|  |  |  |
| --- | --- | --- |
|  |  | EC/47/12**ORIGINAL:** EnglishDATE: August 5, 2013 |
| INTERNATIONAL UNION FOR THE PROTECTION OF NEW VARIETIES OF PLANTS  |
| Geneva |

COUNCIL

Forty-Seventh Ordinary Session
Geneva, October 24, 2013

Financial statements for 2012

Document prepared by the Office of the Union

Disclaimer: this document does not represent UPOV policies or guidance

 The Financial Statements of the International Union for the Protection of New Varieties of Plants (UPOV) for the year ended December 31, 2012, together with the audit report of the External Auditor, are transmitted to the Council in accordance with Regulation 6.5 of the Financial Regulations and Rules of UPOV (document UPOV/INF/4/3), which requires that the Council examines and approves the financial statements. The Financial Statements for 2012 are presented in Annex I of this document. Annex II of this document contains the audit report of the External Auditor.

 The Financial Statements for 2012 have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS). At its forty-fifth ordinary session, held in Geneva on October 20, 2011, the Council agreed to the adoption of IPSAS by UPOV, beginning with the financial period starting in 2012 (see document C/45/18 “Report”, paragraph 9(b)). The Financial Statements for 2012 constitute the first set of financial statements to be prepared in accordance with IPSAS.

 In accordance with Regulation 6.6 of the Financial Regulations and Rules of UPOV, the Secretary‑General shall prepare a financial management report for the 2012-2013 financial period, to be submitted to the Council within eight months of the end of the financial period. The financial management report shall include a statement of budget and actual income and expenditure for the financial period, the income and expenditure of all funds, the status of appropriations, primary financial statements for the financial period, a report on investments and a statement on the status of contributions. The financial management report for the 2012-2013 financial period will be submitted to the Council by August 31, 2014, for approval by the Council, at its forty‑eighth ordinary session, in October 2014.

 The Council is invited to:

 (a) examine and approve the Financial Statements for 2012; and

 (b) note that the financial management report for the 2012-2013 financial period will be submitted to the Council by August 31, 2014, for approval by the Council at its forty‑eighth ordinary session, in October 2014.

[Annexes follow]

C/47/12

ANNEX I

**INTERNATIONAL UNION FOR THE PROTECTION OF NEW VARIETIES OF PLANTS**

Financial Statements for the year ended December 31, 2012

Contents

[Introduction 2](#_Toc363132333)

[Financial results for the year 2](#_Toc363132334)

[Statement I: Statement of financial position 5](#_Toc363132335)

[Statement II: Statement of financial performance 6](#_Toc363132336)

[Statement III: Statement of changes in net assets 7](#_Toc363132337)

[Statement IV: Statement of cash flow 8](#_Toc363132338)

[Statement V: Statement of comparison of budget and actual amounts 9](#_Toc363132339)

[Notes to the financial statements 10](#_Toc363132340)

[Note 1: Objectives, governance and budget of the Union 10](#_Toc363132341)

[Note 2: Significant accounting policies 10](#_Toc363132342)

[Note 3: Cash and cash equivalents 14](#_Toc363132343)

[Note 4: Accounts receivable 15](#_Toc363132344)

[Note 5: Equipment 15](#_Toc363132345)

[Note 6: Accounts payable 16](#_Toc363132346)

[Note 7: Employee benefits 16](#_Toc363132347)

[Note 8: Advance receipts 20](#_Toc363132348)

[Note 9: Other current liabilities 21](#_Toc363132349)

[Note 10: Related party transactions 21](#_Toc363132350)

[Note 11: Reserve and Working Capital Fund 22](#_Toc363132351)

[Note 12: Restatement of 2011 assets, liabilities and reserve fund 22](#_Toc363132352)

[Note 13: Reconciliation of statement of budgetary comparison (Statement V) and statement of financial performance (Statement II) 24](#_Toc363132353)

[Note 14: Revenue 25](#_Toc363132354)

[Note 15: Expense 25](#_Toc363132355)

[Note 16: Events after the reporting date 25](#_Toc363132356)

[Note 17: Segment reporting 26](#_Toc363132357)

# INTRODUCTION

1. The financial statements of the International Union for the Protection of New Varieties of Plants (UPOV) for the year ended December 31, 2012 are submitted to the Council of the Union in accordance with Regulation 6.5 of the Financial Regulations and Rules of UPOV (document UPOV/INF/4/3).

2. The report of the External Auditor on the audit of the 2012 financial statements, together with his opinion on the financial statements, are also submitted to the Council of the Union as prescribed under Regulation 6.5 and Annex II of the Financial Regulations and Rules of UPOV.

3. The 2012 financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS). At its forty-fifth ordinary session, held in Geneva on October 20, 2011, the Council agreed to the adoption of IPSAS by UPOV beginning with the financial period starting in 2012 (document C/45/18 “Report”, paragraph 9(b)). This agreement led to the replacement of the previously applied United Nations System Accounting Standards (UNSAS) with IPSAS which are internationally recognized. The 2012 financial statements constitute the first set of UPOV financial statements to have been prepared in accordance with IPSAS.

# financial results for the year

**Changes to the Financial Statements under IPSAS**

1. Applying IPSAS requires the introduction of the full accrual basis of accounting, a significant change from the modified accrual basis of accounting applied under UNSAS. Accrual basis accounting means the recognition of transactions and events when they occur. As such they are recorded in the accounting records and reported in the financial statements of the financial periods to which they relate, and not only when cash or its equivalent is received or paid.

1. Under IPSAS, revenue for both contributions and extrabudgetary funds (funds in trust) is recognized when UPOV has a right to receive the contribution. Where contributions are due to UPOV, a receivable balance is shown, but the total balance is reduced to reflect amounts still outstanding from prior periods. Voluntary contribution arrangements are analyzed to see if UPOV needs to meet performance conditions, and if these are present, revenue is only recognized when the conditions are fulfilled.
2. The value of future employee benefits (for example, accumulated annual leave, repatriation grants and After Service Health Insurance (ASHI)) that UPOV staff have earned but not yet received is now recorded to capture the full cost of employing staff. In previous financial statements these types of benefits were shown as an expense only when paid.
3. The implementation of IPSAS does not currently impact the preparation of the Program and Budget, which is still presented on a modified accrual basis. As this basis differs from the full accrual basis applied to the financial statements, a reconciliation between the budget and the principal financial statements is provided in accordance with the requirements of IPSAS.
4. IPSAS requires more detailed disclosures to be included in the notes to the financial statements in the interests of transparency. As such, UPOV now provides information on the remuneration of key management personnel. Information is now also provided on the financial risk management of the Union.

**Financial Performance**

1. The Union’s results showed a surplus for the year of 397,199 Swiss francs, with total revenue of 3,597,337 Swiss francs compared to total expenses of 3,200,138 Swiss francs. It is noted that, as permitted in respect of financial statements to which accrual accounting is first applied in accordance with IPSAS, comparative information has not been provided in the Statement of Financial Performance. The financial statements provide detail of financial performance by segment within the segment information disclosures, and this is summarized below:

***Table 1. Summary Financial Performance by Segment***

1. UPOV’s activities are financed mainly from two sources - contributions and extrabudgetary funds (funds in trust). Contributions of 3,334,768 Swiss francs represent approximately 92.7 per cent of the Union’s total revenue for 2012. Revenue recognized from extrabudgetary funds (funds in trust) totaled 220,330 Swiss francs for the year, representing 6.1 per cent of total revenue. UPOV also has balances of 232,400 Swiss francs relating to contributions received in advance. These balances are currently shown as liabilities, and will be recorded as revenue in the year to which they relate.
2. Employee benefit expenses of 1,986,080 Swiss francs represent 62.1 per cent of total expenses of 3,200,138 Swiss francs for the year 2012. As already highlighted, accrual accounting for post-employment and other long-term employee benefits requires the cost of the schemes to be recorded as the benefits are earned by staff, rather than on a pay-as-you-go basis. The total interest and service cost for the year relating to ASHI and repatriation benefits is 67,176 Swiss francs. This methodology allows UPOV to better account for the true cost of employing its staff on an annual basis.

**Financial Position**

1. UPOV has net assets of 1,637,286 Swiss francs as at December 31, 2012. Following the introduction of IPSAS, opening adjustments to the statement of financial position resulted in a reduction in net assets of 759,147 Swiss francs. The financial position of the Union by segment can be summarized as follows:

***Table 2. Summary Financial Position by Segment***

1. The net working capital (current assets less current liabilities) of the Union is 2,626,696 Swiss francs as at December 31, 2012 (2,177,838 Swiss francs as at January 1, 2012). Cash and cash equivalents balances increased from 3,213,716 Swiss francs at the start of the year to 3,316,037 Swiss francs as at December 31, 2012.
2. Total contributions receivable at December 31, 2012 were 70,273 Swiss francs, compared to 179,294 as at January 1, 2012.
3. UPOV has total employee benefit liabilities of 1,146,994 Swiss francs as at December 31, 2012. For the liabilities relating to After Service Health Insurance and repatriation benefits, actuarial valuations have been used. The main liability, relating to After Service Health Insurance, amounts to 915,733 Swiss francs as at December 31, 2012. This shows an increase of 31,157 Swiss francs from the balance as at January 1, 2012.

**Budgetary Performance**

1. The budget of the Union continues to be prepared on a modified accrual basis, and is presented in the financial statements as statement V, Statement of Comparison of Budget and Actual Amounts. In order to facilitate a comparison between the budget and the financial statements prepared under IPSAS, a reconciliation of the budget to the Statement of Financial Performance is included in the notes to the financial statements.
2. The budget for the year 2012 showed income and expenditure of 3,394,000 Swiss francs. This compares to actual income on a comparable basis (before Funds in Trust and IPSAS adjustments) of 3,388,127 Swiss francs and actual expenditure on a comparable basis of 2,953,804 Swiss francs. The principal variations between the 2012 budget and actual numbers on a comparable basis are explained in the following paragraphs.
3. Contributions: actual contributions of 3,323,050 Swiss francs are in line with budget, which is based on contributions from 70 members of the Union in 2012.
4. Interest: actual income from interest of 11,714 Swiss francs is lower than the budgeted figure of 35,000 Swiss francs, due to low average interest rates on interest bearing accounts (notably the Swiss National Bank was 0.375 per cent in 2012).
5. Personnel resources: the actual expenditure for 2012 of 1,937,238 Swiss francs was lower than the budgeted figure of 2,268,000 Swiss francs. The reduced expenditure in personnel resources was the result of one of the posts in the professional category being vacant and changes of grade due to personnel changes.
6. Travel and fellowships: actual expenditure of 276,573 Swiss francs is broadly in line with the budgeted figure of 279,000 Swiss francs.
7. Contractual services: actual expenditure on contractual services of 114,912 Swiss francs is lower than the budgeted figure of 215,000 Swiss francs. Notably, 2012 expenditure does not include amounts for information technology experts that will be incurred later in the 2012-2013 Biennium in relation to the development of an electronic application form and an electronic template for Test Guidelines. Furthermore, in 2013 there will be significant expenditure on experts to supplement the work of UPOV staff, for example in relation to the development of the advanced distance learning training course. It is also noted that as a result of delays in the dispatch of the UPOV-ROM Plant Variety Database (UPOV-ROM), the costs of publishing the six editions have not been reflected in actual expenditure.
8. Operating expenses: actual expenditure of 620,606 Swiss francs is broadly in line with the budgeted figure of 617,000 Swiss francs.
9. Other expenditure: other expenditure on supplies, materials, furniture and equipment is slightly lower than the budgeted figure, although this expenditure is not significant for the 2012-2013 Biennium.

# statement i

# statement of financial position

**as at December 31, 2012**

**(in Swiss francs)**

# statement ii


# statement of financial performance

**for the year ended December 31, 2012**

**(in Swiss francs)**

# statement iii


# statement of changes in net assets

**for the year ended December 31, 2012**

**(in Swiss francs)**

# statement iV


# statement of cash flow

**for the year ended December 31, 2012**

**(in Swiss francs)**


# statement V

# statement of comparison of budget and actual amounts

**for the year ended December 31, 2012**

**(in thousands of Swiss francs)**

1. – represents the first year of the approved 2012-2013 biennial budget;
2. – represents the difference between the final (revised) budget and actual expense on a comparable basis (before IPSAS adjustments);
3. - the IPSAS adjustments to the surplus are detailed in Note 13 of these financial statements.

# notes to the financial statements

# note 1: Objectives, governance and budget of the Union

The International Union for the Protection of New Varieties of Plants (UPOV) is an intergovernmental organization with headquarters in Geneva. UPOV’s mission is to provide and promote an effective system of plant variety protection, with the aim of encouraging the development of new varieties of plants, for the benefit of society.

UPOV was established by the International Convention for the Protection of New Varieties of Plants (the UPOV Convention), which was signed in Paris in 1961. The Convention entered into force in 1968. It was revised in Geneva in 1972, 1978 and 1991. The 1991 Act entered into force on April 24, 1998. The main objectives of UPOV are, in accordance with the UPOV Convention, to:

* provide and develop the legal, administrative and technical basis for international cooperation in plant variety protection;
* assist States and organizations in the development of legislation and the implementation of an effective plant variety protection system; and
* enhance public awareness and understanding of the UPOV system of plant variety protection.

In accordance with Article 25 of the 1991 Act and Article 15 of the 1978 Act, the Council and the Office of the Union are the permanent organs of the Union.

The Council governs UPOV, and consists of the representatives of the members of the Union. The Council is responsible for safeguarding the interests and encouraging the development of the Union, for adopting its program and budget and for taking all necessary decisions to ensure the efficient functioning of the Union. The Council meets once a year in ordinary session. If necessary, it is convened to meet in extraordinary session. The Council has established a number of bodies, which meet once or twice a year.

The Office of the Union is the Secretariat of UPOV, and is under the direction of the Secretary-General. The staff of the Office of UPOV, other than the Vice Secretary‑General himself, is under the direction of the Vice Secretary-General of UPOV. In 1982 a cooperation agreement (the WIPO/UPOV Agreement) was signed between UPOV and the World Intellectual Property Organization (WIPO), a Specialized Agency of the United Nations. Under this Agreement, the Council of UPOV appoints as Secretary-General of UPOV the Director General of WIPO. The Vice Secretary‑General is responsible for the delivery of the results indicated in the approved program and budget. Under the Agreement, WIPO satisfies the requirements of UPOV as regards to provision of space, personnel administration, financial administration, procurement services and other administrative support. UPOV indemnifies WIPO for any service rendered to, and any expenditure incurred on behalf of, UPOV.

UPOV is funded by contributions and extrabudgetary funds (funds in trust) from members of the Union. The Union operates within the framework of a biennial program and budget. The proposed program and budget covers estimates for income and expenditure for the financial period to which it relates. It is submitted by the Secretary-General to the Consultative Committee for discussion, comments and recommendations, including possible amendments. The Council adopts the program and budget after consideration of the proposed program and budget and the recommendations of the Consultative Committee.

# note 2: significant accounting policies

**Basis of Preparation**

These financial statements have been prepared on an accrual and going-concern basis and the accounting policies have been applied consistently throughout the period. The statements comply with the requirements of International Public Sector Accounting Standards (IPSAS).

These are the first financial statements prepared in compliance with IPSAS and comparative information for the Statement of Financial Performance and the Statement of Cash Flow has not been provided in accordance with the transitional provisions contained in IPSAS-1, Presentation of Financial Statements, paragraph 151.

**Foreign Currency**

The functional currency of UPOV is the Swiss franc and these financial statements are presented in that currency. All transactions occurring in other currencies are translated into Swiss francs using the UN exchange rates which represent those prevailing at the date of the transactions. Both realized and unrealized gains and losses resulting from the settlement of such transactions and from the translation at the reporting date of assets and liabilities denominated in currencies other than UPOV’s functional currency are recognized in the Statement of Financial Performance.

**Segment Reporting**

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. At UPOV, segment information is based on the principal activities and sources of financing of the Union. As such, UPOV reports separate financial information for two segments: (1) the Regular Program and Budget; and (2) Funds in Trust.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, deposits held up to 90 days and other short-term highly liquid investments that are readily convertible to cash and subject to insignificant risk of changes in value.

**Receivables**

Contributions are recognized as revenue at the beginning of the financial year. An allowance for receivables is recorded equal to the contributions arrears for years prior to the current year.

**Inventories**

Inventories may include the value of publications held for sale and publications distributed free of charge. The total value of finished publications is determined by using an average cost per printed page (excluding costs of marketing and distribution) multiplied by the number of pages of publications held in the publications inventory, adjusted to reflect the lower of cost or net realizable value. The value of publications that are withdrawn from sale or from free distribution is written off during the year in which they become obsolete.

A perpetual inventory is maintained of the publications for sale and sample physical counts are undertaken throughout the year to verify inventory balances. At the end of each year items removed from the catalogue of publications for sale or free distribution, along with items for which it is anticipated that there will be no further free distribution or anticipated sales, are taken out of the inventory and their value is written down to zero.

**Fixed Assets**

Equipment is valued at cost less accumulated depreciation and impairment. Equipment is recognized as an asset if it has a cost of 5,000 Swiss francs or more per unit. Depreciation is charged so as to write off the full cost of fixed assets over their estimated useful lives using the straight-line method on the following basis:

|  |  |
| --- | --- |
| **Class** | **Estimated useful life** |
| Communications and IT equipment | 5 years |
| Furniture and fixtures | 10 years |

The carrying values of fixed assets are reviewed for impairment if events or changes in circumstances indicate that the book value of the asset may not be recoverable. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss, if any. Any impairment loss is recognized in the Statement of Financial Performance. Fixed assets currently held by UPOV have a total net book value of zero.

**Intangible Assets**

Intangible assets are carried at cost less accumulated amortization and impairment.

Acquired computer software licenses are capitalized based on costs incurred to acquire and bring to use the specific software. Costs that are directly associated with the development of software for use by UPOV are capitalized as an intangible asset. Direct costs include the software development employee costs. As at December 31, 2012, no costs have been capitalized as intangible assets.

Amortization is provided on a straight-line basis on all intangible assets of finite life, at rates that will write off the cost or value of the assets over their useful lives. The useful lives of major classes of intangible assets have been estimated as follows:

|  |  |
| --- | --- |
| **Class** | **Estimated useful life** |
| Software acquired externally | 5 years |
| Software internally developed | 5 years |
| Licenses and rights | Period of license/right |

Employee Benefits

Liabilities are established for After Service Health Insurance (ASHI) and separation benefits payable (repatriation grants and travel) as determined by an independent actuary on an annual basis utilizing the projected unit credit methodology of valuation. Actuarial gains and losses are recognized utilizing the corridor approach and amortized over the average years of future service of active staff. In addition, liabilities are established for the value of accumulated leave and overtime earned but unpaid at the reporting date.

In accordance with the WIPO/UPOV Agreement signed on November 26, 1982, the staff members of UPOV participate in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified by Article 3(b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the plan. UPOV and the UNJSPF, in line with the other participating organizations in the Fund, are not in a position to identify UPOV’s proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence UPOV has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25. UPOV’s contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

**Provisions**

Provisions are recognized when the Union has a legal or constructive obligation as a result of a past event, whereby it is probable that an outflow of resources will be required to settle the obligation and where a reliable estimate of the amount of the obligation can be made.

Revenue Recognition

Revenue from non-exchange transactions such as extrabudgetary funds (funds in trust) supported by enforceable agreements is recognized as revenue at the time the agreement becomes binding unless the agreement includes conditions related to specific performance or the return of unexpended balances. Such agreements require initial recognition of a liability to defer revenue recognition and then revenue is recognized as the liability is discharged through performance of the specific conditions included in the agreement.

Contributions are recognized as revenue at the beginning of each year of the budget period to which the contribution relates.

In-kind contributions of services are not recognized in the financial statements.

Expense Recognition

Expenses are recognized as goods are received and services delivered.

**Financial Risks**

The Union is exposed to certain liquidity, interest rate, foreign currency exchange and credit risks.

Unless otherwise agreed by the Council, UPOV’s investment policy shall be the same as the investment policy of WIPO. The authority to make and prudently manage investments in accordance with the investment policy is delegated to the Controller of WIPO. The investment policy has been developed to ensure that investments are held primarily in liquid short-term deposits.

The Union is to a limited extent exposed to the risk of falling interest rates, since only 1.03 per cent of its operating budget is financed from revenue derived from investment income. The Union does not use financial instruments to hedge interest rate risk.

The Union may receive revenue from extrabudgetary funds (funds in trust) in currencies and incur expenses in currencies other than its functional currency, the Swiss franc and as a result is exposed to foreign currency exchange risk arising from fluctuations of currency exchange rates. The Union does not use derivative financial instruments to hedge exchange risk.

The Union’s accounts receivable are almost exclusively from members of the Union representing sovereign governments, and therefore risks related to credit are considered minor. Investments are held in banks with sovereign risk or with credit ratings of AA- or higher. An allowance has been established against the asset value of accounts receivable to reflect receivables for which payment is not anticipated in the short term.

Use of Estimates

The financial statements necessarily include amounts based on estimates and assumptions by management. Estimates include, but are not limited to: defined benefit medical insurance and other post-employment benefit obligations (the value of which is calculated by an independent actuary), financial risk on accounts receivable, accrued charges and the degree of impairment of fixed assets. Actual results could differ from these estimates. Changes in estimates are reflected in the period in which they become known.

# note 3: cash and cash equivalents

Cash deposits are generally held in instant access bank accounts, interest-bearing accounts and short-term investments (90 day deposits). The average rate of interest earned on interest bearing accounts and investments held with the Swiss National Bank was 0.375 per cent in 2012.

Working Capital Fund balances are held in a separate account. Interest received on the Working Capital Fund is credited to the general fund of UPOV. Funds in trust held on behalf of donors of extrabudgetary funds (funds in trust) are deposited in the currency in which expenditures will be reported, based upon agreements with donors.

The Union maintains limited and informal overdraft arrangements with banks with which it has funds on deposit. These arrangements may be withdrawn by the banks at any time. The Union minimizes the credit risk involved by holding its funds in banks with high or upper medium grade credit ratings:


# note 4: accounts receivable

Contributions represent uncollected revenue related to the UPOV contribution system. The amount of the annual contribution of each member of the Union is calculated on the basis of the number of contribution units applied to it (Article II of the 1972 Act, Article 26 of the 1978 Act and Article 29 of the 1991 Act of the Convention). An allowance has been established to offset the value of receivables due from contributions. The allowance covers amounts due from periods prior to 2012.

# note 5: equipment

All equipment in the inventory is valued at cost less depreciation based upon the straight-line basis. Furniture and fixtures are depreciated over a ten year useful life. All other equipment is depreciated over a five year useful life.


# note 6: accounts payable


# note 7: employee benefits

Employee benefits comprise:

*Short-term employee benefits* that include salary, allowances, grant on initial assignment, grants for the education of dependent children, paid annual leave, paid sick leave, accident and life insurance;

*Post-employment benefits* which include separation benefits consisting of grants upon repatriation, repatriation travel and shipping of personal effects and after service medical insurance.

**Short-Term Employee Benefits**

The Union has recognized liabilities for the following short-term benefits, the value of which is based on the amount payable to each staff member at the reporting date.

* Accumulated leave – staff members are eligible for 30 days annual leave and may accumulate up to 90 days leave of which up to 60 days is payable on separation from service. The total outstanding liability at the reporting date is 124,862 Swiss francs (145,185 Swiss francs at January 1, 2012).
* Home Leave – internationally recruited staff members are eligible for home leave for themselves and their dependents to the country from which they were recruited every second year. The total outstanding liability for home leave earned but not taken at the reporting date is 6,202 Swiss francs (0 Swiss francs at January 1, 2012).
* Overtime – staff members are eligible to be paid in cash for overtime accrued after the expiry of a period established in the Staff Regulations and Rules. The total amount payable at the reporting date is 6,069 Swiss francs (25,331 Swiss francs at January 1, 2012).

**Post-Employment Benefits**

*Repatriation grant and travel*: The Union has a contractual obligation to provide benefits such as repatriation grants and travel for certain internationally recruited staff members at the time of their separation from service. On the basis of an actuarial valuation carried out in December 2012 by an independent actuary, the obligation was estimated as follows at the reporting date:

*After Service Health Insurance (ASHI)*: The Union also has a contractual obligation to provide post-employment medical benefits for its staff members in the form of insurance premiums for the medical and accident insurance plan. Staff members (and their spouses, dependent children and survivors) retiring from service are eligible for ASHI coverage if they continue to participate in the ASHI scheme after separation from service. In accordance with the Staff Regulations and Rules, a share of 65% of the monthly medical insurance premium is paid by the Union. The current monthly medical premium amounts to 552 Swiss francs as at December 31, 2012. The present value of the defined benefit obligations for post-employment medical benefits is determined using the projected unit credit method including discounting the estimated future cash outflows using a discount rate based upon both Swiss franc high grade corporate bonds and Swiss government bonds. The plan is unfunded and no plan assets are held in a long-term employee benefit fund. On the basis of an actuarial valuation carried out in December 2012 by an independent office, this liability was estimated as follows at the reporting date:

The actuarial assumptions and calculations applicable to the ASHI liability as at December 31, 2012 are disclosed in the following table:

The unrecognized actuarial loss for the year is 116,006 Swiss francs. This represents the impact of an actuarial loss of 112,464 Swiss francs resulting from the reduction in the discount rate and the updating of demographic tables, and a loss of 3,542 Swiss francs resulting from experience adjustments. The cumulative actuarial loss is amortized over the estimated remaining working lives of the employees covered by after service health insurance. The portion of the liability recognized on the Statement of Financial Performance is the amount of the amortized actuarial gain or loss exceeding ten percent of the present value of the defined benefit liability at the reporting date in accordance with the corridor method of recognition.

Assumed healthcare cost trends have a significant effect on the amounts calculated for the ASHI liability. A one percentage point change in assumed healthcare cost trends would have the following effects:

**United Nations Joint Staff Pension Fund**

The Pension Fund’s Regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the Open Group Aggregate Method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

UPOV’s financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

The latest actuarial valuation was performed as of December 31, 2011. The valuation revealed an actuarial deficit of 1.87 per cent (0.38 per cent in the 2009 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as of December 31, 2011 was 25.57 per cent of pensionable remuneration, compared to the actual contribution rate of 23.7 per cent. The actuarial deficit was primarily attributable to the lower than expected investment experience in recent years.

At December 31, 2011, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 130 per cent (140 per cent in the 2009 valuation). The funded ratio was 86 per cent (91 per cent in the 2009 valuation) when the current system of pension adjustments was taken into account.

After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of December 31, 2011, for deficiency payments under Article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of Article 26. The pensionable remuneration will be reviewed at the time of the next actuarial valuation as of December 31, 2013.

In July 2012, the Pension Board noted in its Report of the fifty-ninth session to the General Assembly that an increase in the normal age of retirement for new participants of the Fund to 65 is expected to significantly reduce the deficit and would potentially cover half the current deficit of 1.87 per cent. In December 2012, the General Assembly authorized the United Nations Joint Staff Pension Board to increase the normal retirement age to 65 for new participants of the Fund, with effect not later than from January 1, 2014, unless the General Assembly has not decided on a corresponding increase in the mandatory age of separation.

During 2012, UPOV’s contributions paid to UNJSPF amounted to 227,844 Swiss francs
(2011: 211,775 Swiss francs). Expected contributions due in 2013 are 257,009 Swiss francs.

The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the UNJSPF Pension Board on the audit every year. The UNJSPF publishes quarterly reports on its investments and these can be viewed by visiting the UNJSPF at [www.unjspf.org](http://www.unjspf.org).

# note 8: advance receipts

Contributions received in advance are recorded as advance receipt liabilities and are recognized as revenue in the year to which they relate. Extrabudgetary funds from donors to Funds in Trust containing conditions requiring the Union to provide goods or services to recipient governments or other third parties, are treated as deferred revenue until the services covered by the extrabudgetary funds (funds in trust) are performed, whereupon revenue is recognized.

# note 9: other current liabilities

Other current liabilities are amounts payable to WIPO, which relate to services provided under the WIPO/UPOV Agreement.

# note 10: related party transactions

The Council of the Union consists of the representatives of the members of the Union. They do not receive remuneration from the Union.

The Union has no ownership interest in associates or joint ventures and no controlled entities. In 1982 a cooperation agreement (the WIPO/UPOV Agreement) was signed between UPOV and WIPO. Under this Agreement, the Council of UPOV appoints as Secretary-General of UPOV the Director General of WIPO. Under the Agreement, WIPO satisfies the requirements of UPOV as regards to provision of space, personnel administration, financial administration, procurement services and other administrative support. UPOV indemnifies WIPO for any service rendered to, and any expenditure incurred on behalf of, UPOV. In accordance with the Agreement, the Office of the Union exercises its functions in complete independence of WIPO.

The key management personnel are the Secretary-General, the Vice Secretary-General and officers. The current Director General of WIPO has declined any salary or allowance from his function as Secretary‑General of UPOV. The other key management personnel are remunerated by the Union. The aggregate remuneration paid to key management personnel includes salaries, allowances, statutory travel and other entitlements paid in accordance with the Staff Regulations and Rules. Key management personnel are members of the UN Joint Service Pension Fund (UNJSPF) to which the personnel and the Union contributes and are also eligible for participation in the Staff Health Insurance Scheme including the after service medical insurance scheme if they meet the eligibility requirements.

Key management personnel and their aggregate remuneration were as follows:

There was no other remuneration or compensation to key management personnel or to their close family members.

# note 11: reserve and working capital funds

In accordance with Regulation 4.2 of the UPOV Financial Regulations and Rules, UPOV has a Working Capital Fund. As at December 31, 2012, the Working Capital Fund stands at 540,011 Swiss francs. As per Regulation 4.2, the purposes for which the Working Capital Fund is utilized are:

1. to meet budgeted expenditure pending the receipt of the contributions of members of UPOV;
2. to meet unavoidable unforeseen expenses arising from the execution of the approved program;
3. to meet such other expenses as may be determined by the Council.

Advances made from the Working Capital Fund to meet the expenditure requirements listed above are to be reimbursed in accordance with Regulation 4.2.

The reserve fund represents the accumulated surpluses and deficits of the Union. In accordance with Regulation 4.6 of the UPOV Financial Regulations and Rules, the use, other than for the covering of any deficits, of the reserve fund is a matter for the decision of the Council. If after the closure of the financial period, the amount of the reserve fund exceeds 15 percent of the total income for the financial period, the amount in excess shall be reimbursed to the members of UPOV, unless otherwise decided by the Council. Any member of UPOV may request that the reimbursement attributed to it be deposited in a special account or trust fund specified by it.

# NOTE 12: Restatement of 2011 assets, liabilities and reserve fund

This is the first set of UPOV financial statements prepared on a full accrual basis and which comply with the requirements of International Public Sector Accounting Standards (IPSAS). Previous UPOV financial statements were prepared to conform to the United Nations System Accounting Standards (UNSAS). The table below summarizes the adjustments made to the audited 2011 balances to incorporate the changes in accounting policy in order to produce an IPSAS compliant opening Statement of Financial Position as at January 1, 2012:

The adjustments made to generate the January 1, 2012 opening Statement of Financial Position have resulted in a 759,147 Swiss francs reduction in total net assets. The most significant adjustments relate to employee benefit liabilities and these total 747,429 Swiss francs. The adjustments result from the recognition in the financial statements of these liabilities based on their valuation as at January 1, 2012. An adjustment of 11,718 Swiss francs has also been made relating to allowances against contributions receivable.

# note 13: reconciliation of statement of budgetary comparison (statement v) and statement of financial performance (statement ii)

The UPOV Program and Budget is established on a modified accrual basis in accordance with the UPOV Financial Regulations and Rules, and is approved by the Council. The Regular Program and Budget for the 2012-2013 Biennium established a budget estimate of income and expenditure for the biennium of 6,798,000 Swiss francs.

For 2012, the first year of the biennium, the original and final budget estimate for income and expenditure was 3,394,000 Swiss francs. Actual income on a modified accrual basis for the first year of the biennium was 3,388,127 Swiss francs. Actual expense on a modified accrual basis for the first year of the biennium was 2,953,804 Swiss francs. The section ‘Financial results for the year’ on pages 4-5 of these financial statements provides an explanation of the material differences between the budget and the actual amounts.

UPOV’s budget and financial accounts are prepared using two different bases. The Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets and Statement of Cash Flow are prepared on a full accrual basis, whereas the Statement of Comparison of Budget and Actual Amounts (Statement V) is prepared on a modified accrual basis.

As required by IPSAS-24, a reconciliation is provided between the actual amounts on a comparable basis with the budget as presented in Statement V and the actual amounts in the financial accounts identifying separately any basis, timing and entity differences. UPOV’s budget is adopted by the Council on a biennial basis, however, separate estimates are prepared for each of the two annual periods. Therefore there are no timing differences to report. Basis differences occur when the approved budget is prepared on a basis other than the full accrual accounting basis. Basis differences include the full recognition of employee benefit costs, allowances and provisions. Entity differences represent the inclusion in UPOV’s financial accounts of Funds in Trust, which are not included in UPOV’s Regular Program and Budget. Presentation differences where applicable may represent the treatment of acquisitions of equipment as investing activities in Statement IV rather than as expenses in Statement V.


# Note 14: revenue

Contributions under the Regular Program and Budget represent amounts payable in January 2012. Extrabudgetary funds under Funds in Trust represent revenue received in connection with contributions made by donors to individual projects not included in the Regular Program and Budget. Revenue from extrabudgetary funds (funds in trust) is deferred until earned through the delivery of the specific services provided in the plan of work agreed with the donor.

# note 15: expense

Personnel expenditure includes short-term employee benefits such as base salary, post adjustment, dependents’ allowance, pension contribution, health and other insurance contributions, home leave and other entitlements for permanent and short-term staff and consultants. As a result of the implementation of IPSAS, personnel expenditure also includes amounts for the movements in provisions for employee benefit liabilities (48,842 Swiss francs).

Travel and fellowships includes the costs of airfare, daily subsistence allowances, terminal allowances and other travel costs for staff on official business and travel for participants, lecturers and fellows in connection with training activities. Contractual services include translators, interpreters and other non-staff service agreements. Operating expenses include items such as premises rent, maintenance and bank charges.

# note 16: events after the reporting date

UPOV’s reporting date is December 31, 2012 and its financial statements were authorized for issuance on June 12, 2013. No material events, favorable or unfavorable, which would have impacted upon the statements have been incurred between the reporting date and the date on which the financial statements were authorized for issue.

# NOTE 17: segment reporting

Segment information is based on the principal activities and sources of financing of the Union. UPOV reports separate financial information for two segments: the Regular Program and Budget and Funds in Trust (extrabudgetary funds). Funds in Trust represent amounts administered by UPOV on behalf of individual donors to carry out programs consistent with the policies, aims and activities of UPOV. The Regular Program and Budget and Funds in Trust are accounted for separately in the financial accounting system.

**Statement of Financial Position by Segment**

**as at December 31, 2012**

**(in Swiss francs)**

**Statement of Financial Performance by Segment**

**for the year ended December 31, 2012**

**(in Swiss francs)**

[Annex II follows]

trois

 EIDGENOSSISCHE FINANZKONTROLLE

 CONTROLE FEDERAL DES FINANCES

 CONTROLLO FEDERALE DELLE FINANZE

 SWISS FEDERAL AUDIT OFFICE

Report of the Auditor

**INTERNATIONAL UNION FOR THE PROTECTION OF NEW VARIETIES OF PLANTS (UPOV)**

Audit of 2012 financial statements

*The mandate of external auditor of the financial statements of the International Union for the Protection of New Varieties of Plants (UPOV) 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 in accordance with Article 25 of the International Convention of December 2, 1961, as revised in 1978, and Article 29(6) of the 1991 Act, the UPOV Council, at its Forty-Fifth Ordinary Session held in Geneva on October 20, 2011, renewed Switzerland’s mandate as Auditor until the year 2017 inclusive. Thus, 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 UPOV.*

*My terms of reference are specified in Annex II of the Financial Regulations and Rules of UPOV. 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 UPOV 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.*

*For more information, please contact:*

*Mr. Kurt Grüter*

*Director of the Swiss Federal Audit Office*

*Monbijoustrasse 45*

*3003 Berne*

*Tel: +41 (0)31 323 10 01*

*kurt.grueter@efk.admin.ch*

*or:*

*Mr. Didier Monnot*

*Officer in charge of mandates*

*Tel: +41 (0)31 323 10 48*

*didier.monnot@efk.admin.ch*

Berne, June 24, 2013

Reg. No. 1.13432.946.00335.05

modi/dear

Table of contents Paragraphs

**Audit summary -**

Regulations, standards and information 1-9

Follow-up to recommendations 10

Internal control system (ICS) 11

Production of financial statements

according to IPSAS 12

Audit of 2012 budget performance 13-14

Audit of 2012 financial statements 15-39

**Conclusion 40**

**Annex: Audit opinion**

AUDIT SUMMARY

The presentation of the 2012 financial statements for the International Union for the Protection of New Varieties of Plants (UPOV) coincides with the first accounting year produced according to the International Public Sector Accounting Standards (IPSAS). The audit for this financial year gave a good result overall. No significant problems were noted and, as Auditor, I am in a position to issue an audit opinion without any reservations, or remarks.

I wish to highlight the fact that no form of accounts has been produced by the Union for the actuarial debt to the United Nations Joint Staff Pension Fund (UNJSPF). Such accounts would have a significant impact on the Union’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 UPOV’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 Union’s financial periods are governed by the relevant provisions of the various Conventions, as well as by those of the Financial Regulations and Rules of UPOV[[1]](#footnote-2) in accordance with the International Public Sector Accounting Standards (IPSAS).
2. The audit related to the financial statements of the Union as at December 31, 2012, including the Statement of Financial Position (Statement I), the Statement of Financial Performance (Statement II), the Statement of Changes in Net Assets (Statement III), the Statement of Cash Flow (Statement IV) and the Statement of Comparison of Budget and Actual Amounts (Statement V), as well as notes attached to the statements.
3. Given that the move to IPSAS constitutes a major paradigm shift, I also carried out an interim audit in October 2012. During the course of that audit, my colleagues audited the new opening balance as at January 1, 2012 in accordance with IPSAS and analyzed the numerous reprocessing operations that sometimes had to be performed in order to ensure that the move was in line with the two accounting frameworks. Since the result of these tests was good and no particular problems were noted concerning this new presentation of the accounts, I did not feel that it would be useful to produce a separate audit report in their regard.

Auditing standards, information and acknowledgements

1. The audit was carried out in accordance with the International Standards on Auditing (ISAs) published by the International Auditing and Assurance Standards Board (IAASB) (ISA – 2010 Edition)[[2]](#footnote-3), whilst also observing the additional Terms of Reference forming an integral part of the Financial Regulations and Rules of UPOV.
2. The audit was carried out by two qualified colleagues from the Swiss Federal Audit Office in June 2013.
3. Where testing by means of random sampling was carried out, my colleagues selected the samples based on the risks or relative size of the amounts recorded under the headings examined.
4. The results of the audit were communicated to the Vice Secretary-General of UPOV during the final discussion on June 24, 2013.
5. I wish to express my satisfaction with the obliging manner in which the main persons responsible for keeping the UPOV accounts, namely Mr. Philippe Favatier, Chief Financial Officer (Controller) and Mrs. Janice Cook Robbins, Director, Finance Services and their staff, provided all the information and documents required for my work to be completed.
6. In accordance with item 11 of the Additional Terms of Reference Governing External Audit concerning the comments of the Secretary-General to be included in the present report, I received confirmation by e-mail on June 26, 2013, from his colleagues that there were no additional comments.

FOLLOW-UP TO RECOMMENDATIONS

1. No recommendations remained outstanding at UPOV at the end of the 2010-2011 biennium, all of them having been addressed during the aforementioned period.

INTERNAL CONTROL SYSTEM (ICS)

The internal control system, which is essentially dependent on the administrative services of WIPO, is currently being implemented

1. Having taken into account the agreements between UPOV and WIPO concerning administrative management, my colleagues inquired about the progress made concerning the implementation of the internal control system (ICS) within WIPO. The project is still being implemented, meaning that UPOV does not yet have a formalized ICS. At this stage, my colleagues can confirm the existence of an informal ICS within UPOV which makes possible the production of financial statements that are free of significant anomalies, but this ICS should be formalized eventually.

PRODUCTION OF FINANCIAL STATEMENTS ACCORDING TO IPSAS

Production of the financial statements according to IPSAS, a sizeable and complex task facilitated by the expertise of the Finance Services

1. UPOV’s financial statements were closed according to IPSAS for the first time on December 31, 2012, and their production according to said standards represents a sizeable and complex task. Thanks to the expertise and experience of the colleagues in the WIPO Finance Services who assist UPOV in this regard, the implementation of these new standards was facilitated. I wish yet again to thank all of the Finance Services team, who made every effort to achieve this objective.

AUDIT OF 2012 BUDGET PERFORMANCE

Budget performance, a positive result for the financial period and above budget

1. The 2012 biennium budget adopted by the Council during the Forty-Fifth Ordinary Session on October 20, 2011, as well as the actual accounts for the given period, as presented in the 2012 Financial Management Report, can be summarized as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | ***Budget (Swiss francs)*** | ***Accounts (Swiss francs)*** | ***Difference accounts vs. budget (Swiss francs and %)*** |
| Income  | 3,394,000.00 | 3,388,000.00 | -6,000.00 | -0.18% |
| Expenditure | -3,394,000.00 | -2,954,000.00 | 440,000.00 | -12.96% |
| **Result** | **0.00** | **434,000.00** | **434,000.00** |  |

The result for the 2012 financial year prior to the IPSAS adjustment of -37,000 Swiss Francs displays a surplus of income of 434,000 Swiss Francs.

1. As to budget performance, I refer here to the comments of the Secretary-General contained in the Financial Management Report. The explanations concerning the main variations between the budget and the actual figures are contained in Statement V “Statement of Comparison of Budget and Actual Amounts for the year ended December 31, 2012” presented in thousands of Swiss francs. It should be noted in general that the operating revenue is slightly lower than expected (-6,000 Swiss francs), while actual expenditure is much lower than forecast (‑440,000 Swiss francs).

AUDIT OF 2012 FINANCIAL STATEMENTS

Key figures for the 2012 financial statements: confirmation of a healthy financial situation

1. The table below allows a comparison of several key values from the balance sheets for 2012 and 2011. I wish to point out, however, that the 2011 accounts displayed here contain values reprocessed according to IPSAS. I leave it to the reader to examine the table, without making any particular remarks here. Indeed, I refer again to a number of significant balances from the 2012 accounts in detail in the present report, accompanied by specific comments.

|  |  |
| --- | --- |
|  | **Amounts in Swiss Francs** |
| **Reference** | **2012** | **2011** | **Changes** |
| Balance sheet total | 3,388,206 | 3,511,347 | -123,141  |
| Liquid assets | 3,316,037 | 3,213,716 | 102,321  |
| Other assets | 72,169 | 297,631 | -225,462  |
| Foreign funds | 603,926 | 1,000,015 | -396,089  |
| Provisions for employee benefits | 1,146,994 | 1,280,579 | -133,585  |
| Reserve fund | 1,097,275 | 700,076 | 397,199  |
| Working capital fund | 540,011 | 536,777 | 3,234  |

**Table 1: 2012 key figures**

Liquid assets, movements of funds confirmed by the bank

1. The liquid funds held at UBS as at December 31, 2012, correspond to the accounting balances appearing on the balance sheet. These values, which overall represent around 886,000 Swiss francs are confirmed by the “Confirmation of business relationship” duly completed by UBS.  Checks made by random sampling of the movements during the accounting period of liquid funds registered under this heading did not reveal any errors. These checks confirmed the regularity of operations. Compared to 2011, these two accounts together display an increase in available funds of around 340,000 Swiss francs in 2012.

Long-term investments in two accounts opened with the Swiss Confederation

1. The long-term investments made with the Swiss Confederation present a cumulative balance of almost 2.43 million Swiss francs. The specific statements of accounts produced by the Confederation at the end of 2012 confirm this amount. I wish to point out that the cumulative balance of the two accounts decreased by around 239,000 Swiss francs over that period. The checks by random sampling of the movements and the correct crediting of interest to those accounts by the Federal Finance Administration were confirmed to me by my colleagues.

Receivables open for Member States are decreasing

1. The balance of receivables open for Member States, working capital fund included, stands at 72,000 Swiss francs at the end of the accounting period. This represents a decrease in the balance of more than 109,000 Swiss francs compared to the balance for the previous financial year. The items open at the end of 2012 are the following:

|  |  |
| --- | --- |
|   | **Amounts in Swiss Francs** |
|   | **Contributions** | **Working capital fund** |
| Bolivia | 10,728 |   |
| Brazil | 1,331 |   |
| Dominican Republic | 979 |   |
| Nicaragua | 6,404 |   |
| Poland | 26,820 |   |
| TFYR Macedonia | 10,728 | 1,667 |
| Ukraine | 13,283 |   |
| **Total** | **70,273** | **1,667** |

**Table 2: Contributions in arrears owed by Member States**

1. The contributions by the Member States increased in 2012 by 21,456 Swiss francs to 3,323,050 Swiss francs, corresponding to the budget for that year. Checks confirmed that the revenue was accurate and complete. The advance payments of Member States’ contributions stood at over 232,000 Swiss francs at the closure of the accounts. At the end of 2011, that sum stood at over 300,000 Swiss francs.
2. The voluntary contributions concern Japan and the United States. The cumulative balance at the end of 2012 had fallen slightly compared to 2011, standing from then on at around 211,000 Swiss francs. The movements for the two accounts during the period were justified in detail by the Finance Services, enabling me to validate this heading.

Liaison accounts, an essential link between entities

1. Owing to the high number of accounting transactions between UPOV and WIPO, there is a need for two liaison accounts between these two entities, respectively with FITSU (voluntary funds). The closing balances of these accounts can be assets or liabilities. Checks by random sampling of entries posted in 2012 enable me to confirm the balances at the end of 2012 which appear on the liabilities side of the balance sheet to an overall value of nearly 160,000 Swiss francs.

Staff benefits: provisions that meet needs

1. At the end of 2011, a provision for separation and After Service Health Insurance (ASHI) of around 534,000 Swiss francs appeared in the accounts. With the move from the United Nations System Accounting Standards (UNSAS) to IPSAS, the provisions linked to staff benefits had to be recalculated and published. The various provisions appearing in the staff benefits are the following; they appear with the balances for the end of 2012:

|  |  |
| --- | --- |
| **Current staff benefits**  | **31.12.2012** |
| ASHI provision (health insurance) | -82,444.00 |
| Repatriation grant provision | -11,884.00 |
| Accrued leave provision | -49,318.28 |
| Home leave provision | -6,202.40 |
| Overtime and variable time provision | -6,068.91 |
| **Total of current social benefits** | **-155,917.59** |
|   |   |
| **Non-current (long-term) staff benefits**  | **31.12.2012** |
| ASHI provision (health insurance) | -833,289.00 |
| Repatriation grant provision | -82,244.00 |
| Accrued leave provision | -75,544.37 |
| **Total of non-current social benefits**  | **-991,077.37** |
| **Total of staff benefits** | **-1,146,994.96**  |

**Table 3: Provisions for staff social benefits**

1. An actuarial study on the ASHI and repatriation grant provisions was carried out by the specialist firm Mercer. The study is contained in a document entitled “Consolidated Total for All Plans” of March 6, 2013. My colleagues examined this document and the hypotheses put forward. The size of the amounts provided for concerning the staff benefits contained under these two headings of “current” and “non-current” is based on an evaluation that corresponds to the relevant standards.
2. The accrued leave, home leave and overtime and variable time provisions are based on actual data as at December 31, 2012 and are in line with the amounts related to them on that date.

United Nations Joint Staff Pension Fund

1. UPOV is affiliated to the United Nations Joint Staff Pension Fund (UNJSPF) through its dozen or so staff members. I note that no actuarial commitment was provided for the main retirement fund of the Union’s employees. In my opinion, in accordance with the provisions of IPSAS 25, the actuarial commitment relating to UPOV staff pensions with the UNJSPF should be included in the balance sheet. The plan in which the entity participates has the characteristics of a “defined benefit plan where the participating entities are under common control” 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.
1. It should be pointed out that such a commitment would have a significant impact on the Union’s financial statements even if UPOV’s share of the UNJSPF’s theoretical actuarial debt is small, given that it would be calculated on a pro-rata basis according to the number of staff members. Moreover, according to the latest information, the UNJSPF was unable to provide a calculation of the welfare commitments according to IPSAS 25.
2. Since the application of IPSAS 25 in this form concerns not only UPOV 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’s 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 UPOV 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.
3. In conclusion, since the situation does not relate solely to UPOV, 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 2012 financial statements.

A justified overall decrease in the reserve fund and the working capital fund

1. The total of the reserve fund stood at over 1,459,000 Swiss francs at the end of the 2011 financial year. This value altered significantly over the course of 2012. The IPSAS adjustments made during the 2012 period led to a fall in value of 759,000 Swiss francs. This decrease in the reserve was however made up for by the surplus for 2012 of 397,000 Swiss francs. In view of that situation and taking into account the allocation of that operating income to the reserve fund, the latter stood at around 1,097,000 Swiss francs at the end of 2012.
2. The budget for the 2012-2013 biennium estimates that the reserve fund stands at 1,037,000 Swiss francs[[3]](#footnote-4), with operating expenditure standing at 6,798,000 Swiss francs. At the end of 2012, the level of the reserve fund represented a rate of 16.1 per cent with regard to the operating expenditure budgeted for the two accounting years 2012-2013, an interim performance that was slightly higher than expected.
3. The working capital fund (WCF) registered a very slight increase of 3,334 Swiss francs during the 2012 financial year. This increase is due to the two contributions of 1,667 Swiss francs, made by the former Yugoslav Republic of Macedonia and Peru respectively concerning 0.2 WCF contributory units each.

UPOV expenditure in 2012

1. I ordered random sampling to be carried out concerning the expenditure and revenue accounts. Movements were checked on the basis of the available accounting documents. The detailed examinations performed did not reveal any significant errors worth mentioning. I shall limit myself to citing the next few following points for information purposes.
2. The personnel costs recorded during the 2012 financial year stand at 1.99 million Swiss francs. These costs represented around 62 per cent of UPOV’s total expenditure over the last year. With regard to this heading, it should be pointed out that there was a fall in salary costs for officials, which was made up for by expenditure concerning other colleagues (temporary staff, consultants, for example). This situation is due in part to the departure of various officials at the end of 2011 and, indeed, the beginning of 2012.
3. There was a decrease in mission and fellowship expenditure of around 194,000 Swiss francs. By way of an example, participation in conferences cost 149,000 Swiss francs in 2012, 166,000 Swiss francs less than in 2011 (315,000 Swiss francs).
4. The decrease recorded for other expenditure items (contractual services, operational expenditure, for example) stands at 151,000 Swiss francs. The amount of these expenditure items stood at 742,000 Swiss francs in 2012. It should be pointed out that, with UPOV-FITSU consolidation entries, expenditure of the “74381 InterUnit admin. support cost” (FITSU expenditure) accounting type disappears through legal confusion with the recoveries of the “66410 Admin. support cost FIT” (UPOV income) account. The relevant amount stands at over 22,000 Swiss francs and, quite correctly, does not therefore appear in the consolidated accounts.

Income collected by UPOV in 2012 is in line with the regular budget

1. The income posted to account during 2012 at UPOV stands at 3,378,000 Swiss francs and is in line with the regular budget of UPOV, which set it at 3,388,000 Swiss francs (-0.18 per cent). This amount does not take into account extrabudgetary income, which stands at 220,000 Swiss francs, taking into account an IPSAS adjustment of 17,000 Swiss francs.
2. The income from the assessed contributions alone accounted for over 3.3 million Swiss francs, representing a rate of 93.12 per cent of overall consolidated income. This indicator stood at 86.23 per cent in 2011.

Information regarding the related parties

1. Note 10 of the financial statements presents an amount of 1.1 million Swiss francs for 2012 corresponding to the wages of 5.3 individuals considered to be key to UPOV. As stated in the aforementioned note, the Director General of WIPO declined any remuneration from his
function as Secretary-General of UPOV. The only other executive in the entity is the Vice Secretary‑General, given that UPOV does not have a Sector Director. The presentation appearing under “Key management personnel and their aggregate remuneration” of note 10 does not make any distinction between the Vice Secretary-General and the other colleagues taken into consideration in the related parties. The provisions of paragraph 34(a) of IPSAS 20 make provision for such a distinction and, in my opinion, UPOV should consider this approach when producing the note concerning transactions with related parties for the 2013 financial statements.

Sectorial information presented by UPOV in the notes

1. Note 17 of the 2012 financial statements contains segment reporting. Segmentation was employed here in order to present the Regular Program and Budget accounts separately from the extrabudgetary accounts. The elimination of the UPOV-FITSU liaison account is clearly displayed. I can thus validate the sectorial presentation made, which is in accordance with IPSAS.

CONCLUSION

1. As a result of our work, 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 Audit.

K. Grüter

Director

Swiss Federal Audit Office

(External Auditor)

Annexes:

* Audit opinion

Annex to 1.13432.946.00335.05

**AUDIT OPINION OF THE EXTERNAL AUDITOR**

I have audited the financial statements, as at December 31, 2012, of the International Union for the Protection of New Varieties of Plants (UPOV), including the Statement of Financial Position (Statement I), the Statement of Financial Performance (Statement II), the Statement of Changes in Net Assets (Statement III), the Statement of Cash Flow (Statement IV) and the Statement of Comparison of Budget and Actual Amounts (Statement V), as well as notes attached to the statements.

**Responsibility of UPOV management for the financial statements**

The management is responsible for the production and fair presentation of its financial statements, in accordance with the provisions set in the International Public Sector Accounting Standards (IPSAS) and in the Financial Regulations and Rules of UPOV. Furthermore, the management is responsible for establishing the internal control it views as necessary to the production of financial statements free of significant anomalies, whether these arise from fraud or are the result of errors.

**Responsibility of the auditor**

My responsibility is to express an opinion on the UPOV financial statements on the basis of my audit. I have conducted my audit according to the International Standards on Auditing (ISAs) 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, in terms of a basis for my opinion, the proof gathered is sufficient and appropriate.

**Opinion**

In my opinion, the financial statements give a faithful reflection, in terms of all their significant aspects, of the financial situation at UPOV as at December 31, 2012, 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 Financial Regulations and Rules of UPOV.

In accordance with Annex II “Terms of Reference Governing External Audit” of the Financial Regulations and Rules of UPOV, I have also produced a detailed report on my audit of the UPOV financial statements in the document dated June 24, 2013.

Berne, June 24, 2013

K. Grüter

Director

Swiss Federal Audit Office[[4]](#footnote-5)

(External Auditor)

[End of Annex II and of document]

1. Financial Regulations and Rules of UPOV adopted by the Council at its Twenty-Ninth Extraordinary Session of March 30, 2012. [↑](#footnote-ref-2)
2. International Standards on Auditing (ISA) (2010 edition), published by the International Auditing and Assurance Standards Board (IAASB). [↑](#footnote-ref-3)
3. Program and Budget for the 2012-2013 biennium, adopted on October 20, 2011. Document C/45/4 Rev.2. [↑](#footnote-ref-4)
4. Postal address: Monbijoustrasse 45, CH-3003 Berne. [↑](#footnote-ref-5)