based on total revenue as set out in Statement V. Only fee revenue is shown in the table.

**1.17** We believe that it is important to consider how the surpluses generated by WIPO can best be utilised to further Organizational and Member States objectives and to manage risks. Our report this year considers the financial impact and risks associated with Employee Benefits and WIPO's use of reserves through the Capital Master Plan. These are currently the main areas where surplus funds are deployed. It is important that in using these accumulated surpluses the Organization retains a focus on continued efficiency and in ensuring the reserves are used to purposeful effect in furtherance of objectives.

### **Employee benefits**

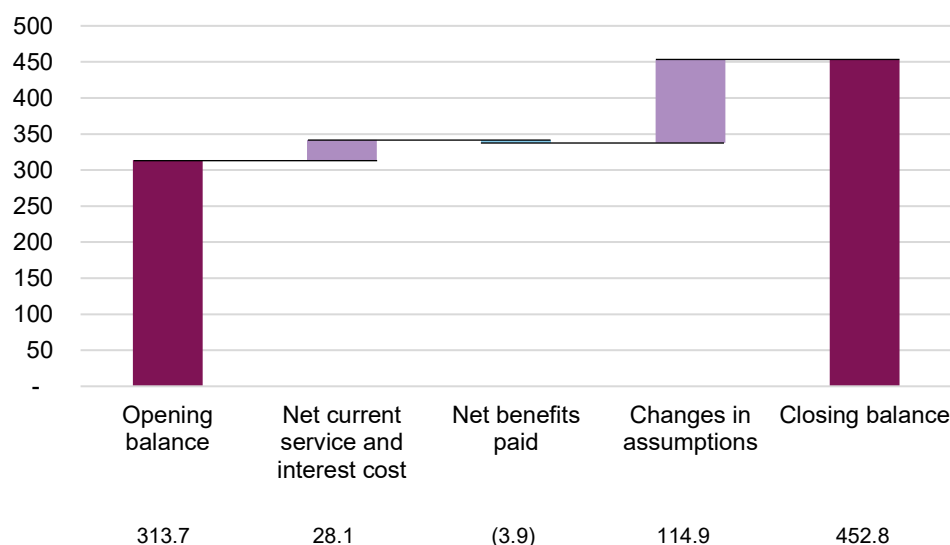
**1.18** In 2020 total personnel expenses reported in the financial statements were CHF 233.7 million (2019: CHF 242.5 million), these represent 63.9 per cent (2019: 60.4 per cent) of all expenses during the period. WIPO's Staff Regulations set out the conditions of service and the basic rights, duties, and obligations of WIPO staff. This includes the salaries and related allowances and the social security benefits, including access to the UN Joint Staff Pension Fund and After-Service Health Insurance.

### **Post-employment benefits**

**1.19** WIPO's most significant liabilities are its employee benefits. As set out in Note 10 to the financial statements, these comprise most significantly the staff member's after-service health insurance, their repatriation entitlements and accumulated leave liabilities. During 2020, the overall liability for these staff benefits has increased from CHF 356.2 million to CHF 495.3 million. In line with the WIPO Policy on Investments approved in 2014, WIPO holds strategic cash and investments of CHF 211.2 million which are earmarked to partially fund certain of these liabilities, leaving an unfunded liability of CHF 241.6 million (2019: CHF 123.5 million).

**1.20** The after-service health insurance liabilities totalling CHF 452.8 million are calculated by an independent actuary based on underlying data and assumptions. They reflect the value of the contractual obligations to staff at 31 December 2020, they do not recognise the fact that the ongoing nature of the scheme will result in further additional liabilities which will be accrued in future years. Like many such schemes, younger members will use less of the services, balancing the fact that older members and retirees will consume more. The increases reported in 2020 relate predominantly to the after-service health insurance liability and arise from changes in the actuarial assumptions including those relating to age. The impacts of actuarial factors are designed to provide the best estimate of the current obligations to meet future related costs in today's money and have resulted in an overall increase of CHF 114.9 million. While the actuarial impact is taken directly to net assets, by way of illustration, this increase is equivalent to 85 per cent of the total surplus achieved in 2020 and is highly significant to the Organization.

**Figure 4: Changes to the after-service health insurance liability between 2019 to 2020 (CHF Millions)**



**Net current service:** the increase in the liability arising from additional rights earned by the Organization's employees through the service provided during the year;

**Interest cost:** the additional cost to recognise the present value of rights already earned;

**Net benefits paid:** payments that WIPO have made to beneficiaries of the benefits;

**Plan amendments:** changes as a result of increases in permitted annual leave during 2020; and

**Changes in assumptions:** changes as a result of other factors which are used in the valuation.

Source: Audited Financial Statements of WIPO

**1.21** The most significant factors that have impacted the valuation of the liability are the component elements related to actuarial assumptions, which totalled CHF 114.9 million (Figure 4). These comprised:

- CHF 102.3 million of **demographic assumption** changes. These cover updates to assumptions such as turnover, mortality and disability, retirement and age-related adjustments to medical cost claims.
- CHF 10.4 million of **financial assumption** changes. These cover updates to assumptions such as discount rates, inflation, medical trends and salary increases.
- CHF 2.4 million of **experience** changes. These cover adjustments required due to the difference between assumptions made and actual results.

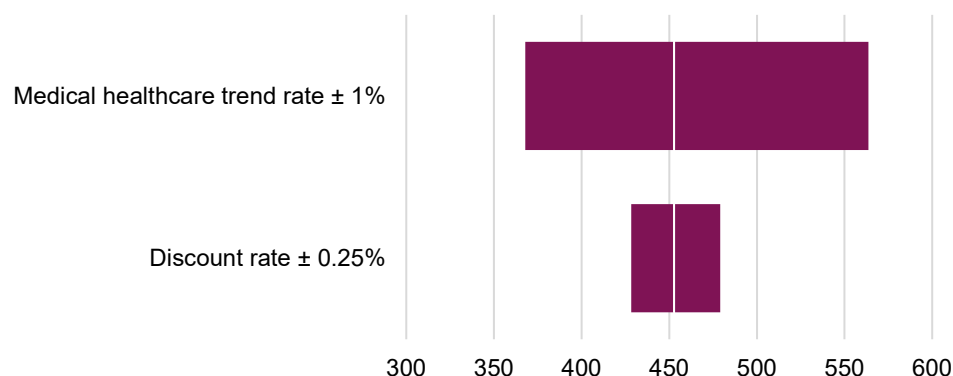
**1.22** The increase in the liability in 2020 was mainly due to change in assumed future age-related medical costs as set out in Note 10 to the financial statements. Age-grading rates on insurance premiums were used to reflect the expected future post-employment medical costs of current staff members, existing retirees and their dependents. This approach is consistent with the prior year. WIPO's 2020 calculation of the age-grading rates is based on an analysis of claims data over a four-year period which has shown a significant increase in claims costs for retirees. No adjustment was made for any impact arising from the pandemic as there is currently insufficient trend information available to make any such adjustment. We worked with WIPO to enhance disclosure in this key area of estimation uncertainty, to ensure the reasons for this significant change were clearly visible.

## Future impact of the liability

**1.23** The value of the Organization's liabilities evolve over time, based on changes in both demographic and other economic factors. As part of the annual valuation performed by the Organization's expert, WIPO receives a projection for the value of liabilities over the following four years, assuming current assumptions remain consistent. WIPO has presented the results of this assessment with the analysis of liabilities in the Annual Financial Report. We consider this additional disclosure of the risks in ASHI trends to be an important element of WIPO's commitment to transparent reporting to Member States, given its significance to the Organization. The forecast highlights that the impact of current assumptions on the liability will result in a projected increase to CHF 580.1 million at 31 December 2024 – an increase of 28.1 per cent.

**1.24** In addition to changes in the valuation of liabilities based on the timing of payments and accrual of benefits, the valuation of the liability is impacted by changes in underlying assumptions, for example the discount rate and medical healthcare trends. The impact of these have been presented in Note 10 of the financial statements and can be seen in Figure 5 below. The sensitivity of assumptions on the overall liability is high and increases in the expected trends in medical costs or in discount rates could impact significantly on the Organization. If medical cost trends increase from 2.9 per cent to 3.9 per cent, this would increase the liability by CHF 110.9 million or 24.5 per cent. Conversely, if medical cost trends decreased to 1.9 per cent, this would reduce the liability by CHF 84.8 million or 18.7 per cent.

**Figure 5: Sensitivity of ASHI liability for changes in significant assumptions (CHF Millions)**



**Note:** The value of the ASHI liability at 31 December 2020 is CHF 452.8 million (white line)

Source: Audited Financial Statements of WIPO

**1.25** Given the significance of the liabilities and the risks they carry we feel it is important for WIPO to have a clear policy to manage these risks. Unlike other UN system organisations, WIPO generates surpluses, so it is possible to accelerate the offsetting of these liabilities through continued generation of surpluses. Under the existing policies, it is for the Director General to determine the funding level of the ASHI liability through the earmarking of cash as strategic reserves. While this achieves a similar outcome, many organisations formally designate plan assets to offset and reduce the reported liabilities. This would also have the benefit of enhancing the transparency over the net long-term liability. WIPO informed us that Member States had previously not accepted a proposal establishing a separate entity for ASHI-related assets.

**1.26** WIPO provides its staff members, qualifying former staff members and their beneficiaries' health protection under a commercial medical insurance scheme. The monthly premiums paid are on a sliding scale for active staff members, with the most junior staff paying 25 per cent of the premium and WIPO paying 75 per cent. The most senior staff's monthly premium cost is shared 50:50 with the Organization. For retirees, the Organization meets 65 per cent of the monthly contributions which are CHF 596 for adults and CHF 265 for beneficiary children. WIPO informed us it actively participated in the ASHI Working Group which is a sub-group of the UN's Finance and Budget Network. This group existed with the primary aim of identifying ways in which costs could be controlled and or reduced. Management have kept Member States informed of the progress of the working group and WIPO has continued to review further developments in this area amongst other UN organisations.

**1.27** While the UN system has financial risk as a result of the common staff benefits offered, which is considered by the Working Group, WIPO's position enables its Member States to determine the arrangements appropriate to WIPO's circumstances. Given management's prediction of the trends in ASHI it is important for Member States to consider how future costs might be controlled, such as the increased use of contracting out aspects of WIPO's operations, or changes to scheme rules and contribution rates.

**R2: We recommend that WIPO: a) in consultation with Member States, establish a target level of earmarked funds for its ASHI liabilities; b) consider the risks and benefits of formally designating earmarked ASHI investments as plan assets to enhance transparency over the net liability; c) consider and engage with Member States on the options for mitigating the potential future growth in ASHI liabilities.**

#### UN Joint Staff Pension Fund

**1.28** WIPO is affiliated as member organisation to the United Nations Joint Staff Pension Fund (UNJSPF) through its employees. However, as the pension scheme cannot accurately determine a reliable estimate of the corresponding risk borne by each participating organisation no actuarial liabilities for the pension scheme appear in WIPO's financial statements.

**1.29** The characteristics of the UN pension scheme are outlined in Note 10 to the financial statements and this disclosure is consistent across many participating organisations. At the latest actuarial date, 31 December 2019, UNJSPF has concluded that there was no requirement for deficiency payments to be made under Article 26 of the Fund's Regulations. Should this situation change in the future, deficiency payments would be required from WIPO. This situation represents a potential future financial risk to the organisation which needs to continue to be tracked and managed.

#### Annual Financial Report


**1.30** In contrast with many other UN System entities, WIPO has presented a detailed financial commentary to accompany its financial statements. Management responded positively to our 2018 recommendation on enhancing the composition of the financial commentary removing much of the historical comparison and repetition between the report and the financial statements. We concur with the drive of the International Public Sector Accounting Standards Board to enhance accessibility to the financial statements and a key way to do this is to engage the readership of the financial statements through the accompanying commentary to focus attention on key risks and to use the financial statements to highlight how resources have led to beneficial outcomes.

**1.31** It is important for all organisations to challenge how they use the accompanying financial commentary on a regular basis, obtaining feedback from the users of the statements. WIPO should consider how it might better use the financial performance section to complement existing communications to provide relevant insight and a more holistic view of what has been delivered through the resources reported within them. Exhibit 1 sets out our views on best reporting practice which we would highlight to WIPO as a means of enhancing transparency and to Member States. WIPO already incorporates many of these aspects, but it may benefit by including more key performance information on the outcomes from its operational activities. Alongside this, key financial risks should also be amplified. The trend analysis on future ASHI liabilities is a good example of this kind of focused attention. We have shared further good practice guidance with the Secretariat and are happy to engage further should they wish to develop the financial report.




**Exhibit 1: NAO's good-practice principles for Annual Reports - Clear transparent reporting enhances accountability and improves the confidence of stakeholders**

The good-practice principles are grouped under the following headings:




**Supporting Accountability**

- telling the story of the organisation in a fair and balanced way;
- Compliance with the relevant reporting requirements; and
- Clear action points to take forward.




**Transparency**

- frank and honest analysis;
- consideration of the challenges an organisation is facing;
- appropriate use of data; and
- quantification of risks and performance measures.



**Accessibility**

- highlights key trends in the financial statements;
- concise summaries of key points; and
- consideration of how the organisation engages with key stakeholders and meets their needs.



**Understandable**

Use of:

- plain language to explain difficult concepts;
- infographics and diagrams to communicate important messages; and
- clearly integrated structure to help users navigate it effectively.

Source: NAO

## Governance and internal control

**1.32** The Director General is responsible for ensuring effective financial administration of the Organization in accordance with the Financial Regulations. The Director General has established and maintains systems of internal control and delegation which are important in providing a framework of assurance for Member States to rely upon. As we have previously reported, effective governance and internal control are an integral part of the mechanisms the Organization uses to provide assurance over the use of resources to Member States. While our additional work in this area has been limited in 2020, we outline WIPO's developments in key areas namely: the monitoring of the control environment through the second line of defence, the Statement on Internal Control and the external quality assessment of internal oversight by the Institute of Internal Auditors. We have also reviewed the effectiveness of WIPO's business continuity planning in the circumstances of the pandemic.

**1.33** We have continued to be impressed by the pro-active approach WIPO takes in developing its internal control framework. Due to the continuing pandemic restrictions we have been unable to undertake a more detailed review of WIPO's processes in the way we had intended, but we have summarised some areas of development identified during our audit. We intend to examine these areas in more detail when we are next at WIPO headquarters.

## Internal control

**1.34** WIPO's staff have predominantly been working remotely since early 2020. WIPO's Administration Information Management System (AIMS) provides many of its core administrative systems, including finance, accounting, procurement, HR, payroll and risk management. WIPO staff have been provided laptops enabling access to AIMS and other key systems. Workflows within AIMS ensure that transactions and other activities are properly processed, authorised and reviewed. As for the systems supporting the key Unions, the equipment provided enables either secure direct access, or access via Virtual Private Networks, to key applications and processes required. As External Auditor, we have appropriate read-only remote access to finance, accounting and procurement functions in AIMS to facilitate our work and have been able to ensure that the transactions we examined have been properly recorded.

**1.35** Overall, the results of our audit have not identified any significant control weaknesses or evidenced any noticeable deterioration in the control environment. No issues of this nature have been reported to us by management or identified within the Statement on Internal Control or through the work of the Office of Internal Oversight. Maintaining control in the pandemic environment has been a notable achievement, highlighting a benefit of the significant investment in information systems. However, control environments can change, and it continues to be important that WIPO has robust processes in place to provide assurance over management's review processes and the sources of assurance which evidence their effectiveness

**1.36** We have continued to note the strength of the internal controls which the Organization has established and the commitment to developing and enhancing them. WIPO has continued to strengthen the way in which it operates the second line of defence, which in 2020 has evolved which a significant increase in the process level controls identified for Information and Communication Technology, Information Security, Enterprise Solutions and HR Performance and Development resulting in a broader coverage of controls which now totals 381 across the organisation of which 91 per cent are at least considered to be a maturity level of three or above, i.e. considered to be deployed and reliable with no inconsistency between how the control should operate and how it operates.

**1.37** As we first highlighted in 2018, one focus of WIPO has been to introduce greater validation checks and tests around the assessments undertaken. WIPO has documented and mapped 106 identified risks to underlying controls and has evidence to support the operation of 90 of these controls against the identified risks. In addition, WIPO has reported that its initiative to enhance certain Process Level Controls (PLCs) using data analytics has now been formalised into a strategy document to guide these enhancements in the coming years. We have previously reported on the importance of data analytics to provide more systematic and automated processes to identify trends and outliers to support exception reporting and we note the Secretariat's response to our 2018 recommendation (2018: R3). We plan to perform more substantive work on this area when COVID restrictions are eased

## The Statement on Internal Control

**1.38** The Statement on Internal Control is used as a key accountability document to provide a transparent report of the control environment and risks faced by organisations. WIPO's statement is aligned to the seven components of WIPO's Accountability Framework namely: the results-based management; performance and risk

management; monitoring, oversight, complaints and response mechanisms; control activities; information and communication; ethical standards; and control environment. As we have commented before, WIPO have positioned this statement within a very clear and comprehensive framework which we believe provides Member States with a good degree of confidence in the control processes.

**1.39** In compiling the Statement, in line with good practice, the Director General took due regard to the interim assurance statement provided by the former DG's covering the period to September 2020. Important highlights in the 2020 statement included details of the key risks faced during the year and how these were mitigated, particularly the programme delivery and financial risks faced by WIPO and the developments in the control activities outlined above. The Director General has also highlighted that the business continuity arrangements have worked effectively with the organisation largely moving to a virtual working environment during the pandemic. These observations are entirely consistent within our own observations through the audit process.

**1.40** The Statement on Internal Control provides a critical discipline in bringing together the suite of assurances to demonstrate the fulfilment of the Director-General's responsibilities in respect of internal control. One area we consider could be further enhanced is the assurance provided by Office of Internal Oversight. While describing the role of Internal Oversight Division (IOD), the Statement should also focus on the results of their work and how this will inform the improvements in the control framework. The involvement of IOD is, in our view, essential as they are a prime source of assurance for the Director General over the effectiveness of internal control processes. In the spirit of full transparency, the Statement should reflect identified weaknesses in internal control and the actions planned to address such weaknesses.

### External Quality Assessment of IOD

**1.41** During 2020, an external quality assessment by the Institute of Internal Auditors (IIA) was undertaken of WIPO's IOD. This is good practice and required periodically under the professional standards to which IOD subscribes in its charter. As part of their review, IIA interviewed various stakeholders including representatives from the Secretariat, IAOC and External Audit. Overall, IOD was found to *generally conform*<sup>3</sup> to the mandatory elements of the International Professional Practices Framework and the Internal Oversight Charter. While some elements of IOD's assessment scorecard indicated partial and non-conformance, for most areas IOD was seen to conform and has established action plans to address the gaps identified by the assessor.

**1.42** The evaluation found that IOD is achieving high standards of proficiency. From documented policies, to the use of technology to automate and broaden audit coverage, the team's compliance to the professional standards set by the IIA, was noteworthy for a team of its relatively small size. IOD was recognised by auditee stakeholders for doing its job with full independence and for providing auditees and management with appropriate audit challenge. It considered the team well qualified and with a commitment to ongoing training and development to stay abreast of best practices and considered the ethical standards, and the level of scrutiny to ensure they have, and maintain, full objectivity, free of any potential conflict of interest.

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<sup>3</sup> IIA has three overall gradings: generally conform; partially conform; or does not conform.

**1.43** In the view of the IIA, internal oversight could enhance value, at both the organisational and auditee level by:

- enhancing its alignment of its audit plan, governance engagements and the scope of individual audits, with the greatest threats to WIPO's strategic objectives and expected outcomes, thereby increasing its strategic risk focus;
- sharing findings in progress with the auditee during the audit field work and by introducing a greater level of formal root cause analysis in the reports; and
- take measures to improve access to, and the use of, the work of other key external assurance providers, with a view to enabling an annual overall audit opinion.

**1.44** IOD fully accepted the recommendations of EQA and an action plan has been developed to implement the agreed actions. IOD have also committed to developing a roadmap to enable an overall opinion to be made by end of 2025. Consideration is being given to the extent of the scope and coverage of an annual opinion and whether this should go beyond the elements of governance, results-based management and risk management within the Statement on Internal Control.

**1.45** Following the alignment of their planning and reporting cycles, IOD are better positioned to develop an annual work plan to support such an opinion. Which would provide positive assurance to the Director General and Member States. In our view, such an annual assurance opinion is important and earlier consideration should be given to this recommendation.

**1.46** IOD has informed us that a review of its Charter is in progress with IAOC and Member States following the EQA, this review will also incorporate the results of the review of WIPO's internal justice system.

**R3: WIPO should accelerate the timetable for IOD to provide an annual opinion over WIPO's governance, risk management and control environment to provide Member States with additional assurance over these key areas of oversight and support the Director General in preparing his Statement on Internal Control.**

## **Fraud and ethical matters**

**1.47** The conduct and actions of WIPO staff must always adhere to the highest ethical standards, as set out in the WIPO Code of Ethics. High standards are expected of public officials and it is important that organisations demonstrate their commitment to promoting and raising awareness of expected behaviour. WIPO have demonstrated this commitment through a programme of ethics training which has been rolled out to most WIPO staff through the Ethics Office and fraud awareness training, which has been completed by over 96 per cent of staff.

**1.48** WIPO has continued to report strong anti-fraud arrangements, including their fraud risk assessments and other corresponding controls. These are further enhanced by the strengthening of the second lines of defence through the planned use of the data analytics tools and other mechanisms. WIPO remains well placed in demonstrating a commitment to fraud prevention, detection, response and data collection procedures which collectively provide a clear framework.

**1.49** Since 2018, fraud-related cases are reported regularly to the Risk Management group and have been shared with External Audit. Our audit has not identified any indicators of fraud in the transactions we have tested.

## **Business continuity and the Pandemic Response**

**1.50** WIPO has faced significant challenges during 2020 as a result of the pandemic. COVID-19 has had major consequences for all international organisations, changing working practices, and impacting on the nature and extent of operational delivery. As a largely headquarters based operation most staff have had to work remotely from their homes during periods of lockdown. These have been enforced by the Swiss authorities and the Organization's desire to minimise risks to staff. The scale and impact of the disruption were unprecedented in modern times and few preparedness plans across the system had been designed to meet this degree of challenge.

**1.51** As part of our 2020 audit we considered WIPO's preparedness for the Coronavirus (COVID-19) pandemic. Preparedness planning for disruptive events captures the related disciplines of business continuity, contingency and crisis management. Effective preparedness planning involves:

Identifying organisational threats and scenarios that have the potential to seriously impact business as usual operations.

Developing detailed plans for how these threats or scenarios are handled so that their consequences are mitigated, balanced alongside an assessment of their likelihood and a consideration of other risks confronting an organisation.

Devising crisis management plans which set out how an organisation will deal with the immediate aftermath of an emergency.

Learning lessons from exercises and real events to inform future planning.

**1.52** The consequences of inadequate preparedness planning can be critical for the organisation and its people. We have considered whether WIPO adequately identified the risk of a disruptive event which had the potential to affect its operations, the access to its premises and people; the sufficiency of its plans to mitigate the effects of such an event; and the steps taken to embed learning to improve preparedness for next time, given the experience of the pandemic. On this occasion, the key mitigation in response

to this disruptive event has been to shift the Secretariat to a largely home-based working model for most of 2020.

### **Assessing WIPO's approach**

**1.53** WIPO has a documented organizational framework in place which brings together the main components of its preparedness and resilience planning covering business continuity, crisis management, disaster recovery, safety and security and which aims to align with its risk management policy. Its framework, dating from February 2015 and updated in October 2019, usefully draws on good practice and guidance from other organisations, including the World Health Organisation (WHO) and wider UN network.

**1.54** Our review of WIPO's enterprise risk register shows that it had identified the risk of significant business disruption to some of its key services and investments caused by a disastrous event, external hazard, economic volatility or pandemic, in advance of the COVID-19 outbreak. Mitigations to be put in place to reduce the impact of these risks typically refer to the role of business continuity plans.

**1.55** WIPO had worked on its Business Continuity Plans for Geneva during 2019 and had created what it called a consolidated complete draft (Version 1.0) of a Corporate Business Continuity Plan in mid-November 2019. The Corporate Business Continuity Plan combines individual action plans for critical functions operating in headquarters with, we understand, separate plans in place for WIPO's larger external offices. WIPO also had crisis management and pandemic plans in place ahead of the pandemic, but its Crisis Management Plan was approved by the Director General just one week before the WHO's declaration on 11 March 2020. Following their rapid commissioning, the Secretariat added documented contingency plans for critical functions to its Corporate Business Continuity Plan during March 2020. While few predicted an impact of such severity, WIPO's level of preparedness and risk management was amongst the strongest in our experience.

**1.56** The pandemic has enabled WIPO to properly test its business continuity arrangements and implement its crisis management plan. In our view the Secretariat had in place a reasonably structured framework for preparedness planning prior to the pandemic with basic elements in place including plans defining critical functions, roles (including critical suppliers) and personnel; key governance and responsibilities; and communications, testing and review arrangements. Positive features of WIPO's subsequent response include its:

- Regular review of risks by the Director General-chaired Risk Management Group which met five times in 2020 and, in June 2020, undertook a special review of risks prompted by the pandemic.
- Reporting to Member States with the Secretariat (a) producing a Crisis Management Dashboard from April 2020 showing WIPO's operational performance through the pandemic, albeit not closely tailored to the key pandemic risks identified by the Risk Management Group ; and (b) giving formal updates to the 31st Program and Budget Committee and 61st Assemblies in September 2020.
- Flexibility in updating business-as-usual processes in critical business areas to allow operations to continue, for example the decision to move from postal communications to email in the Hague and Madrid systems, pending more substantial digital investment in these areas.
- Ongoing review of crisis plans – for example, at the time of our examination the Crisis Management Plan was current and had been updated and approved by the Director General on 13 January 2021.

**1.57** While WIPO responded well in the adversity and continued its operations, we have identified a number of areas where processes could be enhanced and considered. We noted that the significant disruption risks in WIPO's pre-pandemic risk register were owned by individual programmes despite their potential to have an organisation-wide effect. For example, the risk of a pandemic was owned by the Director of Human Resources and the business impact was described as small, though this was amended to "catastrophic" as events unfolded in early 2020. WIPO could exercise greater consistency in the way that it categorises disruption risks. During 2020, further organisational risks were identified, and some earlier programme risks were reclassified. WIPO considers its adopted approach was practical with appropriate ownership of risks. We will look more closely at the WIPO Enterprise Risk Management Process and how it has evolved in our audit of 2021.

**1.58** Business continuity plans for each critical function were at different stages of maturity immediately prior to the pandemic. Some critical business functions like the Hague and Madrid registries had not developed comprehensive plans at the time the pandemic started and not all plans had been signed off by program managers. Plans targeting critical support functions like estates and IT tended to be more developed, which reflects the fact that they are critical business enablers. Even where plans for critical functions were in place, some significant gaps remained at the time of our review, including naming of substitute personnel and the testing of key elements like the medical emergency response plan. The Secretariat has acknowledged the need to increase the number of critical business functions that have comprehensive business continuity plans in its future work.

**1.59** Critical functions were given less than 24 hours' notice to develop contingency plans for how they might implement remote working away from WIPO offices after the WHO had declared a global pandemic on 11 March 2020. This was despite the WHO identifying the credible threat posed by COVID-19 on 30 January 2020 when it declared a public health emergency of international concern. In some cases, these contingency plans largely replicated the content of critical function plans within the Corporate Business Continuity Plan; in other cases, the lack of pre-prepared critical function plan meant that this approach was not possible.

**1.60** Business continuity action planning work was largely suspended after the declaration of the global pandemic. This decision to suspend work on business continuity planning, naturally, reflects the need to respond to the immediate crisis but this suspension continued throughout 2020, despite the gaps in plans for critical functions. Overall, while we have identified areas for improvement the Organization successfully moved to remote operations with limited disruption to its continued provision of critical services to users. WIPO also demonstrated that it largely had in place the critical building blocks for business resilience.

**1.61** While the Secretariat has adjusted its response to the developing pandemic over time, it had not yet completed a comprehensive review of lessons learned from the experience. This partly reflects the ongoing nature of the pandemic. The Secretariat told us that it expects to complete a comprehensive review of lessons learned from WIPO's business continuity response in 2021. In addition, we understand that the Joint Inspection Unit is conducting a system-wide review of Business Continuity which may provide wider lessons and insights for WIPO.

**R4: WIPO should conduct a comprehensive and systematic assessment of the lessons learned from its deployment of preparedness plans in response to the pandemic to inform the development of business continuity procedures.**



## Part Two

### Projects financed from reserves

#### Background

**2.1** WIPO has a track record of generating revenues which exceed costs, with surpluses driven by ever growing demand for IP services. Consistent generation of surpluses has enabled WIPO to grow its reserves, enabling it to partially fund its long-term liabilities and permit investment in the infrastructure and technologies needed to maintain and continue this growth. Decisions on the use of reserve resource are a key part of WIPO's financial strategy and we have identified this as an area of focus for our work this year. WIPO's current policy on reserves was approved by the Assemblies of the Member States in 2015 and established the key principles for their use.

**2.2** In line with the approved policy a Capital Master Plan (CMP) is developed to agree investment priorities in line with those principles, and this is used as the basis of allocations through the Biennium Budget. Our work focuses on how the CMP utilises the reserves and how the process links to wider strategy and decision-making. Our review has looked at the evolution of the CMP and overall governance including project selection and oversight. While our review looks at some project activities, we have not reviewed the management and delivery of the projects themselves.

#### Evolution of the capital master plan

**2.3** In 2013, Member States approved CMP 2014-19 representing seven key capital investment projects financed from reserves and meeting the reserves policy. The total budget was CHF11.2 million. In 2017, CMP 2018-27 was approved to a total of CHF25.5 million, the Plan recognised that other priorities would emerge, particularly in respect of Information Technology. The most recent iteration of the CMP saw a significant increase in the value of planned projects as a result of this, with an additional CHF74.8 million over the 10-year period 2020-2029 (Figure 6).

**Figure 6 – 2020-2029 CMPs**  
*Millions of Swiss Francs*



**Notes:**

<sup>1</sup>Existing CMP projects balance includes remaining budgets at 31 December 2018, less amounts to be returned to accumulated surpluses and actual expenditure to 17 June 2019, the date of the 2020-2029 CMP document

*Source: NAO review of Capital Master Plans*

**2.4** In its report to the September 2020 PBC, the Secretariat reported that approved project budgets totalled CHF 83.8million and as at December 2020, the unspent balance on these projects was CHF 28.2 million as shown in Statement III of the Financial Statements. Driven by identified needs and WIPO’s strategy to invest to keep its premises and ICT infrastructure fit-for-purpose, the funds dedicated to the CMP have been increasing, together with the ambition of the CMP.

**2.5** WIPO’s Medium-Term Strategic Plan (MTSP) for 2016-2021 provides the context in which the nine Strategic Goals are implemented, outlines the challenges and opportunities for intellectual property and for the work of WIPO and defines broad strategies to address those challenges in the six-year period 2016-2021. The MTSP does not address WIPO’s capital and other investment requirements and are not integrated within the current strategic plan.

**2.6** The existence of significant surpluses to fund investment means that, unlike many other international organisations, WIPO does not have the same incentives or pressures to demonstrate the need for prioritisation or cost efficiency. This makes it more important that the CMP and the individual project business cases are transparent and robust, subject to effective challenge processes and to ensure that outcomes are evaluated to feedback into the CMP and project management processes. We could not clearly determine how the current projects had been prioritised against other potential plans or determine the relativity of need between the individual component projects within the CMP.

**2.7** In our view, the CMP could be enhanced by ranking projects in terms of their priority and more clearly specifying the linkage to WIPO’s objectives. This will enable a clearer mapping of project proposals to the central aims of WIPO and the strategic plan. Investment decisions should be driven by need and a clear identification of opportunities which are central to WIPO’s objectives.

**2.8** As the organisation has invested significantly in special projects for a sustained period it is important to ensure that it remains appropriate to continue with this level of

investment. WIPO should consider project activity in the context of other investment opportunities such as enhancing its technical co-operation programme, minimising the financial risk to the organisation by reducing its employee benefit liabilities or reviewing its fee structure. It is important to mitigate a common risk in public sector projects, namely that they can expand and grow beyond the original need and suffer from the inefficiencies of 'gold plating' given the easier access to capital funds. Our audit has not looked individually at project efficiencies or scope, but we see these as generic risks which need to be mitigated in all projects.

**2.9** Overall, we see the need for improvement of the CMP to ensure it has a more strategic focus, and that it is more clearly aligned with the medium-term strategy and objectives of WIPO.

**R5: WIPO should consider mapping the individual projects against WIPO's core objectives and ranking them to enable Member States to better understand the priority areas for investment.**

**R6: WIPO should consider greater integration of the CMP with its medium-term strategy.**

## **CMP governance**

**2.10** Good governance is critical to the success of projects. The CMP utilises significant resources of the organisation and this is recognised through WIPO's requirement to have the CMP approved by Member States. In having these governance processes, it is essential they operate within a clear framework of authorities and that the information provided as part of the approval process is transparent and a sufficient basis on which to make informed decisions.

**2.11** The CMP is comprised of individual projects, each of which has a project brief for Member States to consider as part of the approval process. The component projects are proposed for the CMP by WIPO business areas as part of the biennial Program and Budget process. The individual projects must meet certain criteria which have been established by the Member States for inclusion within the CMP investment. The key principles for individual projects are that they should be:

- limited and one-time projects for capital improvements and exceptional circumstances. Capital projects would typically be identified in a long-term capital master plan and may be defined as projects related to construction/refurbishment and Information and Communication Technology that are needed to keep an Organization's facilities and systems fit-for-purpose through significant expansion or additions.
- prepared in a comprehensive manner with information on full life cycle costs of the projects, estimated benefits (which may be both financial and qualitative in nature), recurring expenditures that the Organization will be committed to budgeting for as part of the regular budget in subsequent biennia, and the impact on cash flows and liquidity levels of the Reserves.
- outside the biennial financial period of the Organization, and may cut across, or last for, more than one biennia.

**2.12** We noted that, in an earlier definition, special projects had to be "extra-ordinary" which stressed the importance of the uniqueness of the investment. Member States

broadened this out to a wider more encompassing definition which meant projects could be funded for more general purposes, such as estate maintenance. We reviewed a sample of projects to determine whether they met the criteria for inclusion and funding as special projects. We found that in some cases there was a strong rationale, but in others it was less clear why the project was being funded in this way.

**2.13** For example, we could clearly see the merits of investment in the WIPO IP Portal, Hague Externalization Project and the ECM implementation projects as investment in core platforms. These projects improve access to services for both internal and external customers, introduce automation, integrate existing IT processes and improve access and management to corporate knowledge. Other projects, such as the power outage mitigation and modernisation of elevators motorisation systems projects ensure that WIPO's facilities and systems remain fit-for-purpose through expansion and additions, these types of projects would normally be part of the core funded repairs and renewals programme and be an integrated part of the regular funding strategy of an organisation.

**2.14** By mixing strategic investments with those to maintain ongoing assets there is a risk that the CMP loses its strategic focus and challenges the concept of the CMP being based upon a coherent portfolio of special and significant projects. This might create the risk that the CMP may lose focus as a portfolio of value adding projects. Such capital projects should, in our view, be integrated into the mainstream strategic planning and biennial budget processes.

**R7: WIPO, in consultation with Member States, should reconsider the criteria for the Special Project investments to keep focus on their special and significant nature and make budget provision for wider generic renewal investments and smaller initiatives through the normal budgeting process.**

**2.15** Since the criteria for special projects were developed there has been a significant increase in the level and scale of project activity. Member States may wish to revisit the criteria to ensure they reflect the way in which Member States wish to utilise surplus funds. We have noted that the current arrangements do not distinguish between very large investments such as the Madrid IP portal at CHF6.0 million and those of a much smaller scale, for example, the CHF250,000 Treasury Management System, or the proposed works to reinforce doors for increased security protection at CHF325,000.

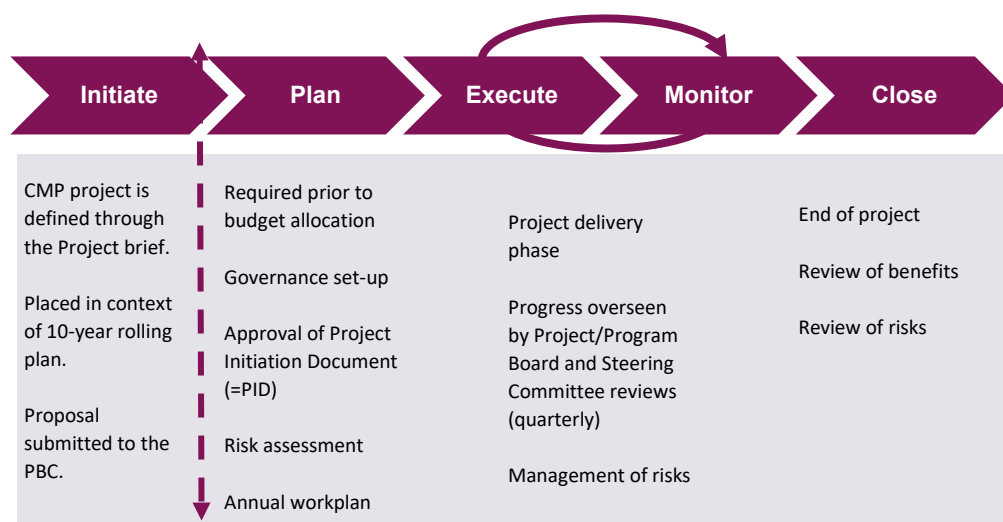
**2.16** Member States may wish to consider criteria which would require more information and data to inform decisions where projects exceed a certain threshold and to require various elements of milestone reporting or assurance where they represent significant cost or reputational risk. We consider this kind of focus an essential element of the good governance of major capital programmes and to minimise the additional cost of managing the more routine capital expenditure through the CMP process.

**R8: Member States may wish to establish thresholds for projects included in the CMP to make the plan efficient and focused on the main strategic investment initiatives and to establish different assurance and reporting requirements to mirror the proportionality and scale of the project.**

## CMP project lifecycle

**2.17** WIPO follows five-steps to guide the CMP process as set out at Figure 7. To support our strategic review of the CMP process, we have performed a high-level review of project initiation and reporting to Member States through the WIPO Performance Report. We are conscious that IOD plan to review governance of the CMP in 2021 and therefore to avoid potential duplication we have not looked in detail at the programme and project governance arrangements.

**Figure 7 – High level overview of CMP process**



## CMP Plan approved at the General Assemblies

### Project selection

**2.18** The preparation of a business case is an important step in any project to set out what is expected to be achieved, the amount and timing of resources that will be required and the project's alignment within the organisation's priorities and objectives. Good business plans enable decision makers to make informed judgements on whether projects should progress.

**2.19** Since 2018, the WIPO's process for the selection of projects for inclusion within the CMP has been formalised. For CMP projects, the business case is presented as Project Initiation Documents (PIDs). These documents include consideration of the current position, objectives, high-level deliverables, risks, costs and benefits and high-level timescales. Proposals and business cases were approved by program boards and the Director General prior to progression for inclusion in the CMP. Prior to 2018, summary information was prepared for the CMP which was not formally supported by consistent or comprehensive project briefs.

**2.20** WIPO has a project management process in place, following the recognised principles of the PRINCE2 framework. This incorporates an approach which should provide the tools for: presenting structured business case justification; learning from experience; articulating clear roles and accountabilities; and staged project management and control. WIPO's Capital Master Plan Project Management Guidance enshrines these principles to support sound project management approaches in respect of its capital projects.

## **Project planning**

**2.21** We reviewed a selection of PIDs and found that the standard template had been used in all cases covering the key features of the methodology as set out in WIPO's CMP Project Management Guidance. While recognising that PIDs are live documents, we identified key areas where we felt the original detail and analysis could have been strengthened to provide a stronger basis for the project approval and to capture the overall purpose and value of the projects to WIPO.

**2.22** On **option appraisal**, we felt that the consideration of options was not as broad or deep as it could have been. Alternative ways to deliver the outcomes had not been fully considered in all cases, and in some the options presented had not been fully developed. The business cases we reviewed presented limited options that might bias the outcome. For example:

the multi-media studio project assumed that WIPO needed an in-house professional facility and the differential between delivering this and the minimum option was not defined. Furthermore, it was not clear whether WIPO considered the option of using either a commercially available facility, or those of other Geneva based UN entities when required.

the nature of the Enterprise Content Management project meant there was no realistic alternative but to undertake a second phase to realise the benefits from the existing investment.

**2.23** On **benefits realisation**, the PIDs we considered did not always have a clear baseline and the degree of measurable change attributed to each option and the target was limited and not specific. Without detailed articulation of targets and measurement criteria it will be difficult for WIPO to easily demonstrate that the overall project objectives have been achieved and value for money obtained.

**2.24** On **budgets**, a key requirement of the principles for reserve utilisation was that project proposals clearly identify the full costs over the lifecycle of the project. We found examples where budgets were high level with little granularity and limited information on the full lifecycle costs in the initial PIDs, although we have noted some improvement in the projects initiated since 2018. The Electronic Content Management project had a reasonably well-defined analysis of costs but lacked information on the full lifecycle costs of the project, especially given the different sources of funds used. Similarly, the multi-media project did not initially capture the need for a dedicated technician or the necessary programmes to replace and refresh technologies until after the initial investment and later versions of the PID. We also noted on this project that the budget has evolved from CHF1.7 million to CHF2.4 million, most recently including CHF 200,000 related to the costs of a VIP waiting room which were included in subsequent proposals to Member States. Tight control of cost variations is an important mechanism to avoid cost and scope creep, alongside a better understanding of costs before investment is initiated.

**2.25** It was not clear that the indirect costs of projects, which are funded by the regular budget, had been taken into consideration, or that overhead costs for wider management and staff time had been incorporated into project costs. In not specifically identifying the indirect costs, it makes it harder to assess the real cost benefits of activities, or to monitor the lost opportunity cost of diverted staff when managing and delivering special projects. Capturing full cost is valuable, it is one of the criteria for

projects set by Member States and it is important in the decision-making process to enable a better assessment of cost benefit. This is particularly important where projects represent significant value and are delivered over extended time periods.

**2.26** On **risk management**, as special projects sit outside the mainstream activities, they can be high profile and carry uncertainties and risks. In many organisations project delivery of this nature can result in overruns of cost and time given dependencies on others to support their delivery. The PID provides a framework to consider the risk management strategy, the risk assessment and response, the timing of risk management activities and the identification of major risks. We found that many risks were generic in nature and the documentation was not necessarily tailored to the individual project, for example, the 15 identified Madrid IT system risks had not been assessed against the documented risk appetite and the three risks that fell outside of this appetite had not been further discussed.

**2.27** We noted the identified risks largely related to potential supplier and internal resourcing risks, together with the impact of organisational policies. Having identified these risks, we noted the PID did not set out the proposed mitigations and the residual risk to the project. Consequently, there is little information to assess how these risks impact the project at the initial stages of the approval.

**2.28** In our view, the PIDs could be enhanced to provide greater articulation of the business case and provide a clearer focus for the management of the project and its outcomes, enabling better measurement of benefit from the investment at the onset of the project.

**R9: WIPO should consider whether the content of PIDs could be enhanced to provide:**

**a) better option appraisal analysis including, where relevant, outsourcing options;**

**b) clear articulation of the baseline position and target outcomes for subsequent evaluation and to help measure the achievement of value for money;**

**c) greater articulation of the full costs, including the life-cycle costs of the projects; and**

**d) appropriate risks to the achievement of the project's objectives together with realistic mitigation actions to determine the real level of residual risk.**

#### **Project challenge**

**2.29** The PID provides a good framework for preparing project briefs on a consistent basis. Our review has noted that there were inconsistencies in the depth and detail within each PID we reviewed. The quality and thoroughness of the project assessment can be assured through a strong challenge and review process. While the PID is an internal document, the framework forms the basis for the business case in the CMP proposal to the Program and Budget Committee. We believe there is scope to enhance the quality of the proposed project initiation information available to Member States. PBC may wish to consider how it challenges this information and we have provided a framework, set out in Figure 8, to help inform their reviews of the project documentation.

**2.30** In 2016, IOD reported on the developments with the Project Management Office (PMO) for IT projects. It considered WIPO would benefit further by expanding the scope

of a support structure, such as a PMO, to cover other types of projects across the Organization bringing further coherence and efficiency in managing projects.



**Figure 8: Key questions to inform good project governance**

<p><i>Purpose</i></p> <p><b>Need for programme</b> Is it clear what objective the programme is intended to achieve?</p> <p><b>Portfolio management and dependencies</b> Does the programme make sense in relation to the Organisation's strategic priorities?</p> <p><b>Stakeholder engagement</b> Have the right people bought into the programme, such as users, suppliers, those who have to implement it?</p>	<p><i>Value</i></p> <p><b>Option appraisal</b> Does the option chosen meet the programme's objective and provide long-term value?</p> <p><b>Business case</b> Does the business case demonstrate value for money over the lifetime of the programme</p> <p><b>Cost and schedule</b> Has the programme built up robust estimates of cost and schedule, including all programme components?</p> <p><b>Benefits</b> Does the programme: have a baseline; know what measurable change it is going to make; and actually measure it? Are benefits being achieved?</p>	<p><i>Delivery and variation management</i></p> <p><b>Delivery strategy</b> Are there appropriate incentives for all parties to deliver (contractual, performance management, or other)?</p> <p><b>Change control</b> Is there an effective mechanism to control programme alterations?</p> <p><b>Responding to external change</b> Is the programme sufficiently flexible to deal with setbacks and changes in the operating context?</p> <p><b>Performance management</b> Is progress being measured and assessed, including consideration that the programme is still the right thing to do?</p> <p><b>Lessons learned</b> Is the programme learning from experience on the current programme and previous relevant programmes?</p> <p><b>Transition to business as usual</b> Does the programme have a clear plan for transfer to operations/business as usual?</p>
<p><i>Programme set up</i></p> <p><b>Governance and assurance</b> Are there structures (internal and external) which provide strong and effective oversight, challenge and direction?</p> <p><b>Leadership and culture</b> Does the programme have strong leadership with the necessary authority and influence?</p> <p><b>Resources</b> Has the Organisation the resources (staffing, skills, equipment, and so on) required to deliver the programme?</p> <p><b>Putting the programme into practice</b> Are scope and business requirements realistic, understood, clearly articulated and capable of being put into practice?</p>		

Source: <https://www.nao.org.uk/wp-content/uploads/2017/09/Framework-to-review-programmes-2019-update.pdf>

## **Programme and project oversight**

**2.31** Sound project governance is essential to ensure clear accountability, escalation and oversight. It is important that the right level of reporting and oversight, commensurate with project risk, is dedicated to the management of a project. This increases the likelihood that projects are delivered in line with the plans and emerging issues can be responded to in a timely manner. WIPO's projects have a common governance structure and approved projects are overseen by a Steering Committee with relevant stakeholders involved.

**2.32** Regular and accurate reporting of projects is an important part of the accountability process for delivering against the CMP and the individual projects within it. Reporting provides visibility on whether projects are on target for delivery and cost and help provide information to assess whether projects are meeting their objectives. This reporting is central to the work of the Project Boards and Steering Committees. The outcome of the project oversight is reflected in WIPO's Performance Report to Member States, which sets out for each active project its status and progress in year and a forward look.

**2.33** The 2018/19 Performance Report set out the progress of CMP project activities during the period January to December 2019, including the key milestones reached and resource utilisation rates for 20 ongoing projects. These projects had total budgets of CHF83.8 million and associated expenses to that date of CHF44.2 million. Many of the features we identified in our review of the PIDs we found replicated in the detailed project progress overviews. We noted the changes in risk and budgets that had happened in many instances and we felt that the status reports lacked the real impact measurements which we believe reflect back to the observations we made that the initial PIDs were under-developed in this area. In our view while the Status Report clearly highlights project attributes, it could provide Member States with a greater measure of value added by projects.

**2.34** We believe that the CMP process should be reviewed to ensure that it captures the true full cost of projects and provides tangible measurement of the value added. This might be achieved by a greater focus in the CMP on more strategic and higher value projects, and that the existing sound framework can be better utilised with deeper analysis and challenge on fewer projects. Such an approach could be supported by the focused attention of the Project Management Office as both a challenge and a support function for staff working on projects. Wider learning from the themes of CMP project management can be used to improve and enhance the process through training and challenge.

**2.35** In effecting these enhancements, we feel that WIPO will be better placed to demonstrate the impact of the use of reserves and how they meet the objectives of the Organization and increase transparency and accountability over the use of the funds. In response to our draft report, WIPO informed us it found value in the recommendations and indicated that they intend to address some of these immediately through the CMP proposal that was being developed for the PBC this year. Consequently, while the proposal was to be presented alongside the Program and Budget to the July session of

the PBC, the Secretariat will now submit the CMP to the September meeting. This will allow the CMP proposal to be better aligned to our recommendations and we consider management's decision to be an important one, which will begin to better address the areas for improvement identified in our report.

## Part Three

### Other matters for the Governing Bodies

**4.1** Under the Terms of reference for the External Audit, the Director General is required to report to us on any ex-gratia payments made or cases of proven fraud made or identified during 2020. As noted earlier in the report, there were no cases of ex-gratia payments reported to us. We identified no instances of fraud during our audit work, and no cases of fraud or writes-off related to fraudulent activity were reported to us by the Director General.

### Prior recommendations

**4.2** In this section we summarise the Organization's progress in implementing past recommendations. Appendix One provides a more detailed review of progress for each prior years' recommendation based on data held in WIPO's TeamCentral as of May 2021.

**4.3** As of May 2021, of the 20 recommendations from 2019 and previous years that remained open, we considered that six (30 per cent) had been implemented. Thirteen recommendations (65 per cent) remain in progress, these mostly relate to our 2018 recommendations on Human Resources Management and our recommendations made last year on external Offices which have future implementation dates and therefore we would not have expected them to have been fully implemented within the past year. Human Resources have revised the implementation date for three recommendations due to staffing constraints and the impact of the COVID-19 pandemic. One recommendation has not been implemented:

our predecessor's recommendation on the fee structure for the Madrid Union (2017 R#9): while on a roadmap for future consideration by governing bodies, it has not yet been considered.

**4.4** Given the importance of HR management to the Organization it is our intention to perform a substantive follow-up against these recommendations and review the status of the WIPO people strategy during our 2021 audit. Appendix One contains a more detailed commentary on the status of previous recommendations.

## Acknowledgments

**4.5** We would like to thank the Director General and his staff for their co-operation in facilitating our audit engagement. The audit of 2020 was particularly challenging with the need for continued remote working, and the efforts of staff to support the audit have enabled us to ensure we can meet the timelines to support WIPO's Governing Bodies.

*Original - as signed*

**Gareth Davies**

**Comptroller and Auditor General, United Kingdom - External Auditor**

**21 June 2021**

# Appendix One

## Follow-up of prior year recommendations

(Source: WIPO TEAMCENTRAL REPORT - May 2021)

Previous reference	Summary of recommendation	Administration's comments on status: May 2021	External Auditor's view	Status
2017 (WO/PBC/28/4) R#9	Review the existing fees structure with a view to making the Madrid Union self-sustaining, after carefully weighing its impact on the accession of new members and on the usage of Madrid System.	The matter is on the road map for possible consideration by the Member States Working Group at some future point in time.	<p>We note the administration's comments and note no date for implementation has been provided. We will review the status during next year's audit.</p> <p>We also have referred to the cumulative deficits in the Lisbon and Hague Unions in this year's report.</p>	In progress – No estimated date for implementation has been provided.

Previous reference	Summary of recommendation	Administration's comments on status: May 2021	External Auditor's view	Status
2018 (WO/PBC/30/4) R#3	Develop a strategy to leverage the power of analytic tools to enhance and automate the monitoring of core business processes, integrating these into the control environment as evidence to support the Statement on Internal Control.	A strategy and roadmap for strengthening and streamlining internal controls through the use of data analytics has been developed that ensures that WIPO has proportionate fraud prevention and detection capabilities in the coming biennia.	We note the development of the roadmap and as highlighted in this year's report, we will revisit this area later in our mandate.	Closed
2018 (WO/PBC/30/4) R#5	Review the scope to align the RBM and internal reporting framework, to ensure that internal reporting incorporates those indicators used for the RBM process. Align internal monitoring with the performance priorities and indicators identified in the Program and Budget and systematically record progress in implementing the work plans.	KPIs for Program 23 in the Program & Budget 2020/21 were revised taking duly into account the recommendations of the External Auditor	We note the revised performance indicators for Program 23 included in the Program & Budget 2020/21.  We note however that baselines and targets were not established for Expected Result IX.1 (Effective, efficient, quality and customer-oriented support services both to internal clients and to external stakeholders) and would encourage	Closed

Previous reference	Summary of recommendation	Administration's comments on status: May 2021	External Auditor's view	Status
2018 (WO/PBC/30/4) R#6	Ensure that the key performance indicators for each program contain an appropriate balance of measures to align activities to the strategic goals.	The recommendation will be addressed in the Program and Budget for 2022/23 with the formulation of activities and measures for strategic goals. The Program and Budget for 2022/23 is currently being formulated and will be reviewed and approved by the Member States through the PBC in 2021.	KPIs to be fully formed in future iterations of the Program and Budget.  We note WIPO's ongoing actions to address this in the 2022/23 Program and Budget and their expected implementation date of December 2021. We will examine the action against this recommendation during next year's audit.	In progress – WIPO's estimated implementation date: 31/12/2021
2018 (WO/PBC/30/4) R#7	Consider the practicalities of the data systems which will be used to evidence performance at the design stage of indicators, to ensure that they will be capable of robustly collating and measuring key performance indicators at the outset of the 2020-21 Program and Budget.	As part of the baseline/target update exercise for 2020/21, completed in the first half of 2020, data systems have been clearly identified, where relevant, across all KPIs in the Program & Budget to collect the required performance data.	We note the actions taken by management and consider this recommendation implemented.	Closed



Previous reference	Summary of recommendation	Administration's comments on status: May 2021	External Auditor's view	Status
2018 (WO/PBC/30/4) R#8	Reserve the category of "fully achieved" for future reporting of performance to Member States where achievement is, at least, 100 per cent of target values.	The Secretariat is implementing this recommendation in a phased manner. In the WPR 2018/19, the threshold was increased from 80% to 90%. The target threshold will be increased in the WPR 2020/21 to 100%.	We note the response of the Secretariat and the change proposed to the target threshold for the 2020/21 WIPO Performance Report.	In progress.
2018 (WO/PBC/30/4) R#9	Assess the extent to which existing performance indicators adequately measure progress in addressing the four priorities set out in the 2017-21 HR Strategy, with a view to developing new or replacement indicators where significant gaps or a disproportionate emphasis exist.	Management has accepted this recommendation. The development of replacement indicators can only be addressed in the context of the preparation of the biennial Program and Budget. The 2020-21 Program and Budget has already been approved by Member States during the 2019 Assemblies of WIPO Member States. As such, new indicators may only be proposed during the preparation of the Program and Budget for the next biennium (2022-23), i.e. around early-2021.	We note WIPO's ongoing actions to address this in the 2022/23 Program and Budget and their expected implementation date of December 2021. We will examine the action against this recommendation during next year's audit.	In progress – WIPO's estimated implementation date: 31/12/2021
2018 (WO/PBC/30/4) R#11	Monitor implementation of actions from its 2018 Gender Parity Action Plan and reports on their	The Gender Action Plan will be aligned and integrated with WIPO's Policy on Gender Equality, when the latter will be revised in 2021 (this was	We note and understand the reasons for the delay in implementing this recommendation. We will	In progress – WIPO's revised implementation date: 31/12/2021

Previous reference	Summary of recommendation	Administration's comments on status: May 2021	External Auditor's view	Status
	progress (and early indications of impact) in future HR Reports.	delayed due to the COVID-19 pandemic and the new incoming management) once widely consulted with the relevant internal stakeholders and new management. Progress will be reported in the 2022 Annual Report on Human Resources.	review the status during next year's audit.	
2018 (WO/PBC/30/4) R#12	Work with Member States to resolve the lack of clarity around geographical representation of the workforce.	Member states did not take any decision on geographical distribution and the 1975 Accord at the last Assemblies of WIPO Member States. The Secretariat will assist the Member States when requested and will implement any decision taken by Member States on geographical distribution at any future session of the Assemblies.	We note this is an issue for Member States which has been brought to attention through our report. We consider the Secretariat's response to be appropriate.	Closed.
2018 (WO/PBC/30/4) R#13	Consider reviewing the effectiveness of its training offer, to ensure it meets current business needs and the talent management strategic priorities	A methodology for assessing the effectiveness of the training offered will be developed.	We note WIPO's response. We will review the status during next year's audit.	In progress.

Previous reference	Summary of recommendation	Administration's comments on status: May 2021	External Auditor's view	Status
2018 (WO/PBC/30/4) R#14	Ensure it utilises the full range of performance assessment markings, as a means of targeting training and identifying underperformance;	<p>HRMD has undertaken a number of efforts to ensure that the full range of performance ratings is utilized and that the developmental aspect of PMSDS is applied, such as:</p> <ul style="list-style-type: none"> <li data-bbox="808 512 1256 1023">• Briefings for Sector Leads, managers and staff on the PMSDS, which include an overview of the purpose of PMSDS and its objectives (PMSDS as a tool for development and the development-related objectives), the ratings and the importance of continuous dialog between supervisors and staff members in order to recognize good performance and proactively address underperformance.</li> <li data-bbox="808 1054 1256 1198">• Guidance, procedural advice and support for managers who contact HRM and/or in cases of identified underperformance.</li> </ul>	We note the actions taken by management and consider this recommendation implemented.	Closed

Previous reference	Summary of recommendation	Administration's comments on status: May 2021	External Auditor's view	Status
		<ul style="list-style-type: none"> <li>• The email announcing the yearly PMSDS evaluation includes a reminder of the importance of recognizing good performance and addressing underperformance.</li> </ul> <p>An audit of staff performance management will be conducted in 2021, following which a new performance management approach will be developed through an organization-wide consultation process. Engaging managers and staff in this process will be an important factor for the buy-in for the new approach, the implementation of which will be supported by extensive training. In view of the above-mentioned efforts and the forthcoming change of the performance management approach, the details of which are unknown to date, this recommendation has been addressed within the current</p>		

Previous reference	Summary of recommendation	Administration's comments on status: May 2021	External Auditor's view	Status
		constraints.		
2018 (WO/PBC/30/4) R#15	Consider ways in which the level of average staff absence can be reduced, and to introduce good practice techniques which require greater accountability for taking sickness absence, including consideration of return to work interviews.	Management has accepted this recommendation. Measures are being put in place which would lead to a reduction in absenteeism. Following the introduction of the absence management module in AIMS in January 2019, new reporting tools on sick leave have been and are in the process of being developed to enhance accountability. Internal guidelines on return to work have been drafted and are in use since the third quarter of 2019 on a pilot basis.	We note WIPO's response and planned future actions together with the delayed target implementation date for this recommendation. We will review the status during next year's audit.	In progress – WIPO's revised implementation date: 31/12/2021
2018 (WO/PBC/30/4) R#16	Undertake an annual staff survey to ascertain the baseline for measuring staff perceptions around the wide range of HR issues which underpin the strategic aims and to measure the effectiveness of HR policy and implementation. The survey could assess themes such as motivation,	Engagement surveys will be conducted every other year in order to leave sufficient time between surveys for the analysis of the results and the implementation of actions. A first engagement survey is planned for 2021.	We note WIPO's future implementation date of this recommendation and we will review the status during next year's audit.	In progress – WIPO's estimated implementation date: 31/12/2021

Previous reference	Summary of recommendation	Administration's comments on status: May 2021	External Auditor's view	Status
	development, well-being, workplace harassment, management and transparency and to measure the staff perceptions of the support provided by enabling functions like HR			
2019 (WO/PBC/31/3) R#1	Annually review the content of the Financial Report and Financial Statements and discuss proposed changes at the relevant meeting of the IAOC in advance of preparing the annual financial statements.	Proposed changes and accounting policy updates were presented to the IAOC at their session in December 2020. Management will continue to present this information at future sessions of the IAOC. The IAOC reviewed the Annual Financial Statements in their March 2021 IAOC session. Hence this recommendation is considered closed.	We note the engagement with IAOC during 2020 and the presentation of the draft financial statements during March 2021. We would encourage this to become regular practice.	Closed.
2019 (WO/PBC/31/3) R#2	Consider the development of a clearer strategy for offices outside of Geneva taking full account of the business and operational priorities identified in its next strategic plan and	The recommendation will be addressed in the Program and Budget for 2022/23. The Program and Budget for 2022/23 is currently being formulated and will be reviewed and approved by the Member States.	We note WIPO's future implementation date of this recommendation and we will review the status during next year's audit.	In progress – WIPO's estimated implementation date: 31/12/2021

Previous reference	Summary of recommendation	Administration's comments on status: May 2021	External Auditor's view	Status
	establishing clearer criteria to support the decision-making process			
2019 (WO/PBC/31/3) R#3	Following a more clearly articulated strategy, consider changes to the balance of responsibilities between Member States and the Secretariat in relation to external office decision-making.	The recommendation raised has been put forward to the PBC for consideration by Member States.	We note WIPO's future implementation date of this recommendation and we will review the status during next year's audit.	In progress – WIPO's estimated implementation date: 31/12/2021
2019 (WO/PBC/31/3) R#4	Consider measures to enhance the activity reports and plans produced by external offices by:  ensuring these follow closely the activities agreed in Program and Budget work plans, enabling a clearer assessment of external office progress.	With the articulation of the new MTSP for the organization as well as the Program and Budget for 2022/2023 ongoing, the Secretariat will implement this new reporting format in Q3 of 2021.	We note WIPO's future implementation date of this recommendation and we will review the status during next year's audit.	In progress – WIPO's estimated implementation date: 30/06/2021

Previous reference	Summary of recommendation	Administration's comments on status: May 2021	External Auditor's view	Status
	<p>adopting a 'plan on page' discipline to these reports recording key metrics, activities and engagements and key next steps in line with the agreed work plan.</p> <p>reviewing the frequency of the formal reporting of external office activities, if supplemented by other more regular communications.</p>			
<p>2019 (WO/PBC/31/3) R#5</p>	<p>Consider the value in IOD undertaking an audit of external office operations and the flow of information between offices and the headquarters.</p>	<p>The timelines for an IOD review of external offices will depend on the decision that the PBC will take during its 32nd session planned for July 2021, on the Terms of Reference and planned timelines of their intended evaluation of external offices, in order to avoid any overlaps and duplication of efforts.</p>	<p>We note WIPO's future implementation date of this recommendation and we will review the status during next year's audit.</p>	<p>In progress – WIPO's estimated implementation date: 31/12/2021</p>
<p>2019 (WO/PBC/31/3) R#6</p>	<p>Alongside existing indicators and measures, consider establishing specific result areas and performance</p>	<p>The Secretariat will take this duly into account in the context of the</p>	<p>We note WIPO's future implementation date of this recommendation and</p>	<p>In progress – WIPO's estimated</p>



Previous reference	Summary of recommendation	Administration's comments on status: May 2021	External Auditor's view	Status
	indicators relevant to each external office, reflecting the unique circumstances of their implementation priorities and the local context.	preparation of the Program and Budget 2022/2023	we will review the status during next year's audit.	implementation date: 31/09/2021
2019 (WO/PBC/31/3) R#7	Consider regular independent surveys of host country stakeholders to measure their views on the contributions from the external offices, to identify trends and movements and to ensure they remain relevant and focused on WIPO core objectives.	An assessment of the views of stakeholders in the areas of responsibility of the External Offices is planned to be conducted in early 2022, with high-level results available in the first half of that year.	We note WIPO's future implementation date of this recommendation and we will review the status during next year's audit.	In progress – WIPO's estimated implementation date: 31/12/2021

## MANAGEMENT'S RESPONSES TO THE RECOMMENDATIONS MADE BY THE EXTERNAL AUDITOR

### Financial Management

#### **Recommendation no.1**

WIPO should undertake an assessment of ways of working to identify how lessons learned from the pandemic working practices can serve to minimise unnecessary travel where in person contact does not provide a significant benefit to the outcomes.

#### **Response**

The recommendation has been implemented. In the context of the preparation of the Program of Work and Budget for 2022/23, each Sector undertook an assessment of the implementation modalities in the next biennium taking duly into account lessons learned during the COVID-19 pandemic. This has resulted in an estimated reduction in travel costs of 20% as compared to the P&B 2020/21.

#### **Recommendation no. 2**

We recommend that WIPO: a) in consultation with Member States, establish a target level of earmarked funds for its ASHI liabilities; b) consider the risks and benefits of formally designating earmarked ASHI investments as plan assets to enhance transparency over the net liability; c) consider and engage with Member States on the options for mitigating the potential future growth in ASHI liabilities.

#### **Response**

- a) In accordance with the WIPO Policy on Investments, an Asset and Liability Management study will be commissioned in 2022 in order to update the assessment of the extent to which assets and liabilities are matched with regard to ASHI. This study will facilitate the potential establishment of a target level for earmarked funds which could then be discussed with Member States.
- b) The risks and benefits of formally designating earmarked ASHI investments as plan assets have been comprehensively analyzed in the past with proposals made accordingly to Member States. None of the proposals made were accepted by the Member States. As part of our work in respect of recommendation a), we will again raise this idea as a possibility to be considered in order to gauge the interest of Member States in establishing plan assets.
- c) WIPO secretariat was an active participant in the ASHI Working Group (WG), a sub-committee of the Finance and Budget Network, which existed for several years with the sole mandate of proposing and analyzing measures which could possibly mitigate the future growth of ASHI liabilities. Regular updates of the WG's progress were provided to Member States. The ASHI WG made several recommendations as its mandate came to an end and WIPO continues to track to what extent these recommendations have been implemented by other UN organizations and their impact with a view to reporting on these to Member States.

## **Governance and Internal Control**

### **Recommendation no. 3**

WIPO should accelerate the timetable for IOD to provide an annual opinion over WIPO's governance, risk management and control environment to provide Member States with additional assurance over these key areas of oversight and support the Director General in preparing his Statement on Internal Control.

### **Response**

IOD has developed a roadmap to provide an overall opinion on Risk Management and Internal Controls, to include completion of interim tasks for establishing a fully functional data analytics and continuous auditing activity, increased collaboration with second line functions, and augmenting staff skillsets through the use of a data scientist and IT auditor.

The Roadmap is designed to provide the first overall opinion in 2025 for the annual period ended as at December 31, 2024.

### **Recommendation no. 4**

WIPO should conduct a comprehensive and systematic assessment of the lessons learned from its deployment of preparedness plans in response to the pandemic to inform the development of business continuity procedures.

### **Response**

WIPO's Internal Oversight Division (IOD) is undertaking a comprehensive assessment of the Organization's COVID-19 pandemic crisis response, which includes a focus on the state of preparedness and implementation of WIPO's business continuity plans. Further to this broad exercise, the process of updating business continuity plans, which will be undertaken in a systematic fashion once the pandemic recedes, will incorporate lessons-learned from both the aforementioned IOD assessment and from managers of the specific functional areas that the plans address.

## **Projects Financed from Reserves**

### **Recommendation no. 5**

WIPO should consider mapping the individual projects against WIPO's core objectives and ranking them to enable Member States to better understand the priority areas for investment.

### **Response**

The mapping of the individual projects against WIPO's core objectives will be implemented in the CMP proposal to be submitted to the 33<sup>rd</sup> session of the PBC.

As regards the ranking of projects, the recommendation is accepted and will be addressed in future CMP cycles.

**Recommendation no. 6**

WIPO should consider greater integration of the CMP with its medium-term strategy.

**Response**

The recommendation will be implemented by linking projects to the MTSP for 2022-2026 in the CMP proposal to be submitted to the 33<sup>rd</sup> session of the PBC.

**Recommendation no. 7**

WIPO, in consultation with Member States, should reconsider the criteria for the Special Project investments to keep focus on their special and significant nature and make budget provision for wider generic renewal investments and smaller initiatives through the normal budgeting process.

**Response**

The recommendation is accepted and will be implemented in future CMP and biennial budget cycles.

The Secretariat will review the criteria in the Policy for the Utilization of Reserves and update those accordingly. The criteria will form the basis for CMP proposals in future cycles.

**Recommendation no.8**

Member States may wish to establish thresholds for projects included in the CMP to make the plan efficient and focused on the main strategic investment initiatives and to establish different assurance and reporting requirements to mirror the proportionality and scale of the project.

**Response**

The recommendation is accepted. Thresholds will be implemented in future CMP and biennial budget cycles. The differentiation in reporting requirements will be implemented for both ongoing and future projects in the context of the WIPO Performance Reports.

**Recommendation no. 9**

WIPO should consider whether the content of PIDs could be enhanced to provide:

- a) better option appraisal analysis including, where relevant, outsourcing options;
- b) clear articulation of the baseline position and target outcomes for subsequent evaluation and to help measure the achievement of value for money;
- c) greater articulation of the full costs, including the life-cycle costs of the projects; and
- d) appropriate risks to the achievement of the project's objectives together with realistic mitigation actions to determine the real level of residual risk.

**Response**

The recommendation is accepted and will be implemented for any future CMP project approved by the Member States.