

WIPO



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WORLD INTELLECTUAL PROPERTY ORGANIZATION

GENEVA

PROGRAM AND BUDGET COMMITTEE

Thirteenth session

Geneva, December 10 and 11, 2008

**REPORT OF THE EXTERNAL AUDITOR: AUDIT OF INVENTORY MANAGEMENT
PERFORMANCE – 2006-2007 BIENNIUM**

document prepared by the Secretariat

1. Article 11(10) of the Convention Establishing the World Intellectual Property Organization (WIPO) provides that the auditing of the accounts is to be effected by one or more Member States, or by external auditors, as provided in the Financial Regulations, and that the auditors shall be designated, with their agreement, by the WIPO General Assembly. Similar powers are conferred on the Assemblies of the Paris, Berne, Madrid, Hague, Nice, Lisbon, Locarno, the International Patent Classification (IPC), the Patent Cooperation Treaty (PCT) and Vienna Unions.
2. At the thirty-ninth series of meetings, held in Geneva from September 22 to October 1, 2003, the WIPO General Assembly and the Assemblies of the Paris, Berne, Madrid, Hague, Nice, Lisbon, Locarno, IPC, PCT and Vienna Unions renewed the Swiss Government's mandate as Auditor of the accounts of WIPO and the Unions administered by WIPO, and of the accounts for the technical assistance projects carried out by the Organization up to and including 2007 (paragraph 197 of document A/39/15).
3. On July 16, 2008 the Secretariat received by mail a report from the External Auditor entitled *Audit of Inventory Management Performance – 2006-2007 biennium*, dated April 23, 2008.

4. In this detailed report, reproduced in the Annex, the External Auditor makes the following recommendations:

5. In paragraphs 15 and 16 of his detailed report, regarding inventory management procedures, the Auditor states:

“15. The new Financial Regulations, which came into force on January 1, 2008, provide a set of rules for the management of property (Chapter 5, letter D). “The Deputy Director General in charge of Procurement shall designate the officers responsible for the management of the property of the Organization and for all systems governing its receipt, recording, utilization, safekeeping, maintenance and disposal”

16. Excluding the regulatory provisions referred to above, my colleagues noted that there was no service communication or guideline governing the processes of WIPO inventory management. Procedural recommendations have been sent by the Head of the Organization and Material Resources Section (OMRS) to the management. For the time being, these procedures, used by WIPO staff, have not been formalized.

*“**Recommendation No. 1:** I invite WIPO to introduce and formalize inventory management procedures from the time of receipt of property until they are withdrawn from the inventory (disposal, recycling, donation, etc.).”*

6. The Secretariat will set up a Property Survey Board, responsible for rendering written advice in respect of loss, damage or other discrepancy regarding the property of the Organization, pursuant to Rule 105.30 of the Financial Regulations, before the end of the year. This Board will also be responsible for proposing draft procedural rules governing the receipt, recording, utilization, safekeeping, maintenance and disposal of property. The proposal by OMRS of June 26, 2008, to formalize procedures will therefore be reviewed and, if possible, improved so as to be put in place in the course of 2009. The Committee will be chaired by the Deputy Director General responsible for procurement or his representative, and will include representatives of the different sectors concerned.

7. In paragraph 18 of his detailed report, concerning the inventory lists, the Auditor states:

18. The inventory list as at December 31, 2006, stands at SFR 51,142,358. The list includes numerous items with a value of less than SFR 400 (maximum amount fixed by the Financial Regulations, below which, in principle, an item should not be included in the inventory) and items which should not be included in the inventories. In addition, the description is not always explicit, certain values no longer correspond to reality, given that they are out of date, and the categorization of certain items is incorrect.

*“**Recommendation No. 2:** WIPO should revise and audit the inventory lists as regards the valuation, composition and categorization of items, as well as the level of the maximum amount below which an item is not included in the inventory.”*

8. The Secretariat will implement this Recommendation, in particular will examine the ways to improve the inventory methods and verify the true nature and value of its assets, by *inter alia* deleting the items which should not be included in the inventory, taking into account the criteria suggested by the Auditor.

9. In paragraph 29 of his detailed report, regarding inventory management, the Auditor states:

“29. Concerning the inventory management processes, the audits carried out by my colleagues highlight several weaknesses, the most important of which are mentioned below (other weaknesses, linked to the Organization, are mentioned later in this report):

- *purchases are not received in a single place and there are several persons responsible for managing the inventories, without their relationships being clearly defined;*
- *where new purchases are received or during removals, OMRS is not always kept up to date. The forwarding of information is not satisfactory and is defective when deliveries are made directly to the employees who have placed orders;*
- *the Aperture application is not kept up to date. In fact, there is a significant time lag between property being acquired and it being registered in the inventory. Similarly, updating of the location of property, following removals and staff movements, is delayed by several months;*
- *physical inventories are not sufficiently frequent. Stock in general, and furniture and IT equipment in particular, should be physically checked each year (in rotation).*

*“**Recommendation No. 3:** I invite WIPO to introduce arrangements to manage all property belonging to the Organization in a more centralized and better controlled manner.”*

10. The Secretariat will implement this Recommendation. It will study the ways better to centralize and coordinate the administration of inventory management processes, in particular as part of the formalization of the rules of procedure and the introduction of a single IT system.

11. In paragraph 30 of his detailed report, regarding the management of IT resources, the Auditor states:

“30. As noted previously, the consolidated inventories are managed in the Aperture application by OMRS and the accounts in the PeopleSoft system by the Expenditures Section of the Finance Department, which also inputs acquisitions into an Oracle database. In terms of equipment management, the different inventories are managed using Excel tables, by the Buildings Division for furniture and the IT Services Division for IT equipment. There is no automatic interface between the different systems. The fact that the inventories are kept in different systems and without interfaces is not economical. This situation involves duplicating the input of information. Moreover, according to my colleagues, the cost of acquiring the Aperture program (cost totally redeemed at the date of the audit) seems too high in view of the use made of it when the audits were carried out (the Excel software would be sufficient for drawing up lists).

*“**Recommendation No. 4:** In order to limit the risk of error and better to satisfy the criterion of economy, the furniture and IT equipment inventories should be kept using a single IT system.”*

12. The Secretariat will implement this Recommendation by keeping a single IT system for the furniture and IT equipment inventories.

13. In paragraph 31 of his detailed report, concerning the economical use of storage premises, the Auditor states:

“31. My colleagues visited the premises where furniture and IT equipment are stored. Certain premises located in the main buildings (AB, BR1, BR2, former WMO and CAM) are still free or occupied by equipment awaiting recycling (old IT equipment). WIPO also rents storage premises. The site located at Collex-Bossy is used to warehouse property; about 80 per cent of its surface area is occupied by used and unusable furniture. My colleagues noted that the surface area used for storage is disproportionate and is largely allocated to equipment which is unusable and of no value.

*“**Recommendation No. 5:** I consider that WIPO should remove and dispose of obsolete and unusable equipment quickly. That would allow storage premises to be streamlined and savings to be made on useless rental charges.”*

14. The Secretariat will implement the Recommendation to remove obsolete and unusable material so as to streamline the use of storage areas. Already in November 2007, a large part of the obsolete equipment was removed (80 per cent) by means of an auction. Simplified procedures for the removal of unusable material will further enhance storage capacities with a view to final streamlining of these premises pending the occupancy of the new building.

15. In paragraph 32 of his detailed report, regarding the economical use of human resources, the Auditor states:

“32. As regards the human resources required to manage the furniture and IT equipment inventories, it was noted that the number of people involved in the processes concerned is significant (about 15 people at rates of activity varying between 2.5 and 100%). Furthermore, the level of staff members’ qualifications and the employment categories in which they are classified are not suited to the tasks to be performed. I therefore consider that the use of human resources does not satisfy the economy criterion.

*“**Recommendation No. 6:** It is my opinion that WIPO should evaluate the human resources allocated to inventory management, both in terms of level of qualifications and the number of staff concerned.”*

16. The Secretariat will implement this Recommendation as part of the desk-to-desk review of human resources.

17. The Program and Budget Committee is invited to take note of the External Auditor’s Report entitled Audit of Inventory Management Performance – 2006-2007 biennium, dated April 23, 2008, and of the information contained in this document.

[Annex follows]

Director General
World Intellectual Property
Organization (WIPO)
34, chemin des Colombettes
1211 Geneva 20

Date July 16, 2008

Our reference: 1.7453.944.00333.02
nede/g110

**Audit of inventory management performance - 2006-2007
biennium**

Dear Director General,

I have the pleasure to enclose herewith a copy of the above-mentioned audit report. The document is dated April 23, 2008.

I wish to thank you for your valuable cooperation. Please accept, Director General, the assurances of my highest consideration.

(signed)

K. Grüter
Director
SWISS FEDERAL AUDIT OFFICE
(External Auditor)

Annexes: Report on the audit of inventory management performance



**WORLD INTELLECTUAL PROPERTY ORGANIZATION
GENEVA**

AUDIT OF INVENTORY MANAGEMENT PERFORMANCE

2006 – 2007 biennium

Report of the External Auditor to the Assembly of the Member States of WIPO

*Reg. No. 1.7453.944.00333.02
nede/heja*

April 23, 2008

GENERAL

Mandate

1. At the forty-third series of meetings, held in Geneva from September 24 to October 3, 2007, the General Assembly of the World Intellectual Property Organization (WIPO) and the Assemblies of the Paris, Berne, Madrid, Hague, Nice, Lisbon, Locarno, IPC, PCT and Vienna Unions renewed the Swiss Government's mandate up to 2011 inclusive, as Auditor of the accounts of WIPO and the Unions administered by WIPO, and of the accounts for the technical assistance projects carried out by the Organization (paragraph 273 of document A/43/16).
2. The Government of the Swiss Confederation mandated me, as Director of the Federal Audit Office, to audit the accounts of WIPO and the Unions mentioned above. I consequently entrusted qualified colleagues from the Federal Audit Office with the task of carrying out, during October 2007, an audit of inventory management performance, at WIPO headquarters in Geneva.
3. My terms of reference are specified in Article 6.2 of the WIPO Financial Regulations and defined by the Terms of Reference Governing Audit annexed to those Regulations.

Financial regulations

4. In addition to the relevant provisions of the different Conventions, the 2006-2007 biennium was governed by the provisions of the WIPO Financial Regulations and Financial Rules, the appropriate provisions of the budget approved by the Assembly of the Member States at the forty-first series of meetings, held in Geneva from September 26 to October 5, 2005 (paragraph 194(i) of document A/41/17), and the accounting standards applicable in the United Nations common system.

Information and documents

5. I am grateful for the obliging manner in which information and documents were supplied by all the WIPO staff whom we approached.
6. In the course of the auditing work, my colleagues had discussions with Mrs. C. Graffigna, Executive Director and Controller, Mrs. G. Molina-Miscischia, Administrative Assistant, Communications Service, and Mr. S. Gačič, Head of the Premises Management Section, Mr. R. Lifton, Network Printing Technician in the Network Services Section, Mr. J. Ochido, Office Automation Assistant in the IT Division, Mr. N. Say, Consultant, Mr. J. Vazquez, Warehouseman, Premises Management Section, Mr. J. Vitry, Assistant Finance Officer, and Mr. A. Yassin, Head of the Organization and Material Resources Section. Discussions were also held with Mr. P. Favatier, Head of the Finance Department, and his close colleagues, as well as with the staff members responsible for the different inventories.
7. The result of the audit was submitted during the final interview of February 20, 2008, in the presence of Mr. A. Yassin and Mr. P. Favatier, Director of the Finance Department.

AUDIT AND FINDINGS

General

8. The examinations which are the subject of this report consisted of a performance audit in accordance with the audit standards of INTOSAI¹ (AS 1.0.38 and 1.0.40) in the field of inventory management. These audit standards specify that "... the full scope of government auditing includes regularity and performance audit" and that "performance auditing is concerned with the audit of economy, efficiency and effectiveness and embraces:
 - audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies (is the cost of human and material resources used minimized while ensuring performance quality?);
 - audit of the efficiency of utilization of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies (is the relationship between the cost and resources used acceptable? input/output relationship);
 - audit of the effectiveness of performance in relation to the achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with the intended impact (are the resources used appropriate to the performance obtained?).
9. The issues of minor importance which have been clarified and discussed with those responsible in the course of work are not raised in this report.
10. The results of the audit were discussed on February 20, 2008 with Mr. P. Favatier, Director of the Finance Department, and Mr. A. Yassin, Head of the Organization and Material Resources Section.

Context of work

11. The examinations carried out as part of the audit were also conducted in two other international organizations whose accounts I am responsible for auditing, i.e. the International Telecommunication Union (ITU) and the Universal Postal Union (UPU). The desired aim is to compare the different results obtained.
12. In order to be able to make the comparison it was decided that only the furniture and IT equipment inventories would be the subject of examination. They are the only inventories which are comparable within the three organizations under review, both in terms of their existence and size.
13. In the following chapters, my colleagues have audited the management of WIPO inventories in relation to the INTOSAI criteria mentioned above. They have then provided assessments of the level of suitability of such management in relation to those subjects. By way of simplification, only three different assessments have been given: good, average or weak. A table of the assessments given in the three organizations is attached to this report.

¹ International Organization of Supreme Audit Institutions.

Organization and process

Are the guidelines governing the management of inventories of good quality, i.e. appropriate, complete and up to date?

14. In accordance with the financial rules in force at the date of the audit, it is the Director General who is responsible for drawing up the Financial Regulations and Financial Rules, and for maintaining a system of internal audit, which allows the keeping of the equipment and furniture inventories to be audited and supervised. The Financial Regulations stipulate that inventories are kept under the supervision of the Controller.
15. The new Financial Regulations, which came into force on January 1, 2008, provide a set of rules for the management of property (Chapter 5, letter D). "The Deputy Director General in charge of Procurement shall designate the officers responsible for the management of the property of the Organization and for all systems governing its receipt, recording, utilization, safekeeping, maintenance and disposal".
16. Excluding the regulatory provisions referred to above, my colleagues noted that there was no service communication or guideline governing the processes of WIPO inventory management. Procedural recommendations have been sent by the Head of the Organization and Material Resources Section (OMRS) to the management. For the time being, these procedures, used by WIPO staff, have not been formalized.

Recommendation No 1: I invite WIPO to introduce and formalize inventory management procedures from the time of receipt of property until they are withdrawn from the inventory (disposal, recycling, donation, etc.).

Quality of current and future guidelines governing inventory management

Assessment: AVERAGE

Is the available information of good quality and are inventory management processes appropriate?

17. WIPO inventories are managed by the FMAC (Aperture) application. Normally, OMRS registers in this system information relating to the stock and purchase of computer equipment and furniture. The registrations have no direct link with the accounts kept on the PeopleSoft application.
18. The inventory list as at December 31, 2006 stands at SFR 51,142,358. The list includes numerous items with a value of less than SFR 400 (maximum amount fixed by the Financial Regulations, below which, in principle, an item should not be included in the inventory) and items which should not be included in the inventories. In addition, the description is not always explicit, certain values no longer correspond to reality, given that they are out of date, and the categorization of certain items is incorrect.

Recommendation No 2: WIPO should revise and audit the inventory lists as regards the valuation, composition and categorization of items, as well as the level of the maximum amount below which an item is not included in the inventory.

19. The decision to acquire the Aperture application dates from 1999. The preparatory phase lasted about six months and consisted in labeling all property and all premises using bar codes. The two major categories of property concerned are furniture and IT equipment. The concept of

furniture in the application is to be interpreted broadly, since property such as vehicles forms part of furniture.

20. The Aperture application has been operational since April 2000. Using a bar code reader system, it establishes links between objects, premises and people. It also allows each office to be visualized along with its contents, virtually on screen. As soon as the system entered into service, all staff members of the Organization received an inventory report indicating all the property which their work space contained. They were requested to confirm the accuracy of the report to OMRS or to indicate existing differences. Since the Aperture application came into service, two physical inventories have been produced. The last complete physical inventory was produced in 2005.
21. The Expenditures Section of the Finance Department is responsible for entering suppliers' invoices into the accounts and deals, in particular, with the accounting of purchases and monitoring of inventories in PeopleSoft. The staff members of this Section also include acquisitions in an Oracle database, with a description of the object, the numbers of the bar code labels and purchase price. That represents an inventory list which reproduces complete information also entered in the Aperture application, with the exception of where an item is located.
22. Once a year, the Invoices Section prepares an Excel table and brings the three available sources together, i.e. the procurement accounts (PeopleSoft), the Oracle database and the OMRS FMAC list.
23. The inventory management process (new purchases) is as follows. The person responsible for the unloading bay, a staff member of the Buildings Division, deals with the receipt of furniture and IT equipment ordered. According to the procedure, there should only be one place of receipt (the unloading bay in the P&G building); in actual fact, there are other places and certain deliveries are made directly with the officers who have placed an order.
24. In general for the purchase of furniture, the staff member responsible for the unloading bay receives and verifies the delivery with the order form and places bar codes as a means of identification on the equipment. He then enters the allocated bar code number in an Excel table, together with a description of the item, the supplier and the order form number. He forwards the Excel table regularly to OMRS which will enter the information in the Aperture application. The staff member retains the delivery note and makes a note of the bar code number allocated to the object. Later on, the invoice is transmitted to him by the Expenditures Section, on which he enters the number(s) of allocated bar codes and then sends the invoice back to the same Section. It should be noted that the staff member does not deal with the valuation of property, as the prices are entered in the Aperture application by OMRS, on the basis of copies of invoices sent by the Expenditures Section. The new furniture received is stored temporarily in premises adjacent to the delivery bay.
25. In general, for the purchase of IT equipment, the staff member responsible for the unloading bay receives the equipment and notifies the IT Service. That service verifies that the delivery note and order form correspond. A staff member from the IT service goes to the unloading bay and makes a physical check of the merchandise received. He places bar codes on the items and enters in the Aperture application all the information on the items received and the bar code numbers allocated. Certain suppliers affix directly the bar codes provided by WIPO. Later on, the officer receives from the Expenditures Section the invoice for the equipment. He enters the prices in the Aperture application and sends the invoice back, noting the bar code numbers allocated. The labeled equipment is then transferred to premises specially reserved for storing IT equipment. The person responsible for managing the stock, a staff member of the Network Services Section, registers the equipment in an Excel table used to audit the inventory. The table is kept up to date using the ZAM IT program which verifies the location of the equipment and the user connected to the WIPO IT network. By contrast, it does not transmit information to FMAC.
26. Concerning withdrawals from the inventory (disposal, recycling, donation), IT equipment is managed directly by the IT Service and furniture by the Buildings Division.
27. On a regular basis (in general once every two years), the Buildings Division proposes to the Procurement and Contracts Division (PCD) an auction of furniture. This decision is taken when

the storage area located at Collex-Bossy is full. A list of the objects to be disposed of is drawn up and given for approval to the Finance Department, the Controller and PCD. The furniture is auctioned and what is not sold is disposed of. There is no written procedure and it is the Buildings Division which has developed and which has applied these rules since 2006. The process lasts about two months. Subsequently, the list is forwarded to OMRS, for the items to be removed from Aperture.

28. The person responsible for managing the IT stock determines, together with the person responsible from the IT Service, the items which must be recycled. This action is generally undertaken when numerous equipment has been returned or the storage area is full. A list is drawn up, and it is approved by the Head of OMRS and the Controller. It is also sent to the Finance Department. The person responsible for managing IT stock enters these withdrawals in his inventory list and sticks the bar code labels or former inventory numbers on sheets known as "stock disposal preparation sheets", specific to stock withdrawals. Old equipment is recycled at SWICO free of charge as a recycling tax is paid when the equipment is acquired. Equipment is neither given to charitable organizations nor sold to staff.
29. Concerning the inventory management processes, the audits carried out by my colleagues highlight several weaknesses, the most important of which are mentioned below (other weaknesses, linked to the Organization, are mentioned later in this report):
- purchases are not received in a single place and there are several persons responsible for managing the inventories, without their relationships being clearly defined;
 - where new purchases are received or during removals, OMRS is not always kept up to date. The forwarding of information is not satisfactory and is defective when deliveries are made directly to the employees who have placed orders;
 - the Aperture application is not kept up to date. In fact, there is a significant time lag between property being acquired and it being registered in the inventory. Similarly, updating of the location of property, following removals and staff movements, is delayed by several months;
 - physical inventories are not sufficiently frequent. Stock in general, and furniture and IT equipment in particular, should be physically checked each year (in rotation).

Recommendation No. 3: I invite WIPO to introduce arrangements to manage all property belonging to the Organization in a more centralized and better controlled manner.

Quality of available information and suitability of IT equipment inventory management processes

Assessment: WEAK

Quality of available information and suitability of furniture inventory management processes

Assessment: WEAK

Economy

Are IT resources used economically?

30. As noted previously, the consolidated inventories are managed in the Aperture application by OMRS and the accounts in the PeopleSoft system by the Expenditures Section of the Finance Department, which also inputs acquisitions into an Oracle database. In terms of equipment management, the different inventories are managed using Excel tables, by the Buildings Division for furniture and the IT Services Division for IT equipment. There is no automatic interface between the different systems. The fact that the inventories are kept in different systems and without interfaces is not economical. This situation involves duplicating the input of information. Moreover, according to my colleagues, the cost of acquiring the Aperture program (cost totally redeemed at the date of the audit) seems too high in view of the use made of it when the audits were carried out (the Excel software would be sufficient for drawing up lists).

Recommendation No 4: In order to limit the risk of error and better to satisfy the criterion of economy, the furniture and IT equipment inventories should be kept using a single IT system.

Economical use of IT applications

Assessment: WEAK

Are storage premises used economically?

31. My colleagues visited the premises where furniture and IT equipment are stored. Certain premises located in the main buildings (AB, BR1, BR2, former WMO and CAM) are still free or occupied by equipment awaiting recycling (old IT equipment). WIPO also rents storage premises. The site located at Collex-Bossy is used to warehouse property; about 80 per cent of its surface area is occupied by used and unusable furniture. My colleagues noted that the surface area used for storage is disproportionate and is largely allocated to equipment which is unusable and of no value.

Recommendation No 5: I consider that WIPO should remove and dispose of obsolete and unusable equipment quickly. That would allow storage premises to be streamlined and savings to be made on useless rental charges.

Economical use of storage premises

Assessment: WEAK

Are human resources used economically?

32. As regards the human resources required to manage the furniture and IT equipment inventories, it was noted that the number of people involved in the processes concerned is significant (about 15 people at rates of activity varying between 2.5 and 100%). Furthermore, the level of staff members' qualifications and the employment categories in which they are classified are not suited to the tasks to be performed. I therefore consider that the use of human resources does not satisfy the economy criterion.

Recommendation No. 6: It is my opinion that WIPO should evaluate the human resources allocated to inventory management, both in terms of level of qualifications and the number of staff concerned.

Economical use of human resources

Assessment: WEAK

How much does inventory management cost? Can this cost be considered to satisfy the economy criterion?

33. My colleagues estimated the complete cost required for inventory management. As this information was not directly available, they requested the following information for 2004, 2005 and 2006:

- the number of square meters intended for surface areas to store furniture and IT equipment in relation to the total surface area of WIPO premises;
- all costs relating to the consumption of electricity, water, heating and building repayments;
- for each staff member involved in the management of the furniture and IT equipment inventories, an estimate of their share of the time for the work devoted to this task in relation to their total annual working time;
- the amount of the salaries and allowances (total personnel costs for WIPO) of each of the colleagues involved in the inventory management under review;
- the costs of acquisition, consultants and maintenance of the IT applications used in the management of inventories under review. In order to determine an annual repayment charge, the assumed life span of these applications has been fixed at 10 years.

34. The proportional costs of the different employees, premises' costs and those for IT tools were subsequently determined. The annual average calculated on the basis of the figures for 2004, 2005 and 2006 is as follows:

- Costs of storage areas SFR 237,840
- Personnel costs SFR 872,694
- Costs of IT applications SFR 49,800
- Total annual costs SFR 1,160,294
-

35. Since precise analytical accounts were not available in the three audited organizations, my colleagues chose to use a simplified and pragmatic method of determining the full costs. It could be refined by taking into consideration all the costs, including those linked to security, cleaning etc. It has, however, been decided not to go into too much detail so as to work with a method which has the advantage of being able to be used at WIPO, UPU and ITU, with a view to allowing a comparison between those organizations. It should nevertheless be borne in mind that several figures used are the result of estimates.

Cost of inventory management

Assessment: AVERAGE

Efficiency

36. I consider that the management of the furniture and IT equipment inventories is not efficient. The material and human resources which are used in the process of managing and valuing these two inventories do not reach a satisfactory level of quality. The regular physical inventories which are not carried out regularly also contribute to such a level of quality and I encourage WIPO to make full physical checks each time the Unions' accounts are closed (currently every two years). The inventory procedure is complicated and registration delays do not provide a true and up-to-date picture. Similarly, the warehousing of furniture which cannot be used and of IT equipment which will no longer be used frees up significant storage space. There is significant potential for improving efficiency. The quality of management of the inventories in question could be improved without increasing, or even decreasing significantly, the material and human resources made available.
37. The first improvement which could be made concerns the valuation, in financial statements, of the two inventories concerned. Currently the furniture and IT equipment inventories show SFR 1 (as a reminder), which complies with the regulations in force. During the transition to the International Public Sector Accounting Standards (IPSAS), these inventories should be shown as assets on the balance sheet. Furthermore, other categories of property, which do not now form part of inventories showing values (works of art, heating oil, sanitation prevention products and drugs, items sold in shops, etc.) should also be valued insofar as they have significant financial value.

Efficiency of inventory management in general

Assessment: WEAK

Efficiency ratio - comparison between the three organizations

38. In order to make a comparison with ITU and UPU, it has been decided to calculate a ratio for efficiency of management of the two inventories in question. It was planned initially to divide the full annual cost determined under the previous chapter devoted to the economy criterion (SFR 1,160,294) by the annual value of the inventories concerned. However, my colleagues noted that these values did not lend themselves at all easily to comparison between the three organizations for different reasons. Their use would have required significant reprocessing work which has not been carried out owing to the size of the inventories concerned. Finally, it

has been decided to calculate the full annual average cost of managing an item of furniture or IT equipment. The calculation basis used was the number of items in the furniture and IT equipment inventories at headquarters and away from headquarters as at December 31, 2006. The following figures were taken into consideration:

- furniture at headquarters: 31,954 objects according to the inventory, less 1,336 objects not considered to be furniture (car, works of art and small consumable material), i.e. 15,292 objects;
- IT equipment at headquarters: 11,377 objects;
- furniture and IT equipment away from headquarters: 205 objects according to the inventory;
- total number of items taken into consideration for the calculation: 42,200 objects.
-

39. For WIPO, the full average annual cost of managing an item of furniture or IT equipment is **SFR 27.50** per item, broken down as follows:

- Cost of storage areas SFR 5.64 per item
- Staff costs SFR 20.68 per item
- Cost of IT applications SFR 1.18 per item
-

40. As may be noted in the document attached to this report, the full average annual cost of an item is low at WIPO, taking into account the results obtained for the other two organizations. However, the calculated ratio includes an important factor which is the number of items. The total number of items taken into consideration for the calculation (42,200 items) includes objects which are unusable and of no value and which should not be included in the inventory, as they should have been disposed of or recycled. A reduction in the number of items would automatically raise the overall cost.

Efficiency ratio of storage costs

Assessment: AVERAGE

Effectiveness

Is inventory management effective?

41. The effectiveness of the activity consisting of the management and inventorization of furniture and IT equipment is not evaluated by WIPO. No formal objective or performance indicator has been set by the Organization's management. Consequently, neither results nor a comparison with the objectives set are therefore available. None of the analyses provided by my colleagues in this precise area has therefore been carried out.
42. During the final discussion, WIPO was invited to reflect on the importance for it of the activity consisting in managing and inventorizing the Organization's different inventories. I note that with the introduction of IPSAS, the requirements relating to this activity will be much more important than they are currently (strict requirements in terms of completeness, accuracy, existence and evaluation etc.). At the end of the discussion, the Organization will decide whether it wishes to set objectives for this activity or not. If this is the case, performance

indicators and performance evaluation methods should therefore be defined. Moreover, corrective measures should be introduced in case of significant discrepancies between anticipated and actual performance.

43. In the absence of objectives set by the Organization, the effectiveness criterion cannot be evaluated.

Effectiveness of inventory management in general

Assessment: -

Are users satisfied?

44. Owing to a lack of available documents and in order to determine the impact of the management of the furniture and IT equipment inventories, my colleagues conducted a satisfaction survey. It should be stated straight away that the survey was not done scientifically or in accordance with the generally accepted principles of statistics. The aim of the exercise was to judge, on the basis of reduced sampling, whether the resources used to manage the furniture and IT equipment inventories were appropriate to the results obtained. In other words, were the final users of the property under review satisfied.
45. My colleagues therefore asked those responsible for the furniture and IT equipment inventories to provide them with lists of staff members who have ordered and received items recently. Short discussions were then held with these people and the following emerged:
- the order procedures are known but are not standardized;
 - with one exception, the people were satisfied with the speed with which the item ordered was delivered to them;
 - with one exception, the people were satisfied with the quality of the item which was delivered to them; in all cases, the items delivered did correspond to those which had been ordered;
 - only one of the people questioned had lost or had had stolen equipment belonging to WIPO; the procedure to be followed in case of loss or theft was unknown to most staff members.
 -
46. Few proposed improvements were put forward by the people questioned but, of the proposals selected, a first one recommended the standardization of the procedures for requesting equipment and eliminating all paper documents and using only electronic forms; the second proposal concerned the improvement of communication between the Section which deals with orders of furniture and those making requests, which would have allowed better monitoring of orders.

User satisfaction

Assessment: AVERAGE

CONCLUSION

47. As may be noted from the table in the annex to this report, the quality of WIPO inventory management is in need of improvement. My recommendations show that weaknesses should be corrected.
48. Significant work must be undertaken to make the processes suitable in relation to good practices and to improve the economy, efficiency and effectiveness of such management. The overall management of inventories requires numerous skills (technical, accounting, etc.) to be present as well as an external perspective on the flow of information within the Organization's internal services. Keeping a check on reality and verifying the valuation of assets allow costs to be controlled (audit costs, cost prices, maintenance, insurance). Furthermore and with a view to the transition to IPSAS, I invite WIPO to take the measures necessary to be able not only to inventorize, but also to value as balance sheet assets, all the inventories of financial significance at the lowest value between the purchase cost (cost price) and the net sale value. Moreover, the different participants in the inventory management process should be trained so that they are able to observe the relevant regulatory provisions scrupulously. Finally, it should be ensured that the regulations internal to the Organization are, in all respects, compliant with those of IPSAS.
49. The performance audit represents an approach applied for the first time at WIPO. Analyzing a perfectly identical subject in the three organizations whose accounts I am responsible for auditing is also a new feature. Since this work falls outside the usual scope of auditing WIPO's accounts, I have decided to issue a separate report. That report does not include an audit opinion, as such an opinion is issued only after the final audit of biennial accounts (Unions) or annual (other accounts) of the Organization.

(signed)

K. Grüter

Director
FEDERAL AUDIT OFFICE

(External Auditor)

Annex: Comparative table of assessments for the three Organizations



Annex to 1.7453.944.00333.02

Assessments of the three organizations

Area	WIPO	Organization 2	Organization 3
Quality of guidelines governing inventory management	Average	Average	Weak
Quality of available information and suitability of IT equipment inventory management processes	Weak	Average	Good
Quality of available information and suitability of furniture inventory management processes	Weak	Average	Weak
Economical use of IT applications	Weak	Average	Average
Economical use of human resources	Weak	Average	Weak
Economical use of storage premises	Weak	Good	Good
Cost of inventory management	Average	Average	Average
Efficiency of inventory management in general	Weak	Average	Average
Average annual cost of managing an item	SFR 27.50	SFR 21.35	SFR 38.76
Efficiency ratio of storage costs	Weak	Good	Average
Effectiveness of inventory management in general	-	-	-
User satisfaction	Average	Good	Average

This annex is an integral part of the report. Consequently, it should not generate interpretations based only on that annex.

The above assessments are influenced by what my colleagues were able to observe within the three organizations. By way of illustration, a positive assessment means that the organization concerned performs relatively well in a certain area, but only in relation to the other two organizations audited. That does not necessarily mean that it performs well in absolute terms and it might well obtain a different assessment if other entities had been included in the audit.