

Council**C/53/6****Fifty-Third Ordinary Session
Geneva, November 1, 2019****Original:** English
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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 the International Union for the Protection of New Varieties of Plants (UPOV) for the year ended December 31, 2018, 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/4/5), which requires that the Council examine and approve the financial statements. The Financial Statements for 2018 are presented in document C/53/5. 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]

MAY 2019

International Union for the Protection of New Varieties of Plants

**External Auditor's Report on the 2018 UPOV
Financial Statements**

The aim of the audit is to provide independent assurance to members; to add value to the UPOV's financial management and governance; and to support your objectives through the external audit process.

The Comptroller and Auditor General is the head of the National Audit Office (NAO), the United Kingdom's Supreme Audit Institution. The Comptroller and Auditor General and the NAO are independent of the United Kingdom Government and ensure the proper and efficient spending of public funds and accountability to the United Kingdom's Parliament. The NAO provides external audit services to a number of international organizations, working independently of its role as the Supreme Audit Institution of the United Kingdom.

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Introduction

1.1 The International Union for the Protection of New Varieties of Plants (UPOV) was established in 1961 by the International Convention for the Protection of New Varieties of Plants to provide and promote an effective system of plant variety protection. The Union has some 75 members who supports the activities of UPOV through direct contributions, and extra-budgetary funds in trust for specific projects.

1.2 The Comptroller and Auditor General of the United Kingdom (C&AG) was appointed as the External Auditor of UPOV for a six-year mandate commencing 1 January 2018. The External Auditor has audited the financial statements of UPOV for the financial year ended 31 December 2018, in accordance with Chapter 8 of the Financial Regulations and Rules of UPOV. The audit was conducted in conformity with International Standards on Auditing. Those standards require that the C&AG and his staff comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

1.3 In addition to our opinions on UPOV's financial statements, this report presents the key findings arising from our work. There were no recommendations made by our predecessors which required following up.

Overall audit results

1.4 The External Auditor has audited the financial statements of UPOV for the year ended 31 December 2018 which comprise the Statement of Financial Position, Statement of Financial Performance, Statement of Cash Flows, Statement of Changes in Net Assets, Statement of Comparison of Budgets and Actual Amounts and the related notes. These financial statements have been presented in Accordance with the International Public Sector Accounting Standards (IPSAS).

1.5 In our opinion, the audited financial statements fairly present the financial position of UPOV as at 31 December 2018 and its financial performance and its cash flows for the year then ended under International Public Sector Accounting Standards (IPSAS).

1.6 The audit also confirmed that, in all material respects, the revenue and expenses have been applied to the purposes intended by the Council and the financial transactions conform to the Organization's Financial Regulations and Rules.

Audit results

1.7 The 2018 annual financial statements and corresponding commentary on the financial results provides a comprehensive overview of the financial position of UPOV. The quality of the financial statements presented for audit was high and, on key

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accounting judgements, management demonstrated its considerations of key issues related to UPOV and how they related to compliance with IPSAS requirements. For example, management undertook a detailed review of the various assumptions used by the actuary in determining the after-service health insurance liabilities and concluded that the assumptions used were appropriate.

Audit scope

1.8 We completed our audit in accordance with International Standards on Auditing (ISAs). We are independent of UPOV in accordance with the ethical requirements that are relevant to our audit of the financial statements.

1.9 Under the ISAs, we are required to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. The full scope of responsibilities under those standards are described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my audit opinion.

1.10 The audit was conducted primarily to enable an opinion to be formed as to whether the financial statements present fairly the financial position of UPOV as at 31 December 2018 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards. This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the Council and whether revenue and expenses had been properly classified and recorded in accordance with UPOV's Financial Regulations and Rules. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent considered necessary to form an opinion on the financial statements.

External auditor appointment

1.11 UPOV's Financial Regulations and Rules require that, where WIPO's External Auditor is the Auditor General of a State member of UPOV, the Council shall designate as External Auditor, with its agreement, the WIPO External Auditor. The UK National Audit Office was appointed as the External Auditor of WIPO for a six-year mandate commencing 1 January 2018. In October 2017, Council ratified the NAO's appointment as UPOV's External Auditor.

Handover arrangements

1.12 In accordance with agreed UN Panel of External Auditors protocols, we made appropriate enquires of the Swiss Federal Audit Office and all information we requested was made available. In addition, and as required under International Standards on Auditing, we performed appropriate procedures to gain assurance over the balances reported at 1 January 2018.

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UPOV's control environment

1.13 In 1982, UPOV and the World Intellectual Property Organization (WIPO) entered into an agreement whereby WIPO supports UPOV's administrative requirements including all matters related to the financial administration including the preparation of the annual financial statements.

1.14 There is a synergy with the appointment of a common External Auditor performing the audits of UPOV and WIPO. However, in accordance with International Standards on Auditing, we plan and perform each audit separately. Our responsibilities for UPOV's audit include the requirement to obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances. Under the ISAs, we have put in place formal procedures to rely on audit work our teams perform on WIPO systems.

Statement on internal control

1.15 The Statement on Internal Control is used to provide a transparent and accountable report of the control environment and risks faced by organisations. It should be a by-product of day-to-day processes and be informed by the essential components and interactions within a well-functioning governance and internal control framework. The effectiveness of internal controls described in the statement should be kept under constant review, informed by inputs from assurance providers and the results of management's compliance checks. The Statement is the one place where the results of these assurances are synthesised and used to form a view on the operation of control processes.

1.16 As a consequence of the administrative arrangements, UPOV's Statement on Internal Control draws heavily on WIPO's operating environments and accountability framework. We have assessed whether the information contained within the Statement on Internal Control is consistent with our understanding of UPOV and have found no material inconsistencies with our understanding of the environment.

1.17 There is, however, scope for UPOV to consider further the assurances it receives directly from WIPO, to ensure it satisfies itself of the operating effectiveness of the controls. There is also scope for UPOV to consider WIPO's framework of accountabilities and reflect, where appropriate, how far these have been replicated in UPOV's own internal control processes.

1.18 UPOV should also reflect on its own risk management procedures within the Statement and consider the effectiveness of controls operated by UPOV management alongside those within the WIPO environment. This will provide greater transparency on how the risks to the achievement of the organisational objectives can be mitigated. Such risk management practices will become increasingly important as UPOV develops more commercial activities under its business plan. Given the importance of the Statement and its value as an accountability document, UPOV should also consider including it alongside the financial statements in the overall reporting to Council.

UPOV should:

R1. consider reviewing the current content of the SIC and the scope to draw upon the emerging practices used to support WIPO's own SIC and the underlying assurance evidence.

R2. enhance the risk management disclosures in the SIC to provide more information on UPOV's own risk management and the operational risks it faces.

Financial commentary

Budget performance

1.19 The financial period 2018 is the first year of the 2018-2019 biennial program budget. UPOV's approved budget is established on a modified accruals basis, this means that the budget and the financial statements are presented on two different bases. Consequently, Note 13 to the financial statements provides a reconciliation of the statement of budgetary comparison (Statement V) to the Statement of Financial Performance (Statement II).

1.20 The original and final 2018 budgets presented a break-even position for UPOV, with forecasted income and expenditure of CHF3.47 million. While income was CHF48,000 lower than budgeted, UPOV realised a budgetary surplus of CHF67,000 as a result of expenditure being below budget by CHF115,000. UPOV's 2018 budgetary performance is set out in Figure 1 below:

Figure 1

2018 Budgetary performance of UPOV (Thousands of Swiss francs)

	Budget	Outturn	(Excess)/Surplus
Income	3,470	3,422	(48)
Expenditure	<u>(3,470)</u>	<u>(3,355)</u>	<u>115</u>
Net result	Nil	67	67

Source: Audited Financial Statements of UPOV

1.21 The main reason for the lower than expected expenditure was the reduction in the Geneva post adjustment multiplier and the lower than expected use of temporary staff during the year due to filling vacant posts earlier than planned.

Financial performance

1.22 In 2018, UPOV reported an IPSAS deficit for the year of CHF 42,000 (2017: deficit CHF 290,000). This was offset by actuarial gains from its post-employment liabilities of CHF 93,000 and contributions from members to the Working Capital Fund of CHF 2,000 to increase net assets from CHF 630,000 at 31 December 2017 to CHF 683,000 at 31 December 2018.

1.23 Revenue reported in year of CHF 3.6 million remained consistent with the prior year (2017: CHF 3.6 million). Increases in extra-budgetary revenue from CHF 258,000 to CHF 282,000 were primarily from additional contributions from the International Seed Federation, the United States of America and Japan which offset a reduction in contributions from members from CHF 3.37 million to CHF 3.32 million resulting from an impairment of outstanding amounts due from one Member (CHF54,000) offset by the contributions related to a new Member (CHF11,000). Expenditure was reduced from CHF 3.9 million in 2017 to 3.7 million primarily due to reductions in contractual services, including translators and interpreters.

1.24 UPOV has maintained a sound financial position over the last four years. While total assets have decreased by 6.1 per cent during this period, from CHF 4.7 million to CHF 4.4 million, total liabilities have increased by 22.8 per cent, from CHF 3.0 million to CHF 3.7 million. This is primarily due to the increase in UPOV's employee benefits liabilities from CHF 1.4 million to CHF 2.5 million caused by the change in accounting policy resulting from the adoption, in 2017, of IPSAS 39 – *Employee Benefits*. UPOV at each financial year end recognises the liability in full for its post-employment benefits.

1.25 UPOV has net assets of CHF683,000. While UPOV has accumulated surpluses in the Reserve Fund of CHF 943,000, these are significantly offset by the CHF808,000 of actuarial losses on post-employment benefits. In addition, UPOV retains CHF548,000 in the Working Capital Fund. More details about these reserves can be found in note 12 of the financial statements.

1.26 We use ratio analysis of an organisation's financial health on all our international audits to show how financial positions change over time. They express the relationship of one item of account against another. These broad ratios also confirm that there are sufficient net assets to meet both its short-term and longer-term liabilities.

Figure 3

Financial ratios for UPOV

Ratio	2018	2017	2016 ⁴	2015
Current ratio				
Current assets: Current liabilities	3.07	3.19	2.24	2.53
Total assets: Total liabilities	1.18	1.18	1.16	1.55
Assets: Liabilities				
Cash ratio				
Cash and cash equivalents: Current liabilities	2.97	3.13	2.19	2.43

¹ A high current ratio indicates an entity's ability to pay off its short-term liabilities.

² A high asset to liability ratio is a good indicator of solvency.

³ The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash and cash equivalents there are in current assets to cover current liabilities.

⁴ Employee benefit liabilities for 2016 were restated in 2017 to reflect the adoption of IPSAS39 – Employee benefits

Source: Audited Financial Statements of UPOV

1.27 While UPOV's overall asset ratio has decreased from 1.55 to 1.18, UPOV retains sufficient assets to cover its liabilities, with its cash and cash equivalents covering current liabilities 2.97 times, up from 2.43 times in 2015. This is a relatively high ratio, and the rationale for holding balances as cash is set out below. The overall reduction in current and cash ratios in the current year is primarily due to the increase in the balance owed to WIPO for administrative services.

Cash and cash equivalents

1.28 At 31 December 2018, UPOV reported cash and cash equivalent¹ balances of CHF 4.3 million, an increase of 3.9 per cent from 31 December 2017. In accordance with Chapter 4 of the Financial Regulations and Rules of UPOV, the custody of UPOV funds is administered by WIPO. WIPO has the authority to make short-term investments of money not needed for immediate requirements in accordance with UPOV's Financial Regulations and Rules.

1.29 At 31 December 2018, 97.0 per cent of UPOV's cash assets (CHF 4.1 million) were deposited in Swiss Franc accounts. WIPO's head of treasury, in consultation with the UPOV Secretary-General, considered that the potential returns of placing funds in longer term investments were outweighed by the cost of establishment and maintenance of appropriate accounts due to the size of UPOV's cash balance.

Funding of UPOV's employee benefit liabilities

1.30 At 31 December 2018, UPOV recognised post-employment benefit liabilities of CHF 2.5 million, of which 89.8 per cent (CHF 2.2 million) related to its After-Service Health Insurance (ASHI) liability.

1.31 At its thirty-third extra-ordinary session held in March 2016², the UPOV Council decided to establish a separate UPOV bank account to hold funds allocated for financing UPOV's ASHI liability. During each biennium, six per cent of the cost of posts, net of deductions for ASHI, repatriation grants and accumulated annual leave payments, are to be allocated to the account to assist with the financing of the liability. This is presented within UPOV's strategic cash balance of CHF 783,000.

1.32 The Council's decision has been implemented by WIPO by placing a blocking instruction on UPOV's main bank account to the value of CHF 760,000 to effectively restrict these funds from use. While this achieves the same goal of having restricted funds, it does not fully meet the requirement of the Council to establish a separate

¹ Cash equivalents are investments that have extremely short-term maturities and are considered like-cash

² See document C(Extr.)/33/6

account. WIPO's management considers that the action taken brings additional benefits, for example a reduction in the number of accounts (and the related administration required), a reduction in monthly bank charges and yearly fees, avoidance of negative interest rates applicable to new bank accounts and improvements in cash visibility without the need for more bank accounts.

R3: UPOV should either formally approve the approach taken by WIPO with regards to placing a restriction on funds or ensure that a separate account is established in line with the Council's decision.

Business developments

1.33 Recent developments in UPOV membership and increasing awareness of the need for effective policies to meet the increasing demands on agriculture, mean that there is a need for UPOV to review the resources required to meet its goals and objectives.

1.34 This situation was highlighted in the World Intellectual Property Organization (WIPO) Internal Oversight Division (IOD) "Evaluation of the International Union for the Protection of New Varieties of Plants (UPOV)", conducted in 2016. The Report recommended that UPOV consider developing a Strategic Business Plan to diversify its revenue streams. UPOV responded by developing a Draft Strategic Business Plan which was approved by the Consultative Committee in October 2017.

1.35 Under the business plan, UPOV does not foresee increasing the value of members' contribution units to raise additional revenue. In January 2017, UPOV launched the Electronic Application Form, or "UPOV PRISMA", an online multi-lingual application tool that can be used to provide data to all participating PVP Offices in the required format. The system was introduced on the basis that fees from applicants would ultimately cover the costs of the service with the goal to expand the coverage to all members of the Union that wish to participate and to cover all crops/species.

1.36 In November 2018, the Consultative Committee noted that more time was needed to increase the number of UPOV PRISMA users to achieve a reliable survey of the suitability of financing options and to ensure its reliability. The Council subsequently approved the Committee's recommendation to allow the use UPOV PRISMA free of charge in 2019.

1.37 As UPOV move towards a more commercial operating environment, they will need to carefully consider the costing model employed and establish realistic projections to enable progress against targets to be measured. Having a deeper understanding of and greater insight into the costs of the operation will enable UPOV to better analyse, benchmark and manage those costs and ensure that fee rates are set at appropriate levels to recover the additional costs of managing and operating the UPOV PRISMA system.

1.38 In any significant change of this nature it is important to ensure that adequate governance mechanisms are in place to monitor performance against the objectives set out in the business plan. Sound project management will include appropriate

stakeholder engagement, oversight and information to monitor the impact of the changes. This early phase should enable UPOV to assess the adequacy of these arrangements, and to review the accountabilities to deliver the change. Effective risk management of the project will provide more systematic assurance that risks are being mitigated and controlled.

1.39 Given the potential importance of the project and the cultural changes that may be needed in becoming more commercially orientated, we would expect to review progress in the implementation of UPOV PRISMA in our future audit work.

Fraud, ex gratia payments and writes-off

1.40 In accordance with the International Standards on Auditing (ISA 240), our audit was planned to have a reasonable expectation of identifying material misstatements and irregularity, including those resulting from fraud. The audit should not, however, be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

1.41 During the audit, we made enquiries of management and those charged with governance regarding oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to those risks, including any specific risks that management has identified or that have been brought to its attention. We also enquired whether management had knowledge of any actual, suspected or alleged fraud. We identified no instances of fraud in our audit, and no cases have come to our attention through our testing.

1.42 UPOV reported no ex-gratia payments or writes-off in 2018.

Prior year recommendations

1.43 There were no recommendations raised during prior years.

Acknowledgments

1.44 We would like to thank the staff of UPOV and colleagues at the World Intellectual Property Organization for their co-operation in facilitating the first year of our audit engagement.



Gareth Davies

Comptroller and Auditor General, United Kingdom - External Auditor

13 June 2019

INDEPENDENT AUDITOR'S REPORT TO THE COUNCIL

Opinion on financial statements

I have audited the financial statements of the International Union for the Protection of New Varieties of Plants (UPOV) for the year ended 31 December 2018, which comprise the Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets, Statement of Cash Flow, Statement of Comparison of Budget and Actual Amounts for the year then ended, and the related notes.

In my opinion, the accompanying financial statements present fairly, in all material respects the financial position of UPOV as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Opinion on regularity

In my opinion, in all material respects, the revenue and expenses have been applied to the purposes intended by the Council and the financial transactions conform to UPOV's Financial Regulations and Rules.

Basis for opinion(s)

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of UPOV in accordance with the ethical requirements that are relevant to my audit of the financial statements in the United Kingdom. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the financial statements

The Secretary-General is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing UPOV's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate UPOV or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing UPOV's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My responsibilities are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that

is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UPOV's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on UPOV's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause UPOV to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Other Information

Management is responsible for the other information. The other information comprises the Introduction and the Financial results for the year ended December 31, 2018. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.



Gareth Davies
Comptroller and Auditor General

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13 June 2019