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INTERNATIONAL UNION FOR THE PROTECTION OF NEW VARIETIES OF PLANTS

Geneva

COUNCIL**Forty-Eighth Ordinary Session
Geneva, October 16, 2014****REPORT OF THE EXTERNAL AUDITOR:
AUDIT OF THE 2013 FINANCIAL STATEMENTS***Document prepared by the Office of the Union**Disclaimer: this document does not represent UPOV policies or guidance*

1. The Financial Statements of the International Union for the Protection of New Varieties of Plants (UPOV) for the year ended December 31, 2013, 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 examine and approve the financial statements. The Financial Statements for 2013 are presented in document C/48/13. The Annex to this document contains the audit report of the External Auditor.

2. *The Council is invited to take note of the present document.*

[Annex follows]



Report of the Auditor

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

Audit of 2013 financial statements

The mandate of external auditor of the financial statements of the International Union for the Protection of New Varieties of Plants (UPOV) is traditionally carried out by members of the highest authority of public financial auditing of the selected country. 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, which is performed by the Director of the Swiss Federal Audit Office ("my Office"), until the year 2017 inclusive.

The mandate is set out in Annex II of the Financial Regulations and Rules of UPOV. The arrangements for the audit were also set out in the letter of 13 May 2013 confirming the mandate and UPOV accepted these terms in its response of 28 May 2013. The members of my Office responsible for this mandate carry out their duties autonomously and independently with the help of their colleagues.

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.

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Berne, July 7, 2014

Reg. No. 1.14307.946.00335.04
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AUDIT SUMMARY

As Auditor for the International Union for the Protection of New Varieties of Plants (UPOV), the Swiss Federal Audit Office confirms that the audit of the 2013 financial statements, presented for the second time in accordance with the International Public Sector Accounting Standards (IPSAS), yielded a good result overall and that it is in a position to issue an audit opinion without any reservations. No significant problems were noted. We note, however, that the introduction of three new standards, which have been in force since January 1, 2013 and are applicable to the financial year under review still require the Finance Services to update the IPSAS manual.

As in the previous year, we 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. Nonetheless, we consider it our duty as External Auditor of UPOV's accounts to alert the members to this kind of potential risk. We believe that it is still too early to conduct a truly economic interpretation of IPSAS 25.

Finally, we note that UPOV does not include in note 10 of the financial statements the salaries of persons at the helm of the organization and prefers to publish comprehensive information on related parties, including the remuneration of 5.19 full-time equivalent posts corresponding to the leadership. We note that this is not fully compliant with IPSAS 20. Nonetheless, we consider that, as when closing the previous audit, it is not necessary to change our audit opinion but it is our duty as External Auditor to bring this to the attention of UPOV members.

REGULATIONS, STANDARDS AND INFORMATION

Financial regulations and the subject of the 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 UPOV¹ 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, 2013, 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.

Auditing standards, information and acknowledgements

3. The audit was carried out in accordance with the International Standards on Auditing (ISAs),² while also observing the additional Terms of Reference forming an integral part of the Financial Regulations and Rules of UPOV.
4. 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.
5. During our audit, we met regularly with Mrs. Janice Cook Robbins, Director of the Finance Division, and her staff, who provided all the information and documents required to complete our work.

¹ Financial Regulations and Rules of UPOV adopted by the Council at its Twenty-Ninth Extraordinary Session of March 30, 2012.

² International Standards on Auditing (ISAs), published by the International Auditing and Assurance Standards Board (IAASB).

6. We wish to emphasize the excellent cooperation and openness displayed throughout the performance of this audit. We also wish to express our thanks for the readiness with which information and documents were provided by all UPOV staff contacted.
7. The results of the audit were provided to Mr. Peter Button, Vice Secretary-General of UPOV, during the final discussion on July 7, 2014.
8. 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, we received confirmation by e-mail on July 7, 2014, from his staff that there were no additional comments.
9. The original drafting language of the present report is French and we recall that the French version is the authoritative text.

FOLLOW-UP OF RECOMMENDATIONS

10. We recall that the recommendations made prior to the 2012 audit were all implemented and that no new recommendations were made in our last audit report of June 24, 2013.

INTERNAL CONTROL SYSTEM (ICS)

The quality of the internal control system depends on the control system in place in the administrative services of WIPO

11. UPOV is linked to WIPO by an agreement concerning the financial management of its activities. As a result, the existence and quality of the internal control system (ICS) at UPOV is dependent on what is found within the administrative services of WIPO. A member of our team collected information about progress in the project to introduce ICS at WIPO. He noted that flow diagrams and process descriptions are now available in the fields of revenue and general expenditure. On the contrary, he noted that, in the financial section dealing with salaries, certain work to implement ICS had been stopped. This is explained by the roll-out of new accounting software, AIMS HR, which is still under way. Nonetheless, at this stage we can confirm the existence of an ICS at WIPO that allows UPOV to produce statements without significant anomalies.
12. The principle of joint signatures of two persons is applied for banking relationships and disbursements. Signature rights are applied to all bank accounts and other payment authorizations.

PRODUCTION OF FINANCIAL STATEMENTS ACCORDING TO IPSAS

The presentation of the 2013 financial statements takes into account the new IPSAS standards applicable since January 1, 2013

13. UPOV closed its financial statements according to IPSAS for the second time on December 31, 2013. In addition, accounts were presented in accordance with new IPSAS standards 28 to 30,³

³ IPSAS 28: Financial Instruments: Presentation.

IPSAS 29: Financial Instruments: Recognition and Measurement.

IPSAS 30: Financial Instruments: Disclosures.

applicable from January 1, 2013. Their introduction was facilitated by the know-how and experience of the staff from WIPO's Finance Services who are in charge of producing UPOV's financial statements. Furthermore, we note that WIPO document Policy Guidance Manual for International Public Sector Accounting Standards (version 14 from 2012), which applies to UPOV's needs, is currently being updated by the Finance Services.

AUDIT OF 2013 BUDGET PERFORMANCE

2013 saw budget receipts in line with expectations

14. The 2012-2013 biennium budget adopted by the Council during the Forty-Fifth Ordinary Session on October 20, 2011, forecast a balanced result for the year 2013. The final result presents an income surplus of 73,000 Swiss francs prior to adjustments and the net expenses of Funds in Trust. A comparison between the 2013 budget and the 2013 financial statements can be summarized as follow:

	<i>Budget (Swiss francs)</i>	<i>Accounts (Swiss francs)</i>	<i>Difference accounts vs. budget (Swiss francs and %)</i>	
Income	3,404,000	3,403,000	-1,000.00	-0.18%
Expenditure	-3,404,000	-3,330,000	74,000.00	-12.96%
Result	0	73,000	73,000	

15. As to budget performance, we refer here to the comments of the Secretary-General contained in the Financial Management Report. Statement V "Statement of Comparison of Budget and Actual Amounts for the year ended December 31, 2013" presents the main variations between the budget and the actual figures for 2013. In addition to this table, Statement V "Statement of Comparison of Budget and Actual Amounts for the year ended December 31, 2013" presents the values of the 2012-2013 biennium budget. The combined results for the two years found in Statement II correspond to Statement V on the budget, showing a net adjusted result of 504,000 Swiss francs.

AUDIT OF 2013 FINANCIAL STATEMENTS

The 2013 financial statements provide confirmation of a healthy financial situation

16. The table below compares several key values from the balance sheets for 2013 and 2012 without any other particular comments on our part. We refer also to significant balances from the 2013 accounts on which we have made specific comments.

Reference	Amounts in Swiss francs		
	2013	2012	Variation
Balance sheet total	3,896,303	3,388,206	508,097
Liquid assets	3,728,930	3,316,037	412,893
Other assets	167,373	72,169	95,204
Foreign funds	944,589	603,926	340,663
Provisions for employee benefits	1,207,420	1,146,994	60,426
Reserve fund	1,204,283	1,097,275	107,008
Working capital fund	540,011	540,011	0

Table 1: 2013 key figures

Liquid assets, movements of funds confirmed by the bank

17. Some 532,000 Swiss francs were held by UBS as at December 31, 2013. This is confirmed in the "Confirmation of business relationship" duly completed by UBS. Checks made by random sampling of the accounting movements of the liquid funds did not reveal any errors and confirmed the regularity of operations. The two accounts with UBS display a drop in the funds available of around 352,000 Swiss francs compared to 2012.

Long-term investments are opened with the Swiss Confederation

18. Close to 3.2 million Swiss francs of long-term investments were made with the Swiss Confederation. This sum is confirmed in extracts from the specific accounts produced by the Federal Finance Administration. It should be noted here that the Federal Finance Administration requested that entities external to the Swiss State, including UPOV, should close the two existing accounts by the end of the year 2015. UPOV must therefore find a new solution for investing its liquid assets.
19. Checks on movements in the two accounts do not call for any particular comment. We nonetheless note that the combined balance of the two accounts increased significantly following the transfer of 750,000 Swiss francs in March 2013. The three other entries on these accounts are largely concerned with interest payments.

Arrears in statutory contributions now only relate to two UPOV members

20. Receivables open for members relate to the Dominican Republic and Ecuador, who are liable for some 12,500 Swiss francs in total as at the end of 2013. Moreover, Funds in Trust contributions of almost 155,000 Swiss francs were pending as at the end of 2013. They were settled by the United States of America in the first quarter of 2014.
21. As in 2012, the statutory contributions of members in 2013 stood at 3,323,050 Swiss francs, corresponding to the budget for that year. Checks confirmed that the revenue was accurate and complete.
22. Payments of members' contributions made in advance stood at over 236,000 Swiss francs. These advance payments came from the following countries:

Member	Swiss francs	Member	Swiss francs
Australia	53,641	Subtotal	119,668
Colombia	10,728	Mexico	40,231
Bulgaria	10,728	Norway	53,641
Latvia	7,023	Panama	648
Slovakia	26,820	Mexico (2015)	11,568
Costa Rica	10,728	Bulgaria (2015)	10,728
Subtotal	119,668	Total advances	236,484

Table 2: Advance payments from UPOV members

23. Japan and the United States of America contribute on a voluntary basis to specific expenditure. Checks made by random sampling of accounting movements confirmed the accuracy of this heading.

Inter-organizational transactions pass through liaison accounts

24. Financial transactions between WIPO, UPOV and FITSU (voluntary fund) are registered through liaison accounts. The balances of the accounts linked to WIPO were confirmed through an extract from the WIPO balance sheet. The closing balances of these accounts can be assets or liabilities. Checks by random sampling of entries registered in 2013 allow us to confirm the two balances at the end of 2013. They appear on the liabilities side of the balance sheet to an overall value of nearly 542,000 Swiss francs.

Staff benefits: provisions conform to IPSAS

25. In 2013, provisions for staff benefits were 5 per cent higher than in 2012. In fact, they increased to more than 1,207,000 Swiss francs. This increase is mostly due to commitments of more than one year, as shown in the table below:

Current staff benefits	31.12.2013	31.12.2012	Difference 2013/2012
ASHI provision (health insurance)	-80,260	-82,444	2,184
Repatriation grant provision	-16,127	-11,884	-4,243
Accrued leave provision	-29,551	-49,318	19,768
Education grant provision	-12,054	0	-12,054
Home leave provision	0	-6,202	6,202
Overtime and flextime provision	-14,533	-6,069	-8,464
Total of current social benefits	-152,525	-155,918	3,392
Non-current (long-term) staff benefits	31.12.2013	31.12.2012	Difference 2013/2012
ASHI provision (health insurance)	-887,555	-833,289	-54,266
Repatriation grant provision	-91,373	-82,244	-9,129
Accrued leave provision	-75,967	-75,544	-422
Total of non-current social benefits	-1,054,895	-991,077	-63,817
Total of staff benefits	-1,207,420	-1,146,995	-60,425

Table 3: Provisions for staff social benefits

26. An actuarial study carried out by the specialist firm Mercer provided a basis for determining most of the provisions on the 2013 balance sheet. This analysis is contained in the document "Consolidated Total for All Plans" dated 26 March, 2014, which was formally approved on June 16, 2014, by two representatives from the firm. The size of the amounts provided for concerning staff benefits are separated under the two headings of "current" and "non-current" potential expenditure. This evaluation corresponds to the relevant standards. Our analysis of the actuarial study allows us to regard these values as correct.

27. It should be noted that the provisions for accrued leave, home leave, overtime and flextime are based on the effective rights of UPOV staff as at December 31, 2013. The provision amounts correspond to the relevant requirements.

United Nations Joint Staff Pension Fund

28. UPOV is affiliated with the United Nations Joint Staff Pension Fund (UNJSPF) through its dozen or so staff members. As in the previous year, we note that no actuarial commitment was provided for the main retirement fund of the Union's employees. In our 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; and
 - UNJSPF organizational structure, affiliated organizations.
29. Such a commitment would have a significant impact on the financial statements of the Organization. We admit that the theoretical actuarial debt of the UNJSPF would be very small, given that it would be calculated on a pro-rata basis according to the number of staff members. Nonetheless, at the present time and according to our information, the UNJSPF was unable to provide a calculation of the pension liabilities in conformity with IPSAS 25. It is therefore not possible to calculate a reliable estimate of the risk incurred here.
30. Since the application of IPSAS 25 in this form concerns not only UPOV but all the United Nations agencies and other affiliated organizations, this problem was submitted to 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, we consider that it is our duty as External Auditor of the UPOV accounts to draw the attention of the members to this kind of potentially significant risk. We feel that it is still too early for a truly economic interpretation of IPSAS 25.
31. In conclusion, since the situation does not relate solely to UPOV, we consider, as when closing the previous audit, that it is not necessary for the time being to express a reservation or to mention it specifically in our audit opinion of the 2013 financial statements.

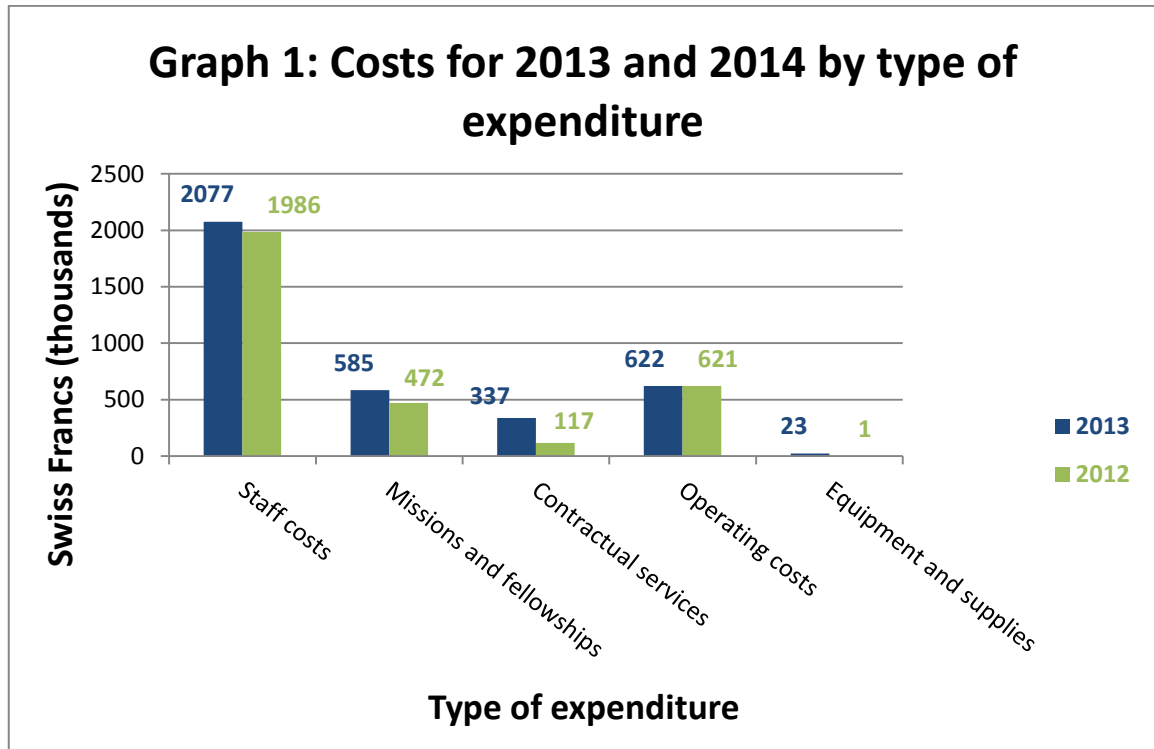
Reserve fund up due to retained earnings from the 2012 budget

32. For the record, at the end of 2012 the reserve fund registered a significant fall in value following the IPSAS adjustments. As at December 31, 2013, the reserve fund stood at 1,204,000 Swiss francs, including the surplus of 397,000 Swiss francs from the 2012 financial year. The operating income for 2013 of almost 107,000 Swiss francs is also included in the total reserve fund, even if this sum has not yet been transferred to the fund in accounting terms. The final transfer will in fact be made during 2014.
33. The 2012-2013 biennium budget estimated the reserve fund at 1,037,000 Swiss francs,⁴ taking into account operating costs of 6,798,000 Swiss francs. Subject to the allocation of the 2013 operating revenue to the reserve fund, its potential value is 167,000 Swiss francs higher than forecast. In this scenario, at the end of 2013 the reserve fund represents 17.7 per cent of the operating expenses budgeted for in the 2012-2013 biennium. In addition, the performance was slightly higher than expected.
34. The working capital fund (WCF) remained unchanged in 2013 in comparison to 2012. Its balance stood at 540,000 Swiss francs.

⁴ Program and Budget for the 2012-2013 biennium, adopted on October 20, 2011. Document C/45/4 Rev.2.

UPOV expenditure is up on 2012

35. Costs for 2013 were 12.3 per cent higher than in 2012. They were recorded as more than 3,643,000 Swiss francs. The division of expenditure by type in the graph below provides an overview of their development.



Graph 1: Costs for 2013 and 2012 by type of expenditure

36. We carried out various random sampling checks on the expenditure accounts for 2013. The movements were confirmed with the help of the available accounting documents. The detailed checks carried out did not reveal any errors. We will therefore limit ourselves to the few remarks that follow.
37. Personnel costs represented the majority of UPOV's expenses. These increased in 2013 compared to 2012 by approximately 91,000 Swiss francs (+4.4 per cent). The 2013 costs were some 2,077,000 Swiss francs.
38. The increase in mission and fellowship expenditure (+19.3 per cent) is mostly explained by participation in conferences. Expenditure linked to the Funds in Trust has more than doubled between 2012 and 2013 to reach approximately 290,000 Swiss francs.
39. Contractual services cost nearly three times as much in 2013 as in 2012. Expenditure in 2012 was 117,000 Swiss francs, compared to 337,000 Swiss francs in 2013. This increase was mainly registered for individual contractual services (account 73801: 65,000 Swiss francs), IT services (account 73810: 117,600 Swiss francs) and other commercial services (account 73812: 44,000 Swiss francs).
40. The operating costs of 622,000 Swiss francs in 2013 were very close those of 2012. This heading contains almost exclusively administrative services that WIPO provides to UPOV (620,000 Swiss francs). They are set by an agreement between the two organizations.

The budgeted revenue for UPOV in 2013 corresponds to actual receipts

41. The budget forecast revenue in 2013 of 3,404,000 Swiss francs. The actual receipts were slightly lower, standing at 3,403,000 Swiss francs. The gap between the two values is considered insignificant.

42. Statutory contributions in 2013 were identical to 2012. They stood at 3,323,000 Swiss francs, which is 88.6 per cent of total revenue. Voluntary contributions totaled more than 395,000 Swiss francs, which represents 10.5 per cent of 2013 income.

Information on operations between related parties

43. Note 10 of the financial statements presents an amount of 1,047,215 Swiss francs for 2013 corresponding to the wages of 5.19 equivalent full-time posts for staff members considered to be key to UPOV. As stated in the aforementioned note, the Director General of WIPO declined any remuneration for his function as Secretary-General of UPOV. The only other executive in the Union is the Vice Secretary-General, since 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. This is not fully in compliance with the provisions of paragraph 34(a) of IPSAS 20, which provide for such a distinction.

Note: we acknowledge the decision of UPOV and note that this is not fully in compliance with IPSAS 20. Nonetheless, we consider that, as during the closing of the previous audit, it is not necessary to amend our audit opinion. It is, however, our duty as External Auditor to bring this to the attention of UPOV members.

CONCLUSION

44. As a result of the work undertaken, we are 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.

SWISS FEDERAL AUDIT OFFICE
(External Auditor)

Eric-Serge Jeannet
Vice Director

Didier Monnot
Officer in charge of mandates

Annex:
- Audit Opinion



Annex to 1.14307.946.00335.04

AUDIT OPINION OF THE EXTERNAL AUDITOR

We have audited the financial statements, as at December 31, 2013, 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

Our responsibility is to express an opinion on the UPOV financial statements on the basis of our audit. We have conducted our audit according to the International Standards on Auditing (ISAs) published by the International Auditing and Assurance Standards Board (IAASB). These standards require us 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 is made by 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 organization relating to the production of the financial statements in order to define audit procedures appropriate to the circumstances, and not for the purpose of expressing an opinion on the effective operation of the organization's internal control. An audit also includes an assessment of the appropriateness 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. We consider that, in terms of a basis for our opinion, the proof gathered is sufficient and appropriate.

Opinion

In our 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, 2013, 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, we have also produced a detailed report on our audit of the UPOV financial statements in the document dated July 7, 2014.

Berne, July 7, 2014

SWISS FEDERAL AUDIT OFFICE⁵
(External Auditor)

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