



C/49/13

ORIGINAL: French

DATE: August 20, 2015

INTERNATIONAL UNION FOR THE PROTECTION OF NEW VARIETIES OF PLANTS

Geneva

COUNCIL

**Forty-Ninth Ordinary Session
Geneva, October 29, 2015**

REPORT OF THE EXTERNAL AUDITOR

Document prepared by the Office of the Union

Disclaimer: this document does not represent UPOV policies or guidance

1. The Financial Statements of UPOV for the year ended December 31, 2014, 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/4/4), which requires that the Council examine and approve the financial statements. The Financial Statements for 2014 are presented in document C/49/12. 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]

EIDGENÖSSISCHE 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 2014 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. In 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 May 13, 2013 confirming the mandate and UPOV accepted these terms in its response of May 28, 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, June 30, 2015

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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 2014 financial statements, presented in accordance with the International Public Sector Accounting Standards (IPSAS), yielded a good result overall and that it is in a good position to issue an audit opinion without any reservations. It notes that no new IPSAS standard has changed the manner in which the 2014 financial statements have been presented. The presentation is therefore similar to that of 2013.

We welcome the fact that the financial situation of UPOV is healthy and that this is reflected in the level of the reserve fund at the end of 2014.

Finally, we note that as in the previous year, UPOV prefers to publish comprehensive information on related parties in item 9 of the financial statements without distinguishing the remuneration of the Vice Secretary-General from that of his colleagues. We would like to point out that this is not fully compliant with IPSAS 20 which requires that such a distinction be made. Nonetheless, we consider that, as when closing the two previous audits, 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, 2014, 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 (ISA²), 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 Mr Steven Shepherd and Mr Dorian Chambonnet, who are IPSAS specialists in the Finance Division, in addition to other staff, who provided all the information and documents required to complete our work.
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 of June 30, 2015.
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

¹ Financial Regulations and Rules of UPOV adopted by the Council at its thirtieth extraordinary session of March 22, 2013.

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

received confirmation by e-mail on August 4, 2015 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. Follow-up of recommendations was not necessary since the audit report for 2013 did not contain any such recommendations and there were no recommendations from previous years.

INTERNAL CONTROL SYSTEM (ICS)

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

11. The existence and quality of the internal control system (ICS) at UPOV is essentially dependent upon the administrative services of WIPO. A specific agreement governs the financial management of UPOV's activities by WIPO. This allowed us to determine the extent to which the ICS has been implemented at WIPO. Various flow diagrams and process descriptions are now available in the fields of revenue and general expenditure. In staff matters, the "business processes" have evolved with the roll-out of new "AIMS HR" accounting software. This has replaced the old SIGAGIP system. Certain tasks that were previously carried out by the Finance Division are now the responsibility of the Department of Human Resources. Generally speaking, we can confirm the existence of an ICS at WIPO that allows UPOV to produce financial statements without significant anomalies. We note, however, that due to a lack of time, it was impossible to update ICS standards at WIPO. There is therefore room for improvement at WIPO in this area.
12. The principle of joint signatures of two persons is applied for banking relationships and disbursements. Signature rights are updated for all bank accounts and other payment authorizations.

PRODUCTION OF FINANCIAL STATEMENTS ACCORDING TO IPSAS

The presentation of the 2014 financial statements takes into account the new IPSAS standards

13. The 2014 financial statements were produced in accordance with IPSAS standards applicable as of January 1, 2013. UPOV used WIPO document "POLICY GUIDANCE MANUAL FOR INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS" (2013 version) in order to produce these statements. We note that this version of the Manual will soon be updated by WIPO.

AUDIT OF 2014 BUDGET

A positive final result for 2014

14. The 2014-2015 biennium budget adopted by the Council during the forty-seventh ordinary session on October 24, 2013, forecast a balanced result for the year 2014. The final result presents an income surplus of 109,000 Swiss francs prior to adjustments and the net expenses of Funds In Trust. A comparison between the 2014 budget and the 2014 financial statements can be summarized as follows:

	Budget (Swiss francs)	Accounts (Swiss francs)	Difference accounts vs. budget (Swiss francs and %)	
Income	3,397,000	3,384,000	13,000	0.38%
Expenditure	-3,397,000	3,275,000	-122,000	-3.59%
Result	0	109,000	109'000	

Table 1 : 2014 Budget 2014 compared to actual accounts

15. We shall refrain from providing explanations with regard to budget performance. Comments of The Secretary-General relating thereto are contained in a special item of the 2014 Financial Management Report. Financial Statement V "Statement of Comparison of Budget and Actual Amounts for the year ended December 31, 2014" presents the main variations between the budget and the actual figures for 2014.

AUDIT OF 2014 FINANCIAL STATEMENTS

The 2014 statements provide confirmation of a healthy financial situation

16. The table below compares several key values from the balance sheets for 2014 and 2013 without any other particular comments on our part. We refer also to significant balances from the 2014 accounts on which we have made specific comments.

Reference	Amounts in Swiss francs		
	2014	2013	Variation 2014 vs. 2013
Balance sheet total	4,814,936	3,896,303	918,633
Liquid assets	4,790,460	3,728,930	1,061,530
Other assets	24,476	167,373	-142,897
Foreign funds	1,650,633	944,589	706,044
Provisions for employee benefits	1,300,232	1,207,420	92,812
Reserve fund	1,322,393	1,204,283	118,110
Working Capital Fund	541,678	540,011	1,667

Table 2 : Key figures for 2014 compared to 2013

Approximately 1.1 million Swiss franc increase in liquid assets at the end of 2014

17. The three bank accounts held by UBS represented an overall sum of slightly more than 829,000 Swiss francs as at December 31, 2014. This is confirmed in the "Confirmation of business relationship" duly completed by the bank on February 5, 2015. We note that a new account was opened at UBS. This account concerns the new Fund In Trust financed by the Netherlands (FIT/NLD). The increase in liquid assets held by UBS between December 31, 2013 and December 31, 2014 represents approximately 297,000 Swiss francs. This increase is mainly due to "FIT/NLD" fund.
18. More than 3.96 million Swiss francs are still held in an account with the Federal Finance Administration (FFA). The entire amount is now in a single account. The liquid assets of one account were transferred to the other account. This made it possible to close the empty account. We would like to remind you that the FFA has requested that entities external to the Swiss Confederation should close their accounts by the end of 2015. UPOV will therefore have to close the remaining account during the course of the year and transfer its liquid assets to another financial partner.
19. The liquid assets held by FFA are divided up into a reserve fund of 541,678 Swiss francs - the Working Capital Fund (WCF) and non-reserve funds of 3.42 million Swiss francs.
20. Checks made by random sampling of movements in the liquid asset funds did not reveal any errors. Operations were therefore confirmed to be in order.

Arrears in statutory contributions amounted to 23,446 Swiss francs at the end of 2014

21. Receivables were open for four members indicated in the table below.

Member	December 31, 2014 in Swiss francs
Belarus	10,728
Dominican Republic	1,789
Nicaragua	201
Ukraine	10,728
Total receivables	23,446

Table 3 : Arrears in statutory contributions at end of 2014

22. The statutory contributions of members rose to 3,333,778 Swiss francs in 2014, corresponding to an increase in revenue of 10,728 Swiss francs compared to 2013. This can be explained by the entry of Serbia in 2013. Checks confirmed that the revenue was accurate and correct.
23. Payments of members' contributions in advance stood at almost 250,000 Swiss francs. These advance payments came from the following countries :

Member	Swiss francs	Member	Swiss francs
Australia	53,641.00	Subtotal	96,573.00
Bulgaria	21,456.00	Mexico	62,118.00
Chili	20.00	Norway	53,641.00
Colombia	10,728.00	Slovakia	26,806
Costa Rica	10,728.00	Uruguay	10,728.00
Subtotal	96,573.00	Total advances	249,866.00

Table 4 : Advance payments from UPOV members

24. We would like to point out that the above-table includes advance contributions for 2016 from Mexico (21,887 Swiss francs) and Bulgaria (10,728 francs).
25. Japan and the United States of America continued to contribute extra-budgetary funds. A new agreement was concluded between UPOV and the Netherlands. The Netherlands also contributed on a voluntary basis to specific expenditure in 2014. Checks made by random sampling of accounting movements confirmed the accuracy of this heading. Advance payments rose from 403,000 Swiss francs in 2013 to nearly 720,000 Swiss francs as at December 31, 2014.

Inter-organizational transactions facilitated by liaison accounts

26. Financial transactions between WIPO, UPOV and FITSU (voluntary fund) are facilitated by liaison accounts. The transfer of funds between one entity and another was verified by random sampling. Inter-organizational accounting balances were validated by WIPO, UPOV and FITSU balance sheets. The closing balances of these accounts can be assets or liabilities. They appear on the liabilities side of the balance sheet at the end of 2014. Their value increased by nearly 390,000 Swiss francs in 2014 to reach an overall amount of more than 931,000 Swiss francs at the closure of the 2014 accounts.

Staff benefits : provisions conform to IPSAS

27. At the end of 2013 provisions for staff benefits stood at more than 1.2 million Swiss francs. They increased by 7.7% in 2014 and rose to 1.3 million Swiss francs by the end of the year. The increase is mostly due to three accounts classified in non-current liabilities, as indicated in the table below³:

³ The cost elements are available in English only.

Amounts in Swiss francs				
Employee Benefits Current		31.12.2014	31.12.2013	Difference 2013 vs. 2014
39300	Provision ASHI Liab Current	-88,878.00	-80,260.00	-8,618.00
39350	Provision repatr benef current	-19,868.00	-16,127.00	-3,741.00
39400	Prov Accrued Leave F/T Current	-34,961.81	-29,550.75	-5,411.06
39410	Prov for accrued leave S/T cur	-3,437.59	0.00	-3,437.59
39700	Provision for Education Grants	-15,329.20	-12,054.40	-3,274.80
39710	Prov. Unpaid home leave	-4,635.20	0.00	-4,635.20
39720	Prov for unpaid overtime F/T	-7,680.03	-14,533.05	6,853.02
39730	Prov for unpaid overtime S/T	-249.04	0	-249.04
Total Employee Benefits Current		-175,038.87	-152,525.20	-22,513.67

Amounts in Swiss francs				
Employee Benefits Non- Current		31.12.2014	31.12.2013	Difference 2013 vs. 2014
39000	Provision Separation ASHI	0.00	0	0
39301	Provision ASHI Liab Non-Curr	-924,752.00	-887,555.00	-37,197.00
39351	Provision repatr benef non-curr	-105,317.00	-91,373.00	-13,944.00
39401	Prov Accrued Leave Non-Current	-95,123.81	-75,966.63	-19,157.18
Total Employee Benefits Non Current		-1,125,192.81	-1,054,894.63	-70,298.18
Total Employee Benefits		-1,300,231.68	-1,207,419.83	-92,811.85

Table 5 : Provisions for staff social benefits

An actuarial study carried out by the specialist firm Mercer provided the basis for determining most of the provisions of the 2014 balance sheet. The expertise of the external consultancy firm was validated in the document "Consolidated Total for All Plans" dated June 17, 2015, which was signed by two representatives from the firm. As indicated in the above-table, the size of the amounts provided are separated under two headings of "current" and "non-current" potential expenditure. This distinction in the provisions is required by IPSAS 25. Our analysis of the actuarial study allows us to regard these values as correct.

28. It should be noted that the provisions for accrued leave, home leave, overtime and flexitime are based on the effective rights of UPOV staff as at December 31, 2014. The provision amounts correspond to real requirements.

United Nations Joint Staff Pension Fund

29. As we pointed out at the time when UPOV switched to IPSAS, as auditors we are of the view that there is a potential future risk for the financial statements of the Organization as long as the United Joint Staff Pension Fund (UNJSPF) remains unable to provide its affiliated institutions with a calculation of the pension liabilities in conformity with IPSAS 25⁴.
30. However, since the situation does not relate solely to UPOV, we consider that it is not necessary for the time being to express a reservation or to mention it specifically in our audit opinion of the 2014 financial statements.

Increase in the Reserve Fund and Working Capital Fund

31. The operating income of 118,110 Swiss francs for 2014 is already included in the total reserve fund published in the financial statements, representing a final balance of 1,322,393 Swiss francs as at December 31, 2014. It should be noted that audited information included in the financial statements has always been accurate. On the other hand, we note that an accounting

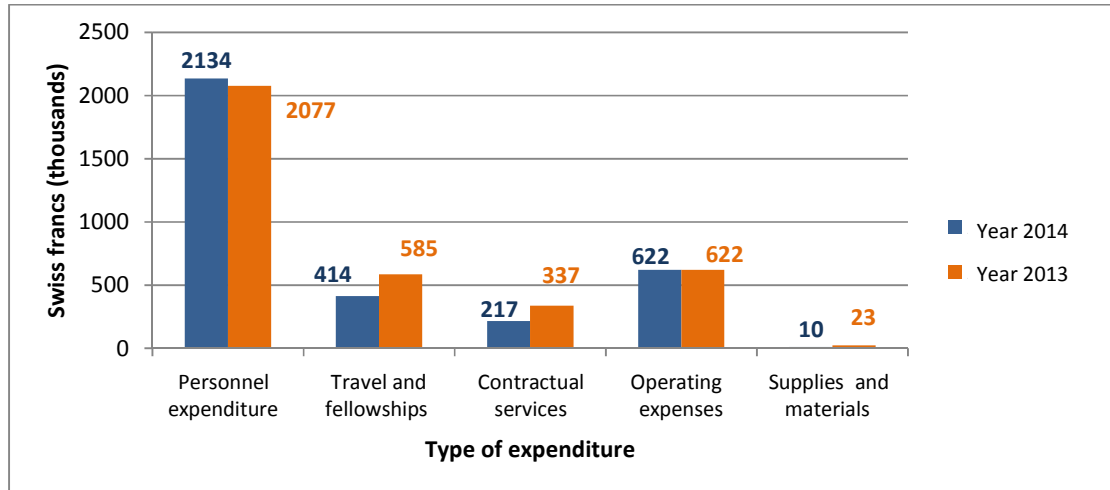
⁴ The argumentation that led us to reach such a conclusion was developed in detail in the reports from 2012 and 2013.

adjustment was made at the end of the audit, upon our request, in order to match the accounting with the financial statements.

32. The Working Capital Fund (WCF) registered an increase of 1,667 Swiss francs in 2014. This amount corresponds to the payment from Serbia, which became a Member State of UPOV on January 5, 2013. The balance of the Working Capital Fund stood at 541,678 Swiss francs.

UPOV expenditure is down by 247,000 Swiss francs in 2014

33. Costs for 2014 were 7.3% lower than in 2013 (-247,000 Swiss francs). They were recorded at nearly 3.4 million Swiss francs. Despite this overall reduction in expenditure, it should be noted that staff-related costs registered an increase of 57,000 Swiss francs (+ 2.66%). The graph below provides a succinct overview of the development of expenditure between 2013 and 2014:



Graph 1 : Costs for 2014 by type of expenditure

34. We carried out various random sampling checks on the expenditure accounts for 2014. The checks were based on available accounting documents and did not reveal any errors.
35. Personnel costs represented slightly more than 2.1 million Swiss francs, an increase of 57,000 Swiss francs in 2014 when compared to 2013. The increase in cost is justified.
36. Mission and Fellowship expenditure amounted to approximately 414,000 Swiss francs in 2014. This figure is considerably lower than in 2013 (-171,200 Swiss francs). The most significant fall in expenditure was in participation at conferences (-144,000 Swiss francs) and the cost of speakers (-29,000 Swiss francs).
37. The cost of contractual services was reduced by approximately 120,000 Swiss francs in 2014 compared to 2013. Expenditure amounted to 217,000 Swiss francs. The largest amounts of reductions could be found in Account 73801 "SSA, Translators & Other" (-48,000 Swiss francs) and 73810 "IT Commercial Serv Providers" (-103,000 Swiss francs). Inversely, the expenditure in account 73812 "Other Commercial Serv Providers" doubled in 2014 (88,700 Swiss francs) compared to 2013.
38. The operating costs in 2014 amounted to approximately 621,600 Swiss francs. This was slightly lower than in 2013 (-422 Swiss francs). This heading contains almost exclusively administrative services that WIPO provides to UPOV, which are set out in an agreement between the two organizations.

Accounted revenue for UPOV in 2014 is slightly lower than forecast

39. UPOV's budget forecast revenue in 2014 of 3,384,000 Swiss francs. The actual receipts were 3,397,000 Swiss francs. This corresponds to a shortfall of 13,000 francs. The gap between the two values is considered insignificant (0.38%).
40. Statutory contributions in 2014 were 10,728 Swiss francs higher than in 2013, amounting to 3,333,778 Swiss francs. Statutory contributions represent 94.8% of total income for 2014.

41. Other income in 2014 came mostly from extrabudgetary funds (approximately 148,000 Swiss francs). This was significantly lower than in 2013 (approximately 395,000 Swiss francs). Revenue from liquid assets and investments (14,600 Swiss francs) and other products (approximately 19,000 Swiss francs) are included in other revenues.

Information on operations between related parties

42. Related Parties are presented in the table pursuant to Note 9 of the financial statements :

	2014		2013	
	Number of persons (average)	Aggregate remuneration (Swiss francs)	Number of persons (average)	Aggregate remuneration (Swiss francs)
Key Management Personnel	5.00	1,167,022	5.19	1,047,215

Table 7: Key staff members of UPOV

43. The above table indicates 5 staff members considered to be key to UPOV. These persons are all included in the single heading "Key Management Personnel". As stated in note 9 of the financial statements, the Director General of WIPO declined any remuneration for his function as Secretary-General of UPOV and is therefore not included in this presentation. The provisions of paragraph 34 (a) of IPSAS 20 expressly request that a distinction be made between individuals at the top of the Organization⁵ and key colleagues considered as related parties. This is not the case in the current presentation. Even if this is not in compliance with IPAS 20, we have issued an audit opinion without any reservations.

Note : We acknowledge the decision of UPOV not to mention the revenues of the Vice Secretary-General in isolation and note that this is not in compliance with IPAS 20. Nonetheless, we consider that, as during the closing of previous audits, 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

⁵ The Secretary General and the Vice Secretary-General.

Annex to 1.15182.946.00335.04

AUDIT OPINION OF THE EXTERNAL AUDITOR

We have audited the financial statements, as of December 31, 2014, 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, 2014, 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 Standard (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 June 30, 2015.

Berne, June 30, 2015

SWISS FEDERAL AUDIT OFFICE⁶
(External Auditor)

Eric-Serge Jeannet
Vice Director

Didier Monnot
Officer in charge of mandates

[End of Annex and of document]

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