

WIPO General Assembly

Forty-First (21st Extraordinary) Session
Geneva, October 1 to 9, 2012

REPORT BY THE EXTERNAL AUDITOR: AUDIT OF 2011 FINANCIAL STATEMENTS

prepared by the Secretariat

1. The present document contains the External Auditor's Report: Audit of 2011 Financial Statements (document WO/PBC/19/6), which is being submitted to the WIPO Program and Budget Committee (PBC) at its nineteenth session (September 10 to 14, 2012).
2. The recommendation of the PBC in respect of this document will be included in the "Summary of Recommendations Made by the Program and Budget Committee at its Nineteenth Session Held from September 10 to 14, 2012" (document A/50/14).
3. *The General Assembly is invited to approve the recommendation of the Program and Budget Committee made in respect of document WO/PBC/19/6, as recorded in document A/50/14.*

[Document WO/PBC/19/6 follows]

Program and Budget Committee

Nineteenth Session
Geneva, September 10 to 14, 2012

REPORT BY THE EXTERNAL AUDITOR: AUDIT OF 2011 FINANCIAL STATEMENTS

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1. According to Regulation 6.5 of the Financial Regulations and Rules, financial statements of the Organization shall be submitted to the External Auditor. Regulation 8.11 requires that the Program and Budget Committee (PBC) examines the financial statements and the audit reports thereon and forwards them to the General Assembly with comments and recommendations, as appropriate. The 2011 Financial Statements are being transmitted to the PBC under cover of document WO/PBC/19/4.
2. The present document contains: (i) the External Auditor's recommendations made with regard to the Organization's 2010 Financial Statements which remain outstanding and the management's responses thereto; (ii) the External Auditor's recommendations arising from audits carried out in 2011 which concern the Human Resources Management Department (HRMD), the United Nations International Computing Centre (UNICC) and the FRR/IPSAS project and which remain outstanding; (iii) the full Report by the External Auditor on the World Intellectual Property Organization's (WIPO) 2011 Financial Statements; and (iv) the statement of internal control, signed by the Director General.
3. The conclusion of the Auditor's Report on the 2011 Financial Statements is as follows:

"98. As a result of the work done, I am able to confirm that the WIPO financial statements for 2011 have been presented in compliance with IPSAS. Furthermore and taking into account the materiality threshold predefined on the basis of the International

Standards on Auditing, I also confirm that the accounting data published in the financial statements correspond to the Organization's accounts.

"99. Consequently, I am able to issue the audit opinion annexed to this report and drawn up in accordance with Paragraph 5 of the Terms of Reference Governing External Audit (Annex 2 of the WIPO Financial Regulations and Rules)".

*4. The Program and Budget
Committee is invited to recommend to
the General Assembly of WIPO to take
note of the contents of this document.*

[Summary of Recommendations
follows]

SUMMARY OF RECOMMENDATIONS BY THE EXTERNAL AUDITOR WHICH REMAIN OPEN AND WIPO MANAGEMENT'S RESPONSES

I. AUDIT OF 2010 FINANCIAL STATEMENTS

Recommendation No.1

"I recommend the Organization to define in formal terms the key processes, to introduce and document the audits carried out and, in time, to establish a monitoring mechanism for the audits conducted".

Response

This important area of work falls under the Strategic Realignment Program (initiative 15: strengthen internal control system). The Organization has contracted an external company to assist with strengthening risk management and internal controls. Specifically, the engagement has five phases, of which the fourth phase requires the external company to review the Administration and Management Sector control activities: authorization and approval procedures, segregation of duties policy, controls, verifications, reconciliations, and associated reviews. Phase 4 is planned for Q1/Q2 2013.

Recommendation N°3

"I invite WIPO to take the appropriate measures to ensure the mutual replacement of key employees and to set up a working group. Referring more specifically to the Finance Services, I suggest that a group of several additional multipurpose colleagues be designated to deal with the closure of accounts and able to fill any occasional vacancy left by one of them".

Response

WIPO is putting in place yearly HR planning reviews to support the work planning and its translation in terms of staffing needs. In this context, where appropriate, succession planning for key functions will be discussed and elaborated in order to ensure continuity of function, proper handover of knowledge and timely replacement of key employees. With regard to Finance Services, an IPSAS Financial Accountant has been successfully recruited and began working with the Organization in January 2012. The intention is to build an Accounting and Financial Reporting Unit within Finance Services as it has been recognized that it is within these areas that Finance has the fewest resources and is less able to cover for unforeseen absences. Establishing such a unit will depend on post availability and the outcome of the Human Resources-led organizational design exercise which Finance Services has yet to undergo. In the meantime certain members of staff have been encouraged to enhance their knowledge of IPSAS and to take ownership for IPSAS adjustments relating to their units. In this way, it is expected that these staff members will become more multipurpose over time.

II. FINANCIAL SUPERVISION AUDIT RELATING TO HUMAN RESOURCES

Recommendation No.1

"I encourage WIPO to establish an ongoing analysis of the key risks in relation to human resources management, which takes account of the strategic objectives defined".

Response

As stated in document WO/PBC/18/17 (Financial Supervision Audit of Human Resources):
"the development of a risk management system will be addressed, in particular in the context of

the Enterprise Resource Planning (ERP) project. The Secretariat, as part of the Strategic Realignment Program, is undertaking an initiative to strengthen risk management and internal controls. Risk management for the Human Resource Management Department will be addressed in this context, guided by WIPO's risk management framework".

Recommendation No.2

"I recommend WIPO to introduce an appropriate table containing indicators relating to human resources so as to facilitate HR management on an organizational, social and financial level".

Response

As stated in document WO/PBC/18/17, *"the development of a dashboard containing HR indicators will be undertaken in the context of the ERP project".*

Recommendation No.4

"I encourage WIPO to seek, in accordance with Article 5.1.1 of the WIPO Staff Regulations and Staff Rules, a solution designed to settle clearly and unambiguously the cases in which the number of accumulated days over 90, prior to December 31, 2009, is carried over. This would equate to a "resetting of the counters to 90 days". Subsequently, WIPO could envisage that its Flexitime IT system does not allow anything in excess of the statutory 90 days to be carried over".

Response

As stated in document WO/PBC/18/17, *"the Administration will identify possible solutions for enforcing the 90 day carry-over limit for annual leave".*

Recommendation No.6

"I am of the opinion that WIPO should catalog all the knowledge and skills of its employees in a database kept periodically up to date so as to have available an overview of the know-how existing within the Organization".

Response

As also stated in document WO/PBC/18/17, in 2010, the Organization launched an e-Recruitment system, which contains the electronic career profiles of candidates. Staff members were encouraged to enter their profiles in the system and to keep them updated. This has provided the Administration with a database with the recent career profiles of a number of staff. Furthermore, once the PMSDS evaluation system has fully taken root and is transferred together with Recruitment on a joint platform provided by the ERP system, the Administration will have an informed basis from which to develop a comprehensive knowledge, competency and skills database.

Recommendation No.7

"I am of the opinion that WIPO should take care better to anticipate the separation from service of a staff member occupying a key post or a particular function for which a transfer of knowledge or files would prove necessary".

Response

As stated in document WO/PBC18/17, *"the comments have been noted and will be taken into consideration in the development of more systematic succession planning".* Meanwhile, the Director General has asked all program managers to come with a proposal on how to use a vacated post latest nine months prior to separation from service of the incumbent in order to allow sufficient time for succession planning, transfer of knowledge and recruitment.

Recommendation No.8

“I encourage WIPO to seek synergies in the performance of the processing of files relating to allowances for study costs in order to increase productivity and the efficiency of the process in place”.

Response

As stated in document WO/PBC18/17, *“the Organization has recently enhanced the current Human Resources Information Technology system by further automating the processes to ensure a more efficient handling of education grant claims. The handling and treatment of education grants will be further improved and better integrated into the future ERP system”.*

III. FINANCIAL SUPERVISION AUDIT OF WIPO’S INVOLVEMENT WITH THE UNITED NATIONS INTERNATIONAL COMPUTING CENTRE (UNICC)**Recommendation No.2**

“In my view, WIPO should adopt indicators concerning the field of information technology as a whole, involving all organizational units. Given that this is a relatively complex task, I think that it should be closely linked to the implementation of ERP. Moreover, in referring to the various terms of reference concerning the studies on services that UNICC commissioned consulting firms to carry out, I note that these firms shed lights on the issue of how UNICC services compare to commercial firms providing the same services”.

Response

A full response to this recommendation appears in document WO/PBC/19/7 “Financial Supervision Audit of WIPO’s involvement with the United Nations International Computing Centre (UNICC)”.

IV. INFORMATION TECHNOLOGY AUDIT ON THE PROJECT TO IMPLEMENT THE AIMS SYSTEM**Recommendation No.1**

“It is vital that users of the AIMS system should be properly trained if WIPO is to benefit fully from the gains in terms of efficiency produced by this new IT application. I therefore recommend that WIPO should review the existing approach to training, under which the objectives set have not been achieved, and examine to what extent current online training solutions can be improved”.

Response

A full response to this recommendation appears in document WO/PBC/19/19 “Information technology audit on the project to implement the Aims system”.

Recommendation No.2

“In my view, it would be more efficient to reduce the number of users to an appropriate threshold, grouping requisitions together under a limited number of individuals who have been duly trained and are familiar with the entire process”.

Response

A full response to this recommendation appears in document WO/PBC/19/19 “Information technology audit on the project to implement the Aims system”.

Recommendation No.3

“I recommend that WIPO should simplify these catalogues while observing the processes already established and facilitating the needs of the various users”.

Response

A full response to this recommendation appears in document WO/PBC/19/19 “Information technology audit on the project to implement the Aims system”.

[Annexes follow]



WORLD INTELLECTUAL PROPERTY ORGANIZATION (WIPO)

Audit of 2011 financial statements

The mandate of external auditor of the World Intellectual Property Organization (WIPO) must be carried out by a member of the highest authority of public financial auditing of the selected country and it is assigned on an individual basis. On the strength of this provision and further to the WIPO General Assembly and the Assemblies of the Paris, Berne, Madrid, Hague, Nice, Lisbon, Locarno, IPC, PCT and Vienna Unions, the Member State representatives have renewed the mandate of the Swiss Government as auditor of the accounts of WIPO and the Unions administered by WIPO, as well as the accounts of the technical assistance projects carried out by the Organization, up to and including 2011. The Government of the Swiss Confederation entrusted me, as Director of the Swiss Federal Audit Office ("my Office"), with the auditing of the accounts of WIPO.

My terms of reference are defined in Regulation 8 of the WIPO Financial Regulations as well as by the additional Terms of Reference Governing Audit annexed to those Regulations. I carry out my duties autonomously and independently with the help of colleagues from my Office.

My Office carries out external audits of the accounts of WIPO in a completely independent manner from its role as the supreme organ of financial supervision of the Swiss Confederation. My Office employs a team of highly qualified professionals with broad experience of audits in international organizations.

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Annex 1: Audit opinion

Annex 2: Open recommendations

Berne, July 4, 2012

Reg. No. 1.12373.944.00333.02
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AUDIT SUMMARY

First of all, I wish to highlight that this report is the result of my last audit for the World Intellectual Property Organization (WIPO). It has been an honor to carry out this work and I should once again like to thank the Organization as a whole and all of the WIPO staff for their assistance over the course of what has been a long and fruitful collaboration. The official transfer of my mandate as Auditor to my successor is currently on-going.

In my opinion, the results of this last audit are good. The year 2011 coincided with the second closing of WIPO's accounts according to the International Public Sector Accounting Standards (IPSAS). Compared to the 2010 financial year, the way in which the 2011 financial statements are presented has been improved in certain ways owing to consolidation of the relevant technical knowledge. Naturally, this means that I am able to confirm that the 2011 WIPO financial statements comply with IPSAS.

Moreover, I fully understand WIPO's decision to recruit a new auditor responsible for updating the Organization's financial statements under IPSAS. Given the various amendments to these standards, due to enter into force over the course of the next few months, such assistance is vital to WIPO. I further note that the Organization wishes to ensure that the staff of Finance Services continue to receive "on the job training" in order to guarantee a certain flexibility in their operations.

I also wish to highlight the fact that the reconciliation of budget values with actual values on a comparable basis showed surplus revenue of 0.8 million Swiss francs. However, given the IPSAS adjustments which led to a fresh evaluation of the balance sheet headings, the result of the 2011 financial year is a deficit of 32.2 Swiss francs million.

Finally, I would like to point out the fact that, as was the case last year, no form of accounts has been produced by the Organization for the actuarial debt to the United Nations Joint Staff Pension Fund (UNJSPF). Such accounts would have a significant impact on the Organization's financial statements. However, the Technical Group of the United Nations Panel of External Auditors and the IPSAS Task Force agreed that there was no need to provide for such undertakings at the agency level. In my view, it is my duty as the Auditor of WIPO's accounts to alert the Member States to this kind of potential risk. I believe that it is still too early for a truly economic interpretation of IPSAS 25 to be carried out.

REGULATIONS, STANDARDS AND INFORMATION

Financial regulations and subject of audit

1. The Organization's financial periods are governed by the relevant provisions of the various Conventions, as well as by those of the WIPO Financial Regulations and Rules¹ in accordance with IPSAS.
2. The audits related to the financial statements of WIPO and the Unions it administers as at December 31, 2011, and also to the budget accounts and their consistency. Moreover, within the framework of relations between WIPO and the United Nations Development Programme (UNDP), on May 15, 2012, I issued an audit certificate for the entries relating to the year 2011.

¹ entered into force on January 1, 2008, amended on October 1, 2009, January 1, 2010, October 1, 2010 and October 5, 2011

3. The accounts for the 2010-2011 biennium of the International Union for the Protection of New Varieties of Plants (UPOV) are the subject of a specific audit and a separate report.
4. The accounts for the 2011 financial year of the WIPO Pension Fund (closed) are also the subject of a separate audit report.
5. As a reminder, three audits were carried out during the second half of 2011. The audits in question are: the final audit of the construction project for the new administrative building, the report² for which is dated December 22, 2011; the financial supervision audit of WIPO's involvement with the United Nations International Computing Centre (UNICC), the report³ for which is dated December 12, 2011; the information technology audit on the project to implement the AIMS system, the report⁴ for which is dated February 22, 2012.

Auditing standards, information and acknowledgements

6. The audits were carried out in accordance with the International Standards on Auditing (ISAs) published by the International Auditing and Assurance Standards Board (IAASB) whilst also observing the additional Terms of Reference forming an integral part of the Financial Regulations and Rules of WIPO.
7. Questions of minor importance were clarified and discussed with those responsible during the course of the work; they are not included in this report.
8. During the audit work, my colleagues had regular discussions with Ms. Janice Cook Robbins, Head of Finance Services, with other colleagues in her service, including the recently-appointed head of IPSAS, and with staff members from other departments in the Organization, based on the subject being discussed.
9. Where audits by means of random sampling were carried out, my colleagues selected the samples based on the risks or relative size of the amounts recorded under the headings examined.
10. I wish to emphasize the sound collaboration and spirit of openness which yet again prevailed during the performance of the audit. I also express thanks for the obliging manner in which information and documents were provided by all WIPO staff members who were so requested.
11. The result of the audit was communicated during the final discussion on July 4, 2012. This conversation took place in the presence of Mr. Philippe Favatier, Chief Financial Officer (Controller), Mr. Thierry Rajaobelina, Director of the Internal Audit and Oversight Division, Mr. Tuncay Efendioglu, Head of the Internal Audit Section, Ms. Janice Cook Robbins, Head of Finance Services, and other staff members from her service.

FOLLOW-UP TO RECOMMENDATIONS MADE IN PREVIOUS REPORTS

12. Given that this is my final audit report prior to handing over my mandate to my successor, I have reviewed all the recommendations that I issued as a part of

² Report No. 11352, of December 22, 2011

³ Report No. 11101, of December 12, 2011

⁴ Report No. 11424, of February 22, 2012

previous audits. Those recommendations that I consider still to be open are set out in Annex 2 of the present report.

Introduction of the internal control system

13. As I noted in my reports⁵ on the audit of the accounts for the 2008-2009 biennium and the 2010 financial year, I welcomed the initiative taken by WIPO aimed at setting the general principles relating to the existence of an internal control system (ICS) in the WIPO Financial Regulations and Rules. I was of the opinion that the relevant provisions should also include the role of auditing and approval of the existence of the ICS by the WIPO management. I consequently suggested that the Organization should define in formal terms the key processes, put them into practice and document the audits carried out.
14. Although I welcome the fact that WIPO issued a call for tender aimed at specialized external consultants and that a service provision contract has recently been signed with one such consultant, I note that much remains to be done in terms of the introduction of the ICS. Consequently, my recommendation remains relevant (See Annex 2).

The one-off absence of key staff members must be guaranteed by mutual replacements

15. My audit report⁶ for the financial year 2010 referred to the issue of the one-off absence of key staff members, who were the only ones able to participate in certain situations encountered. A workforce planning program is currently under way throughout the Organization, including the Finance Services. I am aware that both time and resources are required in order to implement such a program and to improve the situation in the medium term. I believe, however, that the relevant recommendation has yet to be implemented (See Annex 2).

Recommendations arising from financial supervision and information technology audit reports

16. In my audit reports⁷ on financial supervision relating to human resources and WIPO's involvement with the United Nations International Computing Centre (UNICC), as well as the information technology audit on the project to implement the AIMS system,, I made several recommendations, which still remain open to this day (See Annex 2).

PRODUCTION OF FINANCIAL STATEMENTS ACCORDING TO IPSAS

Production of the financial statements according to IPSAS, a sizeable and complex task that has borne fruit

17. My colleagues have audited for the second time the WIPO financial statements closed as at December 31, 2011, in accordance with IPSAS. As I pointed out in my previous audit report, the production of the financial statements in accordance with these Standards represents a sizable and complex task for the Organization. Compared to the year 2010, the 2011 financial statements are presented together with relevant complementary information. Moreover, I agreed to the attachment of

⁵ Reports Nos. 10027 and 11355

⁶ Report No. 11355

⁷ Reports Nos. 10195, 11101 and 11424

additional tables on the budgetary part of the 2010-2011 biennium, even though this is not a requirement under IPSAS.

18. I wish to highlight that during this second financial year, the Finance Services were regularly called on to answer the questions of my colleagues. At times, clarification was required concerning, for example, the completion of the work on the New Construction, the work in progress on the new conference hall and the security perimeter or the change concerning the evaluation of equipment, in order to ensure that the relevant standards had been applied correctly. I should like to take this opportunity yet again to thank the entire Finance Services team, who spared no effort in supporting my colleagues as they performed their final WIPO audit.
19. I also welcome WIPO's decision to recruit an IPSAS specialist. These standards are constantly evolving. For example, new IPSAS are to be introduced over the coming months and I should like to draw the Organization's attention to the fact that these new standards will have to be taken into consideration as of 2012 in order to ensure comparability of relevant data for 2013.

AUDIT OF 2011 BUDGET PERFORMANCE

Budget performance, figures, reconciliations and transfers validated by the Member States

20. Even if the financial statements are now produced annually following the introduction of IPSAS, the WIPO Program and Budget still covers a biennium, more specifically that of 2010-2011. It was revised and then approved by the Assemblies of the Member States of WIPO on October 1, 2009. Taking into account the effects of IPSAS on budgetary practices, income and expenditure have been estimated separately for 2010 and 2011, in accordance with Annex VIII of the 2010-2011⁸ Program and Budget.
21. In their audits of the information contained in notes 23 "Revenue" and 24 "Expenses", my colleagues verified the reconciliation of the budget values with the table in note 22 "Comparison of budget and actual income and expenditure (financial statement V) in relation to the statement of cash flow (financial statement IV)". This leads me to observe that the budgetary data reconciled with the actual amounts (on a comparable basis) of the revenue and expenses of the 2011 accounting year show surplus revenue of 0.8 million Swiss francs prior to the IPSAS adjustments made. This result is moreover confirmed in the two tables "Financial statements V relating to revenue and expenses".
22. My colleagues also verified financial statements V 2010/2011 presenting the revenue and expenses for the biennium. The values contained in the tables match the accumulated individual tables for 2010 and 2011.
23. As to budget performance in general, I refer to the comments of the Director General contained in the Financial Management Report. The checks carried out by my colleagues showed that budgetary transfers between programs were performed in accordance with the applicable internal regulations. Overall, budgetary expenditure was carried out as planned. In fact, the overall figures for budgeted expenses remain identical to those provided for. Given the voluntary contributions and IPSAS adjustments, the revenues forecast are also in line with the provisions made.

⁸ According to WIPO publication No. 360F/PB1011

24. By way of a reminder, it is stated in the first part of Regulation 5.5 of Chapter 5 "Utilization of Funds" of the Financial Regulations and Rules of the World Intellectual Property Organization (WIPO) that "*The Director General may make transfers from one program of the program and budget to another for any given financial period, up to the limit of five per cent of the amount corresponding to the biennial appropriation of the receiving program, or to one per cent of the total budget, whichever is higher, when such transfers are necessary to ensure the proper functioning of the services*". My colleagues verified the application of this Regulation concerning budgetary transfers performed during the 2010-2011 biennium. They noted that within the framework of Program 5 "The PCT System", the amount transferred from this program to other programs was 13 million Swiss francs. As it happens, in the end the one per cent limit authorized with regard to the total budget rose to -2.1 per cent. Given that the 2012-2013 budget approved by the Assemblies of the Member States of WIPO on September 29, 2011, already contained information on budgetary transfers for the 2010-2011 biennium, I do not feel that the situation calls for any particular comment, especially since the passing of the one per cent limit can be explained by a fall, rather than a rise, in expenses related to the program.

AUDIT OF 2011 FINANCIAL STATEMENTS

The 2011 financial statements are presented for the second time according to IPSAS

25. The subject matter of the audit carried out by my colleagues is explained in the WIPO financial statements for 2011. These statements consist of the balance sheet (financial statement I), income and expenditure (financial statement II), statement of changes in net assets (financial statement III), statement of cash flow (financial statement IV) and comparison of budget and actual income and expenditure (financial statements V relating to income and expenditure) for the financial year ending at December 31, 2011, together with a summary of the main accounting methods and other explanatory notes.
26. As far as the end of a budgetary biennium is concerned, certain tables of financial statements present values for the 2010-2011 budgetary period. The values contained in those tables have been verified by my colleagues. They have informed me that the values were correct, taking into account budgetary transfers for the biennium registered in several programs.

Liquid assets and equivalent liquid asset funds, 90-day availability

27. Taking into account ongoing entries recorded, the balances, as at December 31, 2011, of the liquidity accounts correspond to the bank balances concerned, which have been accounted for by the banks using the "bank confirmations". The overall fall in liquid assets of around 3.75 million Swiss francs as at the end of 2011 constitutes a decrease of less than 1 per cent. The amounts displayed in cash at the end of 2011 (a total of 379.74 million Swiss francs) respect the principle of availability of funds within 90 days.
28. As I previously stated in my report on the 2010 annual accounts, I do not oppose the presentation of liquid assets adopted by WIPO in its 2011 financial statements. In fact, the Organization clearly distinguishes between non-limited and reserved liquid assets. This form of presentation complies with IPSAS 2 which stipulates that: "an entity should disclose, together with a commentary by management in the notes to the financial statements, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the economic entity".

The relevant table contained in note 3 of the financial statements is backed up by a specific text.

29. Around 93.6 per cent of the cash (355.5 million Swiss francs) has been deposited with financial institutions which have received ratings ranging from AAA to A+ from specialized agencies (Fitch Ratings, Moody's or Standard and Poor's). For operational reasons, the other funds have been deposited with banks with A, or even BBB+ ratings.
30. The accounts opened with the Swiss National Bank (SNB) generated a total of 4.2 Swiss francs million in interest in 2011, a decrease of around 873,000 Swiss francs (or 20.6 per cent). This downward trend is mainly due to the fall in interest rates in 2011.

In accordance with IPSAS, debts owed to WIPO are displayed as net values

31. The amounts entered under the different debtor headings⁹ constitute a total of 29.5 million Swiss francs. As at the end of 2010 those headings displayed 27.2 million Swiss francs. The contributions by the Member States still due as at December 31, 2011, constituted a net value of about 1.83 million Swiss francs following reduction of the provision on bad debtors of some 1.0 million Swiss francs. On the 2011 opening balance sheet, this value still exceeded 2.2 million Swiss francs, constituting a fall in the sums pending of 0.37 million Swiss francs.
32. The debts incurred relating to commercial business alone constitute more than 17 million Swiss francs, a figure which has remained stable compared to the year 2010. The various random samples produced by my colleagues did not reveal any significant errors. In accordance with IPSAS, the debtor positions of the least developed countries were deducted from the heading concerned.
33. The detailed review by my colleagues of the sums outstanding by accounting type (Member State contribution debtors, PCT contributions, United States (U.S.) taxes, education grant and other debtors) was most impressive. Apart from a non-“material” error in presentation concerning periodical delimitation, the checks did not reveal any significant errors. I note, however, that the current procedure will be corrected in time for the closure of the 2012 accounts.

Inventory of publications, an evaluation principle identical to that of 2010

34. The inventory of publications, stock of paper and articles in the Conference Center shop constitutes over 2.4 million Swiss francs. The evaluation model used by WIPO for the closure on December 31, 2011 is identical to that applied the previous year. I concur with the analysis carried out by my colleagues and with the estimation concerning the inventory.

Equipment, a change in terms of the evaluation of new items recorded with a threshold for capitalization that has been increased from 1,000 to 5,000 Swiss francs.

35. A change in the way that the management of equipment is evaluated came into force at the beginning of 2011. Indeed, the threshold for capitalization of items of equipment was increased from 1,000 to 5,000 Swiss francs as of January 1, 2011.

⁹ Contributions by Member States, debts relating to commercial business, funds advanced to UNDP and the WIPO Pension Fund (closed).

My colleagues took into account the principle of the change in evaluation; no reprocessing of amounts outstanding is required. The change is in accordance with IPSAS 3.

36. At the time of the interim audit of the 2011 accounts, my colleagues carried out audits by means of random sampling of certain accounting types linked to equipment. As a result of these checks in the PeopleSoft system source files, my colleagues noted that certain items appeared with a lifespan that was shorter than that provided for by the WIPO IPSAS guide. As a matter of fact, the straight-line depreciation of items of office furniture was calculated over a period of five years, when such items should be depreciated over a period of ten years, for example. It was therefore possible to carry out various adaptations to the tangible fixed assets file during 2011. Given these rectifications, the said items were correctly depreciated.
37. Meanwhile, several entries concerning IT software programs had been entered in the "25216 Purchase IT equipment cost" account with a depreciation period of five years. Given that IPSAS 31 - applicable to intangible fixed assets does not enter into force at WIPO until the year 2012 with regard to these items, it was still not possible to capitalize the invoices relating to these software programs. My colleagues have confirmed that a reversal has been made in the case of all capitalizations for the 2011 accounting year. The data have therefore been correctly rectified.
38. The amount of equipment capitalized stands at 3.7 million Swiss francs, a justified decrease in net value of around 70,000 Swiss francs compared to the opening balance as at January 1, 2011. This sum corresponds to the cumulative value of the individual net balances of the different categories of fixed assets recorded in the accounting system.

Meyrin rental building, an evaluation that is still accepted but that requires review in 2012

39. IPSAS 16 sets the rules applicable to rental buildings and, as a result, applies, in the context of the Organization, to the Meyrin building. In 2009, the Organization mandated the company CBRE to conduct an estimate of the true value of the investment property. The accounting value of this building is based on an estimate which takes into account its return. The analysis carried out by my colleagues in 2010 revealed that the amount activated on the balance sheet for about 4.3 million Swiss francs was based on a cautious calculation, in particular as regards the level of costs. Even though I considered the costs taken into consideration in this estimate to be rather high, I did not challenge them. I therefore accepted the conclusions of the building evaluation specialist. For the 2011 accounting year, given that nothing has fundamentally changed, I also therefore validate the amount activated. As it has been almost three years since the performance of the last estimate, I feel that WIPO should carry out a new estimate of the value of the Meyrin building during the course of 2012.

Intangible fixed assets, an increase in the items to be entered as of 2012

40. As in 2010, only the surface rights in the PCT building appear in the intangible fixed assets at the end of 2011. To recap, the value of the surface rights at the time of acquisition was around 34.3 million Swiss francs. Since the date of its acquisition, this intangible fixed asset has been depreciated for more than 6.9 million Swiss francs using a straight line annual depreciation of some 440,000 Swiss francs. The closing value under IPSAS 31 for this fixed asset, the expiry of which is set at

August 29, 2013, thus stands at 27.3 million Swiss francs. I should like to point out that no other intangible fixed asset appears under the heading as at the end of 2011. This will no longer be the case in the future, as WIPO will have to activate new intangible fixed assets on the assets side of the balance sheet as of January 1, 2012.

The work in progress concerning the new conference hall and the security perimeter

41. The work in progress concerning the new conference hall is entered into the accounts for 26.1 million Swiss francs. My colleagues were able to verify the accuracy of this amount by carrying out an audit by means of random sampling of the relevant accounting documents. They point out, moreover, that their analysis allowed them to verify that the costs related to the expenses for the architects' competition, some 38,000 Swiss francs, have not been activated. However, paragraph 82(b) of IPSAS 17 "Derecognition", 2010 version, has been respected. It is worth bearing in mind that this standard does not authorize the activation of such expenses, which are not of any economic benefit to WIPO.
42. Currently, the financing of the work on the new conference hall is provided from the Organization's own funds. For the moment, therefore, no interest is being charged. However, within the framework of the joint mortgage financing provided by the Banque Cantonale de Genève (BCGE) and the Banque Cantonale Vaudoise (BCV), on October 12, 2010, WIPO validated the agreement for the amendment and reformulation of the loan contract initially concluded on February 8, 2008 which provides for a possible additional 40 million Swiss francs -worth of credit to finance part of the new conference hall. This loan facility remains unused at the current time.
43. The construction work on the external security perimeter began at the end of 2011. As at December 31, 2011, an amount greater than 271,000 Swiss francs appeared under the balance sheet heading of work in progress. This initial expenditure is correctly documented.

Arpad Bogsch (AB), Bodenhausen I and II (GBI and GBII), New Construction (NC) and PCT buildings

44. The AB, GBI, GBII and PCT buildings were surveyed in 2010 by the company Acanthe SA, which specializes in the field of real estate. The survey done by this company is based on a component approach, on which the individual lifespan of each of the buildings depends. The survey report was analyzed and validated by my colleagues during the audit of the IPSAS restatements, done in order to determine the balances on the opening balance sheet.
45. With the completion of the work on the new construction (NC), the company Acanthe SA was called on to survey the project based on the component approach applied in the case of the other buildings in operation. Moreover, given the drop in value of the AB building, owing to the partial demolition of structural elements on levels +1 to -4, Acanthe SA also surveyed this depreciation in value of the components of the AB building. This loss in value of 1.71 million Swiss francs must be linked to demolition work concerning the construction of the new conference hall. Said depreciation was posted as a cut in the total activated concerning this building in accordance with the accounting standards applied at WIPO.

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46. The work in progress concerning the new construction was not completed until June 2011. As at that date, a total sum of 163.8 million Swiss francs had been activated on the balance sheet under the heading existing buildings. This amount includes of course the 1.7 million Swiss francs of interest expenditure posted during the first half of 2011. This expenditure is the result of the interest on the bank loans taken out concerning the new construction. However, as stipulated by the accounting standards¹⁰, the interest expenditure linked to the loan for the second half of 2011 standing at 1.7 million Swiss francs has been suitably posted in the regular operating expenses.
47. Owing to the various exercises in random sampling carried out by my colleagues regarding the accounts, I am in a position to validate the balances for the AB, GBI, GBII, NC and PCT buildings as at December 31, 2011. The depreciations calculated on the various components of the buildings are in line with the individual values of the components and their estimated lifespan.

Land for new construction, a static asset owned by WIPO

48. The amount activated for the land for the new construction belongs to WIPO. It has been valued at some 28.6 million Swiss francs on the basis of a survey carried out by the external company CBRE in 2009. Since no depreciation is calculated for the land, the value included in the 2011 closing balance sheet is identical to that analyzed during the transition from the United Nations System Accounting Standards (UNSAS) to IPSAS on January 1, 2010 in order to determine the opening balances. At the time, my colleagues examined this survey and accepted the approach used. In my view, the approach is still valid for the 2011 financial year. I believe, however, that this survey should be the subject of a new analysis in the near future.

Other non-current assets (FCIG loan)

49. The heading "Other non-current assets" shows an amount of 10 million Swiss francs. This sum comes under the loan agreement signed on October 25, 1991 between WIPO and the International Centre of Geneva Foundation (FCIG). The aim of Addendum No. 1, dated November 1, 1996, which forms an integral part of this agreement, is to settle reimbursement of the loan. At one point, WIPO had considered cancelling this agreement following the allocation of the new construction premises. However, the Organization decided to retain the "CAM" premises. It is recalled that the amount of rent paid by WIPO for the use of the building corresponded to the value of the 3.975 per cent interest due on the loan granted by BCGE to FCIG. As at March 31, 2011, the loan stood at over 8.8 million Swiss francs. Taking into account a depreciation in the debt of 106,500 Swiss francs paid by WIPO on December 30, 2011, the new balance of the loan stood at around 8.7 million Swiss francs as at December 31, 2011. The Organization is in negotiations with its partners concerning the drawing up of a new Addendum to said agreement. At the time my audit was being carried out, the abovementioned negotiations had still not been formally concluded.

Accounts payable, a steep rise in the balance explained

50. The main accounts payable (28.2 million Swiss francs) consist of the balances of account 33200 "AP Accounts Payable Control" (15.6 million Swiss francs) and 36310 "Transitory Liability Expend" (11.1 million Swiss francs). However, these two

¹⁰ IPSAS 17 "Derecognition", para. 82(b), 2010 version

accounts have both registered an increase in their closing balances, which stand at 9.9 million Swiss francs and 0.6 million Swiss francs respectively.

51. The increase in these two balances can be explained by entries opened as at December 31, 2011 to be linked to the work in progress on the new conference hall (4.6 million Swiss francs) and sums pending relating to the new construction. A large part of the payments were transferred to the clients in January 2012. The audits conducted by my colleagues related to different positions on the balance sheet concerning WIPO's current commitments. They gave a good result. Having regard to the preceding information, I note quite simply that this heading shows a justified amount that is 30.9 per cent higher than that appearing in the balance sheet.
52. Furthermore, I note that, as at January 1, 2011, a commitment of about 1.1 million Swiss francs to the Republic of Korea is included in account 36300 (Transitory Liability Income) for a value of 0.6 million Swiss francs. In this particular case, the provisional commitment comes under Rule 16.1(e) of the Regulations under the PCT on the coverage of exchange differences. Taking into account the fact that a mission is scheduled for June 22, 2012 and that further discussions with the Korean partner concerning the amounts have yet to take place, I accept the amount of this provision and will not request any adjustment.

Staff benefits; "Voluntary Separation Program", a program approaching its end

53. The "Voluntary Separation Program" which was launched at the end of 2009 will come to an end in June 2012. Given the disbursements of some 0.7 million Swiss francs registered in 2011 for this special account, the remaining balance now stands at less than 0.5 million Swiss francs. Current availabilities will be exhausted by the end of the first half of 2012. This sum serves to cover possible surcharges in expenses linked to the Vanbreda Medical Insurance Fund, the Pension Fund¹¹, or will be returned to the beneficiaries.

Staff benefits; home leave

54. The specific provision of 0.5 million Swiss francs included in the 2011 financial statements concerns a number of staff members who have not availed themselves of their right to home leave in 2011. In such cases, this benefit cannot be carried over, meaning that an actuarial calculation is not required with regard to the amount provided for. I can thus validate the amount of this provision given that the audit conducted by my colleagues confirms that it is justified.

Staff benefits; overtime and variable time

55. The provision for overtime and for variable time is included in the balance sheet for an overall sum of 0.6 million Swiss francs, an increase in the balance of 0.1 million Swiss francs compared to 2010. The random sampling done by my colleagues based on the accounting documents confirms that this amount is justified.

¹¹ United Nations Joint Staff Pension Fund (UNJSPF).

Staff benefits; accumulated annual leave

56. The provisions for accumulated days of leave are entered into the accounts as short- and long-term liabilities. These days in arrears affect fixed-term staff, short-term employees, employees on Special Labor Contracts (SLC) and consultants. As at December 31, 2011 a sum of 2.7 million Swiss francs was included in the short-term liabilities, with a sum of 11.2 million Swiss francs being included in the long-term liabilities. My colleagues verified that these amounts are accurate and relevant by analyzing the individual data for WIPO staff. Based on their audits, I consider the values of the provisions to be appropriate.

Staff benefits; repatriation grants

57. The provisions for repatriation grants stand at 1.0 million Swiss francs in the short-term liabilities and 7.9 million Swiss francs in the long-term liabilities as at December 31, 2011. In comparison with 2010, the total amount of these provisions has increased slightly (+0.1 million Swiss francs). My colleagues verified the assumptions in terms of evaluations. Moreover, the cumulative total of these two provisions corresponds to that arrived at in the actuarial analysis prepared by the company Mercer in the document of April 17, 2012 "Consolidated Total for All Plans, WIPO, Actual Valuation Report under IPSAS". I can thus validate the amounts under these two headings.

United Nations Joint Staff Pension Fund (UNJSPF), a potential future risk for the WIPO financial statements

58. WIPO is affiliated to the United Nations Joint Staff Pension Fund (UNJSPF) through its 1,100 staff members. As I have already noted in my audit reports on the opening balance sheet¹² and on the 2010 financial statements¹³, no actuarial commitment was provided for the main retirement fund of the Organization's employees. In accordance with the provisions of IPSAS 25, I consider that the actuarial commitment relating to WIPO staff pensions with the UNJSPF should be included in the balance sheet. The plan in which the Organization participates has the characteristics of a "defined benefit plan where the participating entities are under common control¹⁴", according to IPSAS 25, owing to the following elements:

- participation in the risk of organizations subject to the plan;
- UNJSPF statutes relating to share of future contributions;
- UNJSPF organizational structure, affiliated organizations.

59. It should be noted that, if such a commitment were to be entered into the accounts under IPSAS 25 according to the aforementioned criteria, that standard would have a significant impact on WIPO's financial statements. That could constitute a commitment of more than 200 million Swiss francs, corresponding to WIPO's share of the UNJSPF's theoretical actuarial debt¹⁵. Furthermore, according to my information, UNJSPF was unable to provide a calculation of the welfare commitments according to IPSAS 25.

¹² Report No. 10327 of October 27, 2010 on the audit of the 2010 opening balance sheet following the restatement in accordance with IPSAS

¹³ Report No. 11355 of July 4, 2011 on the final audit of the 2010 accounts

¹⁴ The official IFAC French translation of IPSAS 25 is not yet available

¹⁵ A report by an external consultant referred to possible actuarial debt of USD 7.4 billion as at December 31, 2009.

60. Since the application of IPSAS 25 in this form concerns not only WIPO but all the United Nations agencies, I submitted this problem to my counterparts on the United Nations Panel of External Auditors. Even though the Panel Technical Group and the United Nations IPSAS Task Force agreed during a special session in July 2011 that there was no need to provide for welfare commitments at the agency level, I consider that it is my duty as External Auditor of the WIPO accounts to draw the attention of the Member States to this kind of potentially significant risk because I feel that it is still too early for a truly economic interpretation of IPSAS 25.
61. In conclusion, since the situation does not relate solely to WIPO, I consider that it is not necessary for the time being to express a reservation or to mention it specifically in my audit opinion of the 2011 financial statements.

Staff benefits; After-Service Health Insurance (ASHI)

62. WIPO's 2011 financial statements show ASHI (medical insurance) funds of over 9.7 million Swiss francs in short-term liabilities and nearly 93.7 million Swiss francs in long-term liabilities. These values are taken from the Mercer actuarial evaluation report of April 17, 2012. The assumption issued concerning the increase in medical insurance benefits provides for annual growth of three per cent. The financial statements are presented in accordance with a structure conforming to the provisions of IPSAS 25.
63. Regarding the accounting technique, I note that the Organization applies the corridor method for recognizing actuarial profits and losses. In this way, the variations in profits and losses exceeding 10 per cent of the value of the actuarial obligations are deferred and recorded over the average anticipated duration of the working life of the employees participating in the plan. I can therefore validate this option which complies with the provisions of IPSAS 25

WIPO Pension Fund (closed), the recent deficit affecting this fund registered in 2011 hangs heavily over WIPO's commitments

64. Prior to being affiliated to UNJSPF, WIPO had its own pension fund, inherited from the United International Bureaux for the Protection of Intellectual Property (BIRPI). With this new affiliation, a change in the retirement benefits regime entered into force, with new WIPO employees losing the opportunity to enjoy the benefits of the previous retirement fund as of September 30, 1975. Putting it simply, the new UNJSPF regime was less favorable than its predecessor. However, the management of WIPO at the time decided that the benefits offered by the former regime would be guaranteed for future retirees who had paid into that fund. Thus, "retirement capital" was transferred to the WIPO Pension Fund (closed). The WIPO Pension Fund (closed) is a professional retirement fund under Swiss law that is administered by a Foundation Council. The purpose of this pension fund is to pay retirees supplementary income corresponding to the difference between the two regimes without affecting WIPO's finances. Moreover, by establishing a separate legal entity, WIPO displayed its willingness to transfer all responsibility for covering these income supplements to the WIPO Pension Fund (closed). It is further recalled that the former regime provided for income in Swiss francs, while under the new regime income payments are calculated on the basis of the United States dollar.
65. Despite both a cautious estimate at the time of the retirement capital required to cover these supplements and the good management of this retirement capital by the Foundation Council, the pension commitments of the WIPO Pension Fund (closed)

have continued to increase owing, in particular, to the fact that people now live longer, as well as to the continued appreciation of the Swiss franc on the currency exchange markets. With commitments outweighing investments, the WIPO Pension Fund (closed) was faced with a deficit. The Foundation Council took measures to address the issue of the deficit, reaching an agreement with the WIPO Pension Fund (closed) beneficiaries concerning certain limitations affecting their benefits. Several retirees lodged an appeal against WIPO with the Administrative Tribunal of the International Labour Office (ILO) owing to the fact that they were no longer receiving the agreed pension benefits. The Administrative Tribunal issued a ruling in that regard on February 7, 2007. Basically, under this ruling the Organization is obliged to pay the members of the WIPO Pension Fund (closed) supplementary pension benefits which, added to the supplementary income provided by the WIPO Pension Fund (closed), make up the amounts of pensions payments guaranteed in Swiss francs.

66. Thus, in the light of the ruling of the Administrative Tribunal and according to the actuarial study required as a result of the application of IPSAS 25, the Organization's commitments towards the members of this Pension Fund stood at around 3.9 million Swiss francs at the end of 2010. For its part, the WIPO Pension Fund (closed) was able to meet its own pension commitments by the end of 2010 because the situation had been addressed and the rate of coverage of the pension fund's commitments by its assets was higher than 100 per cent.
67. As at December 31, 2011, the actuarial studies submitted by the professional pensions experts fundamentally alter the situation. First of all, the Organization's commitments towards the members of the WIPO Pension Fund (closed) stand at nearly 4 million Swiss francs, but it is above all the situation of the WIPO Pension Fund (closed) that has worsened, given that it displays a deficit of almost 3.2 million Swiss francs. This deterioration is essentially due to the recent strengthening of the Swiss franc on the currency exchange markets. The Auditor estimates that this deficit constitutes a financial risk for the Organization and that, in accordance with IPSAS 25, it must appear in the WIPO financial statements. Thus, he has requested that the provision of 4 million Swiss francs initially entered should be increased by 3.2 million Swiss francs to 7.2 million Swiss francs. This provision is split according to needs between the headings "Current liability" and "Non-current liability".
68. Indeed, under IPSAS 25 the entity concerned is required to account for the legal obligation arising from the formal terms of the defined benefit plan, as well as any constructive obligation arising from its use. In the context of the reports linking WIPO to the WIPO Pension Fund (closed), the concept of defined benefit plan does not leave any room for interpretation, in particular owing to the structure of the financing of the benefits paid by the WIPO Pension Fund (closed). The arguments referred to in Judgment No. 2583, issued by the ILO Administrative Tribunal on February 7, 2007, are unequivocal and clearly set out the role of guarantor that WIPO must play with regard to the WIPO Pension Fund (closed).

Transferable income, stability in terms of the sums pending, but cases remain dating back to years prior to 2011

69. The balance of income to be transferred stood at 64.2 million Swiss francs as at the end of 2011, this amount constituting a slight increase compared to that of 2010. This amount constitutes the cumulative total of individual accounts on the balance sheet concerning Arbitration and Mediation Center (AMC) deposits, supplementary and special income from the Madrid and Hague Unions, as well as PCT revenue; it appears in the short-term current liabilities.

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70. My colleagues inform me that an improvement in the management of the open items has been noted in various accounts. Based on the audits carried out, I note that certain assets have nevertheless remained pending for several months in the account "38280 Madrid Hague Repartition". Open credit items relating to "The Former Yugoslavia" constitute a value of some 9.3 million Swiss francs, although four entries pending for around 2 million Swiss francs have been owed by Serbia since June 2008. Moreover, there is another credit balance, composed of a number of entries dating from the period 2005 to 2010 and amounting to over 1.04 million Swiss francs in favor of Swaziland.

Anticipated income

71. Anticipated income subject to periodical delimitation at the end of the accounting year constituted a sum of more than 196.5 million Swiss francs as at December 31, 2011. This deferred income concerns, *inter alia*, accounting entries relating to fields of activities of the PCT, the Madrid and Hague Unions, and voluntary contributions.

PCT

72. Deferred PCT revenue alone constituted around 153.8 million Swiss francs as at December 31, 2011, representing an increase of 17.7 million Swiss francs compared to the end of 2010. However, these 153.8 million Swiss francs are composed of anticipated receipts of income for patent applications, complementary fees for additional pages and costs of translation of patentability. I consider the calculation amount and the model presented to be an appropriate estimate of the portion of PCT revenue to be deferred.
73. In order to assure myself that the model applied by WIPO for periodical delimitation remained relevant after a few months' use, I assigned my colleagues to carry out a new audit of that model during the course of December 2011. As with the previous audit "Restatement IPSAS", they made use of the Audit Command Language (ACL) tool when carrying out the task. Given that only immaterial discrepancies were noted between the values calculated by WIPO and those arrived at by my colleagues, I have been assured by my team that the relevant data for periodical delimitation of income are suitable. It should, however, be pointed out that the calculations were made using ordinary tariff bases, without taking into account applications for deposits benefitting from a substantial price reduction (90 per cent) applying only to the least developed countries. The impact of such cases may moreover be considered to be relatively marginal with regard to the materiality threshold applied.
74. Furthermore, I wish to point out that the method used to calculate the average cost of translation dates back to 2009.
75. An amount of 15.1 million Swiss francs appears separately from the assets on the balance sheet in note 4 of the financial statements, under the heading "Accounts receivable, advances and prepayments". The counterpart of this sum is included in the liability, under note 14 "Advance receipts", in the 153.8 million Swiss francs under the heading "PCT revenue".

Madrid Union

76. The deferred income and advances on deposits relating to the Madrid Union represent a cumulative sum of 29.1 million Swiss francs as at December 31, 2011.

In my opinion, the assumptions applied in the deferred income model are reasonable and I am thus able to validate the balances.

77. However, I believe that the information contained in the financial statements would be rendered more relevant if it were less general and broken down by income type or group.
78. Nevertheless, I feel that the statistical model relating to the status of applications used to determine deferred Madrid income should be audited.

Other anticipated income

79. In the other anticipated income, which constitutes some 16.0 million Swiss francs, 10.8 million Swiss francs represents voluntary contributions. I note that these external contributions are operations with no direct counterpart. My colleagues carried out audits by means of random sampling of the contracts relating to high amounts of voluntary contributions. Since these contracts are subject to conditions, their entry into the accounts under the above heading and the resulting periodic delimitation observe the IPSAS standard concerned.
80. The table "SPECIAL ACCOUNTS BY DONOR CONTRIBUTIONS" (Funds in Trust (FIT) projects) is contained in Annex III, p. 48 of the 2011 financial statements. My colleagues have audited the opening and closing balances, together with the income and expenses transactions recorded in these funds. Their detailed audits did not reveal any errors. Moreover, the presentation of the Funds in Trust table corresponds to needs and I am therefore in a position to validate that table.

The increase in loans is explained by external partial financing relating to the New Construction

81. Short-term and long-term borrowings from FIPOI and BCGE are entered into the accounts on the balance sheet for an overall amount in excess of 155 million Swiss francs. Taking into account the supplementary amount of 16 million Swiss francs drawn down in January 2011 in favor of the Organization, the total loan for the New Construction now stands at 130 million Swiss francs, as confirmed by the bank documents.
82. The credit items open with BCGE are composed of four separate loans of between 16 million Swiss francs and 50 million Swiss francs. The duration of these loans ranges from five to 15 years, with differentiated interest rates for each loan. In general, the average interest rate for this financing is around 2.4 per cent.
83. As I stated in my audit report on the 2010 accounts, since 1996 the previous loans taken out by the Organization with FIPOI to finance partially the other buildings are no longer subject to interest payments. Indeed, the Federal Department for Foreign Affairs of the Swiss Confederation decided no longer to receive interest on these loans; it now requires only the reimbursement of loans according to a fixed repayment schedule. In accordance with IPSAS 5, WIPO correctly states the value of the interest abandoned by the creditor in note 15 of the financial statements.

Legal costs and education grants payable are included separately under the heading "Provisions"

84. The "Provisions" total of 2.4 million Swiss francs included in note 16 of the financial statements consists of a provision for legal costs of 0.8 million Swiss francs and a second provision for education grants payable standing at 1.6 million Swiss francs.

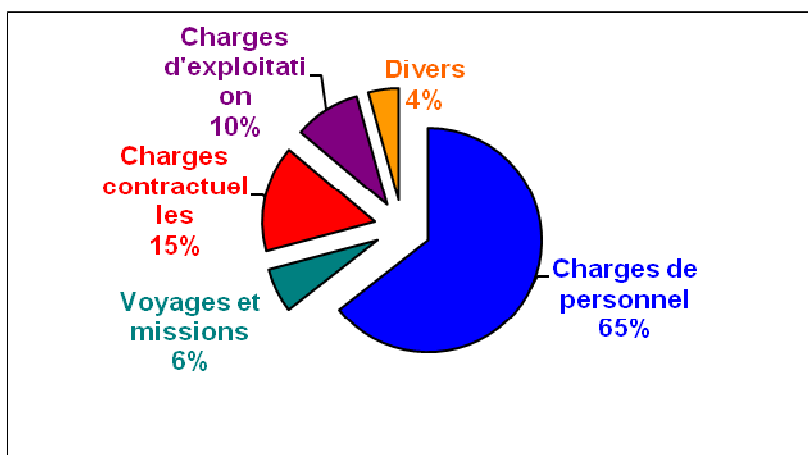
The analyses and random samplings carried out by my colleagues confirm the amounts entered. As to the provision for legal costs, my colleagues were moreover provided with the information by the WIPO legal services, which also provided verbal comments.

Other current and financial liabilities

85. My colleagues carried out an audit of the three accounts appearing under this heading. Based on their observations, I am able to validate the amount of 52.1 million Swiss francs posted therein. I merely note a justified decrease in the cumulative balance of 3.16 per cent (-1.65 million Swiss francs).

Expenses and revenue

86. During the December 2011 interim audit, my colleagues carried out various analyses and checks concerning WIPO expenses entered into the accounts over the first three quarters of the year. Apart from the various comments above included in the balance sheet accounts, the audits by means of random sampling carried out by my colleagues based on original documentary evidence did not reveal any significant errors. As a result of their work, I feel reasonably confident that the expenses and income entered in 2011 are accurate.
87. The overall expenses of the Organization now stand at 325.4 million Swiss francs, 17 million Swiss francs more than in 2010 (+4.34 per cent). As can be seen from the table below, staff expenses, which stood at 209.6 million Swiss francs in 2011, represent the largest proportion of expenditure. These expenses have, moreover, increased by 1.2 million Swiss francs (0.58 per cent) compared to 2010.



Legend for Graph 1

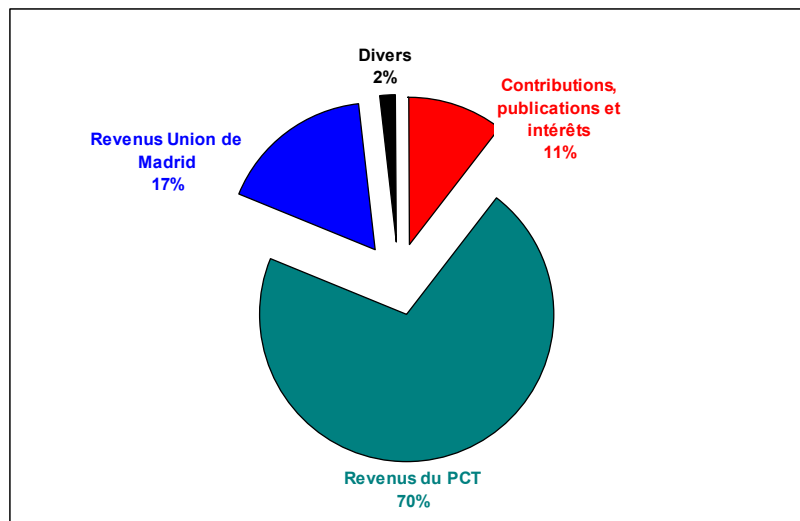
Charges d'exploitation 10% – Operational expenses 10 per cent
Divers 4% – Miscellaneous four per cent
Charges contractuelles 15% - Contractual costs 15 per cent
Voyages et missions 6% – Travel and missions six per cent
Charges de personnel 65% – Personnel expenditure 65 per cent

Graphique 1 : Répartition synthétique des charges 2011 - Graph 1: Summary breakdown of 2011 expenses

88. As stipulated in the provisions of Regulation 5.3 of WIPO's Staff Regulations and Rules "A staff member not locally recruited who performs his duties outside the country in which he has his home shall be entitled, once every two years, to take

home leave at the expense of the International Bureau". The annual cost of this leave is listed in expense account 71052 "Home leave travels". The movements recorded in this account in 2011 constituted over 2.7 million Swiss francs. The random sampling done by my colleagues in the accounting and related documents led them to remark that the often flat-rate expenditure for this type of travel was based on business class rates, regardless of routing and duration.

89. The conditions applicable to official travel posted on the intranet¹⁶ stipulate that all WIPO staff members, except the Director General, travelling on official business shall do so in economy class when flight duration is under nine hours. Moreover, the use of low cost carriers should be given priority, whenever in the interest of the Organization. I invite WIPO to reexamine the situation in terms of home leave.
90. My colleagues noted that contractual service expenses rose by almost 10.7 million Swiss francs (+21.3 per cent) in 2011 compared to 2010, reaching around 50.1 million Swiss francs during the year under review. This increase in expenditure can mainly be explained by the increase in expenses linked to PCT translation services for Asia. The outsourcing of supplementary services carried out by the United Nations International Computing Centre (UNICC) also goes some way to justifying the increase in expenditure. Moreover, I wish to point out that the Organization has opened new accounts¹⁷ under the general heading of contractual services, rendering the assignment of expenditure more transparent.
91. I note that the total amount of revenue rose to 293.2 million Swiss francs; Receipts have decreased slightly compared to those for 2010 (-0.55 per cent). PCT System fees alone constitute 206.6 million Swiss francs, 70 per cent of revenue.



Legend for Graph 2

Revenus Union de Madrid 17% – Madrid System fees 17 per cent
 Divers 2% - Miscellaneous two per cent
 Contributions, publications et intérêts 11% - Contributions, publications and interest 11 per cent
 Revenus du PCT 70% - PCT System fees 70 per cent

Graphique 2 : Répartition synthétique des revenus 2011 - Graph 2: Summary breakdown of 2011 revenue

¹⁶ <http://intranet.wipo.int/homepages/travel/fr/travelling/conditions.html>

¹⁷ Accounts 73811 "Translations Commercial Service Providers", 73812 "Other Commercial Service Providers" and 73813 "ICC Services".

Table of flow of funds

92. My colleagues reviewed all the positions of the statement of cash flow (financial statement IV). They verified that the amounts presented in the table coincide with the variations in balances noted between the opening and closing of the 2011 balance sheet. At the end of 2011, various invoices relating to the field of construction constituting a total of 15.9 million Swiss francs remained unpaid. The sum appeared under the heading "Purchase of fixed assets", rather than the heading "Increase (decrease) in accounts payable". Taking into account a similar adaptation carried out at the end of 2010 involving 6 million Swiss francs, a net correction to the value of 9.9 million Swiss francs was posted under the headings concerned in 2011.
93. However, in order to facilitate understanding of the flows relating to financing activities, I advise WIPO in future to present the interest paid (BCGE/BCV loan) and the reimbursements of capital separately. This information is currently missing from the statement of cash flow table.

Segment reporting presented by WIPO in the notes

94. A report by segments is included in the 2011 financial statements. The aim of such segmentation is to be able to assign budgetary expenses directly to the segments concerned. Direct and indirect expenses are distributed taking into account the different Unions. The methodology applied makes it possible to assign the expenditure linked to the activities specific to each Union, while allocating administrative expenses and other related budgetary expenses.
95. The distribution of indirect expenses arising from certain specific programs is based on an approach to allocation that takes into consideration the financial capacity of the Unions.

Two tables presented according to the old UNSAS have not been audited

96. As was the case in 2010, the two tables appearing in Annex I, "Statement of financial position by business unit", and in Annex II, "Expenses and revenue by business unit", show a "historical" situation of the accounts according to UNSAS. Since these two tables have not been audited by my colleagues, they are clearly distinguished by the annotation "not audited" which appears in their header.

ANALYSIS OF IPSAS IMPLEMENTATION GUIDE

97. The application guide for general WIPO policy regarding the implementation of IPSAS was readapted at the beginning of 2012 in an English version 14. The amendments made are related to adaptations regarding the presentation of tables relating to the 2011 financial statements, as well as to the changing of the limit of capitalization of items of equipment as at January 1, 2011. Moreover, the chapter on tangible fixed assets was reworked to take into account the capitalization as of 2012 of software and licenses, for example. Other changes of a textual nature were also made to different chapters. As my colleagues have confirmed, all of these adaptations are in accordance with current IPSAS.

Conclusion

98. As a result of the work done, I am in a position to confirm that the WIPO 2011 financial statements have been presented in conformity with IPSAS. Furthermore,

and taking into account the materiality threshold predefined on the basis of the international audit standards, I also confirm that the accounting data published in the financial statements correspond to the Organization's accounts.

99. Consequently, I am able to issue the attached audit opinion in the annex to this report, and drawn up in accordance with paragraph 5 of the Terms of Reference Governing Audit (annex 2 of the WIPO Financial Regulations and Rules).

K. Grüter
Director
Swiss Federal Audit Office
(External Auditor)

Annexes:

- Audit opinion
- Open recommendations

Annex 1 to 1.12373.944.00333.02

AUDIT OPINION OF THE EXTERNAL AUDITOR

I have audited the financial statements, as at December 31, 2011, of the World Intellectual Property Organization (WIPO), including the balance sheet (financial statement I), income and expenditure (financial statement II), statement of changes in net assets (financial statement III), statement of cash flow (financial statement IV) and comparison of budget and actual income and expenditure (financial statements V relating to income and expenditure) for the financial year ending on the above date, together with a summary of the main accounting methods and other explanatory notes.

Responsibility of the WIPO management for the financial statements

The management is responsible for producing and presenting an accurate version of these financial statements in accordance with the provisions set by the International Public Sector Accounting Standards (IPSAS) and in the WIPO Financial Regulations and Rules. In addition, the management is responsible for carrying out internal control, which it considers necessary for producing financial statements not including significant anomalies, whether these are the result of fraud or of errors.

Responsibility of the auditor

My responsibility is to express an opinion on the WIPO financial statements on the basis of my audit. I have conducted my audit according to the International Standards on Auditing published by the International Auditing and Assurance Standards Board (IAASB). On my part these standards require me to comply with the rules of ethics, and to plan and conduct the audit with a view to obtaining a reasonable assurance that the financial statements do not contain any significant anomalies. An audit involves the implementation of procedures with a view to gathering proof of the amounts and information provided in the financial statements. The choice of procedures lies within the judgment of the auditor, in the same way as the evaluation of the risks that the financial statements include significant anomalies, be they the result of fraud or of errors. By conducting this evaluation, the auditor takes into account the internal control in force in the entity relating to the production of the financial statements in order to define audit procedures appropriate in the circumstances, and not for the purpose of expressing an opinion on the effective operation of the entity's internal control. An audit also includes an assessment of the appropriate nature of the accounting methods used and the reasonable character of the accounting estimates made by the management, in the same way as an assessment of the overall presentation of the financial statements. I consider that the proof gathered is sufficient and appropriate for basing my opinion.

Opinion

In my opinion, the financial statements give a faithful reflection, in terms of all their significant aspects, of the financial situation at WIPO as at December 31, 2011, and of its financial performance and its cash flows for the financial year which ended on that date, in accordance with the International Public Sector Accounting Standards (IPSAS) and the WIPO Financial Regulations and Rules.

In accordance with Article 6 of the Terms of Reference Governing Audit, annexed to the WIPO Financial Regulations, I have also produced a detailed report on my audit of the financial statements in the document dated July 4, 2012.

Bern, July 4, 2012
K. Grüter
Director
Swiss Federal Audit Office¹⁸
(External Auditor)

¹⁸ Postal address: Monbijoustrasse 45, CH-3003 Bern.

Annex 2 to 2.12373.944.00333.02

Open recommendations of the final audit of the 2010 WIPO financial statements (No. 11355)

Recommendation 1: I recommend the Organization to define in formal terms the key processes, to introduce and document the audits carried out and, in time, to establish a monitoring mechanism for the audits conducted.

Recommendation 3: I invite WIPO to take the appropriate measures to ensure the mutual replacement of key employees and to set up a working group. Referring more specifically to the Finance Services, I suggest that a group of several additional multipurpose colleagues be designated to deal with the closure of accounts and able to fill any occasional vacancy left by one of them.

Open recommendations of the financial supervision audit of human resources (No 10195)

Recommendation 1: I encourage WIPO to establish an ongoing analysis of the key risks in relation to human resources management, which takes account of the strategic objectives defined.

Recommendation 2: I recommend WIPO to introduce an appropriate table containing indicators relating to human resources so as to facilitate HR management on an organizational, social and financial level.

Recommendation 4: I encourage WIPO to seek, in accordance with Article 5.1.1 of the WIPO Staff Regulations and Staff Rules, a solution designed to settle clearly and unambiguously the cases in which the number of accumulated days over 90, prior to December 31, 2009, is carried over. This would equate to a “resetting of the counters to 90 days”. Subsequently, WIPO could envisage that its Flexitime IT system does not allow anything in excess of the statutory 90 days to be carried over.

Recommendation 6: I am of the opinion that WIPO should catalog all the knowledge and skills of its employees in a database kept periodically up to date so as to have available an overview of the know-how existing within the Organization.

Recommendation 7: I am of the opinion that WIPO should take care better to anticipate the separation from service of a staff member occupying a key post or a particular function for which a transfer of knowledge or files would prove necessary.

Recommendation 8: I encourage WIPO to seek synergies in the performance of the processing of files relating to allowances for study costs in order to increase productivity and the efficiency of the process in place.

Open recommendations of the financial supervision audit of WIPO’s involvement with the United Nations International Computing Centre (UNICC) (No 11101)

Recommendation 2: In my view, WIPO should adopt management indicators concerning the field of information technology as a whole, involving all organizational units. Given that this is a relatively complex task, I think that it should be closely linked to the implementation of Enterprise Resource Planning (ERP).

Open recommendations of the information technology audit on the project to implement the AIMS system (No. 11424)

Recommendation 1: It is vital that users of the AIMS system should be properly trained if WIPO is to benefit fully from the gains in terms of efficiency produced by this new IT application. I therefore recommend that WIPO should review the existing approach to training, under which the objectives set have not been achieved, and examine to what extent current online training solutions could be improved.

Recommendation 2: In my view, it would be more efficient to reduce the number of users to an appropriate threshold, grouping requisitions together under a limited number of individuals who have been duly trained and are familiar with the entire process.

Recommendation 3: I recommend that WIPO should simplify these catalogues while observing the processes already established and facilitating the needs of the various users.

[Annex II follows]

Statement on Internal Control for 2011

Scope of Responsibility

As Director General of the World Intellectual Property Organization (WIPO), I am accountable, in accordance with the responsibility assigned to me, in particular, Regulation 5.8 (d) of the Financial Regulations and Rules, for maintaining a system of internal financial control which ensures:

- (i) the regularity of the receipt, custody and disposal of all funds and other financial resources of the Organization;
- (ii) the conformity of obligations and expenditures with appropriations or other financial provisions approved by the General Assembly or with the purposes and rules relating to specific trust funds;
- (iii) the effective, efficient and economic use of the resources of the Organization.

Purpose of the system of internal control

The system of internal control is designed to reduce and manage rather than eliminate the risk of failure to achieve the Organization's aims and objectives and related policies. Therefore, it can only provide reasonable and not absolute assurance of effectiveness. It is based on an ongoing process designed to identify the principal risks, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

Internal control is a process, effected by the Governing Bodies, the Director General, senior management and other personnel, and designed to provide reasonable assurance on the achievement of the following internal control objectives:

- Effectiveness and efficiency of operations and safeguarding of assets,
- Reliability of financial reporting and
- Compliance with applicable rules and regulations.

Thus, on an operational level, WIPO's internal control system is not solely a policy or procedure that is performed at certain points in time, but rather continually operated at all levels within the Organization through internal controls processes to ensure the above objectives.

My current statement on WIPO's internal control processes, as described above, applies for the year ended December 31, 2011, and up to the date of the approval of the Organization's 2011 financial statements.

Risk Management and control framework

The Organization is implementing a risk management programme as part of the Strategic Realignment Program (SRP) through an initiative entitled "Strengthen internal control systems", which includes:

- A "gap" assessment of the internal control system,
- Identification of risks classified according to relevance, impact and probability of occurrence,

- Creation of an internal controls manual,
- Strengthening of internal controls across the Organization.

The WIPO Policy of Investments was approved by the Assemblies in 2011. In accordance with this policy, an Advisory Committee on Investments (ACI) is to be established. The ACI will monitor the investments of WIPO to ensure that they are consistent with the policy and will report to me any variations from the policy, the reasons and remedial actions. WIPO's cash position remained sound throughout 2011.

The Contracts Review Committee continues to review relevant procurement cases and to advise me on appropriate procurement action.

Review of effectiveness

My review of effectiveness of the system of internal controls is mainly informed by:

- My senior managers, in particular Deputy Directors-General and Assistant Directors-General who play important roles and are accountable for expected results, performance, their Division's activities and the resources entrusted to them. The information channels mainly rely on periodic meetings held by the Senior Management Team.
- I derive assurance from Management Representation Letters signed by key WIPO officers. These letters recognize their responsibility for having and maintaining, in the programs, well functioning systems and a mechanism for internal control aimed at presenting and/or detecting instances of fraud and major errors.
- The Internal Audit and Oversight Division (IAOD), on whose reports of internal audits, evaluations and advisory services I rely, also provide their reports to the Internal Audit and Oversight Committee (IAOC). These include independent and objective information on the adequacy and effectiveness of the Organization's system of internal controls, and the related functions of oversight.
- IAOC is responsible for systematic appraisal of my actions to maintain and operate appropriate and effective internal controls. The Committee is also responsible for determining that all major issues reported by IAOD, the External Auditor and the Joint Inspection Unit (JIU) have been satisfactorily addressed. Finally, the IAOC is responsible for reporting its findings to the Program and Budget Committee (PBC),
- The Chief Ethics Officer who provides confidential advice and counsel to the Organization and its staff on ethics and standards of conduct and promotes ethical awareness and responsible behavior in handling referrals concerning allegations of unethical behavior including conflict of interest,
- The JIU of the United Nations System,
- The External Auditor, whose comments are submitted to the PBC and the Assemblies, and
- The Governing Bodies' observations.

Conclusion

Effective internal control, no matter how well designed, has inherent limitations – including the possibility of circumvention – and therefore can provide only reasonable assurance. Furthermore, because of changes of conditions, the effectiveness of internal control may vary over time.

I am committed to addressing any weaknesses in internal controls noted during the year and to ensure that continuous improvement of the system of internal controls is in place.

Based on the above, I conclude that, to the best of my knowledge and information, there are no material weaknesses which would prevent the external auditor from providing an unqualified opinion on the Organization's financial statements nor are there significant matters arising which would need to be raised in the present document for the year ended December 31, 2011.



Francis Gurry
Director General

[End of Annex II and of document]