

Council**C/57/10****Fifty-Seventh Ordinary Session
Geneva, October 27, 2023****Original:** English
Date: August 14, 2022

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, 2022, 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/4/6), which requires that the Council examine and approve the financial statements. The Financial Statements for 2022 are presented in document C/57/9. 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]

C/57/10

ANNEX



JULY 2023

International Union for the Protection of New Varieties of Plants

External Auditor's Report on the 2022 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.

Contents

Introduction	4
Overall audit results	4
Financial management	5
Employee benefits	8
Other matters for the Council	10
Prior year recommendations	10
Acknowledgments	11
Appendix One	12
Follow-up of prior year recommendations	12

Introduction

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 78 members who support the activities of UPOV through direct contributions and extra-budgetary funds-in-trust for specific projects.

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 and the audit is undertaken 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.

In addition to our opinions on UPOV's financial statements, this report presents the key findings from our work. We have also followed up the recommendation raised in previous financial periods (appendix one).

The original drafting language of this report is English. The English version is the authoritative text.

Overall audit results

Our audit comprised the examination of the 2022 financial statements and the associated transactions and events for that year. We provided an unqualified audit opinion, without modification, on the financial statements.

Financial management

Overall audit results

1. The External Auditor has audited the financial statements of UPOV for the year ended 31 December 2022 which comprise the Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets, Statement of Cash Flows, Statement of Comparison of Budgets and Actual Amounts and the related notes.
2. These financial statements have been presented in accordance with the International Public Sector Accounting Standards (IPSAS). In our opinion, the audited financial statements fairly present the financial position of UPOV as at 31 December 2022 and its financial performance and its cash flows for the year then ended under International Public Sector Accounting Standards (IPSAS).

Financial performance and position

3. UPOV reported a surplus for the year of CHF97,000 (2021: deficit CHF266,000) within its Statement of Financial Performance. The surplus arose from both a reduction in expenditure of CHF165,000 and an increase in revenue of CHF198,000. Personnel costs, which are UPOV's most dominant expense decreased by CHF202,000 to CHF2.4 million. These represent 57.3 per cent of the Union's total expenditures during the year (2021: 59.7 per cent). Overall, expenditure decreased by 3.7 per cent from CHF 4.41 million in 2021 to CHF 4.25 million in 2022. Alongside the reduced personnel costs, contractual services reduced modestly, somewhat offset by an increase in travel, training and grants costs as international travel resumed post-Covid.
4. Total revenue in 2022 of CHF 4.3 million represented an increase of 4.8 per cent on the previous year (CHF 4.1 million). This increase was primarily due to revenue from funds in trust (extrabudgetary funds). Primarily in the organisation of seminars and training programs on plant variety protection and also, particularly in the Asian region, in support of implementing the UPOV system of plant variety protection systems. The increase was somewhat offset by a modest fall in revenue from UPOV PRISMA and PLUTO, which reduced to CHF143,000 (2021: CHF192,000). In 2022, UPOV received 1,907 applications (2021: 2,508 applications) via UPOV PRISMA.
5. UPOV's assets have increased to CHF 5.6 million (2021: CHF 5.2 million). The majority of the Union's assets are held in the form of cash and cash equivalents, which increased to CHF 5.5 million (2021: CHF 5.1 million). During the same period UPOV's liabilities decreased by some 9.5 per cent to CHF 5.3 million (2021: CHF 5.8 million). This was primarily due to a decrease of CHF605,000 in the employee benefits liability for the After-Service Health Insurance, of which CHF 872,000 was charged directly to net assets as it related to actuarial changes, offset by an CHF 307,000 expense in year related to the current service cost and interest. This employee benefit liability now totals CHF 3.5 million (2021: CHF 4.1 million).

6. The impact of the results in 2022 has resulted in an overall net asset position for UPOV of CHF 332,000 (2021: net liability CHF 641,000) in the Statement of Financial Position. This is comparable to the 2020 net assets position of 368,000.

7. We use ratio analysis of an organization's financial health on all our international audits to show how financial positions change over time (Figure 1). They express the relationship of one item of account against another. For example, there are CHF 3.42 of current assets for every CHF 1 of current liabilities. The significant difference between the current and asset ratios are due to 69.0 per cent of UPOV's liabilities being employee benefit liabilities that are due after 12 months or more.

Figure 1: UPOV Key financial ratios 2019-2022

Ratio	2022	2021	2020	2019
Current ratio				
Current assets: Current liabilities	3.42	3.35	3.09	2.55
Asset ratio				
Assets: Liabilities	1.06	0.89	1.07	1.22
Cash ratio				
Cash and cash equivalents: Current liabilities	3.35	3.28	2.98	2.48

Notes

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

Source: Audited Financial Statements of UPOV

8. Overall, UPOV has sufficient working capital to deal with short- and medium-term liabilities. The vast majority of UPOV's assets remain in cash and cash equivalents and therefore there is currently a minimal risk to liquidity. The level of reserves available to fund its longer-term liabilities has been steadily eroding, though has recovered slightly in 2022 due to actuarial gains in year. UPOV has earmarked funds of some CHF 1.1 million for its accumulated liabilities to provide after-service health insurance to former staff members, but further resources may need to be earmarked to meet the current overall level of this liability of CHF 3.5 million. We have reported on the impact of the post-employment benefit liabilities on the financial position later in this report.

Program and Budget performance

9. The UPOV Program and Budget is prepared on a modified accrual basis each biennium. In accordance with IPSAS provisions, Statement V to the financial statements presents a comparison of budgeted and actual amounts for income and expenditure. A reconciliation of these figures to the other primary statements is presented in Note 11 to the financial statements.

10. The original biennium 2022-2023 budget was approved by the UPOV Council and included allocations for revenue and expenditure of CHF 7.6 million. This was allocated approximately 50:50 between 2022 and 2023. No further amendments were made to this allocation. The overall results for the biennium are shown in Figure 2 below. Overall UPOV achieved a surplus on its overall budget position.

Figure 2: 2022-2023 budgetary performance of UPOV (CHF 000s)

	2022-2023 Budget	2022 allocation	Outturn	(Deficit)/ Surplus
Income	7,635	3,817	3,804	(13)
Personnel Expenditure	(5,319)	(2,659)	(2,300)	359
Non-personnel expenditure	<u>(2,316)</u>	<u>(1,158)</u>	<u>(1,274)</u>	<u>(116)</u>
Net result	Nil	Nil	230	230

11. As set out in UPOV's Statement V, income from contributions continued to be the single largest source of budgeted income representing 93.8 per cent of total income. The modest budgetary income deficit arose from new contributions from Ghana and Saint Vincent and the Grenadines and higher fee income from UPOV PRISMA, offset by lower PLUTO fees. As a result of an issue with the mechanism for raising invoices, income from PLUTO did not reflect 17 fee-paying users in 2022, amounting to CHF12,750. UPOV informed us that this issue will be rectified in 2023.

12. Personnel expenditure amounted to CHF 2.3 million, 13.5 per cent below the 2022 budget allocation. Lower personnel expenditure was driven by savings arising from a vacant post, as well as a delay in the recruitment of temporary staff until the second year of the biennium. This was offset by exceeding the budget on contractual services to cover the vacancies. There were further additional costs for virtual UPOV meetings and seminars. While the non-personnel expenditure exceeded the budget, the overall expenditure outturn was within 50 per cent of the biennium budget approved by the UPOV Council. More detail on variances is provided in the 2022 UPOV Performance Report.

Internal control

13. The World Intellectual Property Organization (WIPO) provides a major part of UPOV's back-office support and WIPO's Information Management System (AIMS) provides many of its core administrative systems, including finance, accounting, procurement, HR and payroll. Workflows within AIMS ensure that transactions and other activities are properly processed, authorised and reviewed. Overall, WIPO operates a sound internal control environment.

14. Overall, the results of our audit have not identified any significant control weaknesses or evidenced any noticeable deterioration in the control environment.

No issues of this nature have been reported to us by management or identified within the Statement on Internal Control.

Employee benefits

15. The WIPO/UPOV Agreement, establishes the administrative relationship between the two organisations. Within this, UPOV applies mutatis mutandis the provisions of the Staff Regulations and Staff Rules of WIPO, including future modifications, provided that the Council of UPOV may agree with the Director General of WIPO to any exceptions and additions. These regulations and rules set out the conditions of service and the basic rights, duties and obligations of UPOV staff. This provides UPOV staff members the salaries and related allowances and the social security benefits, including access to the UN Joint Staff Pensions Fund and After-Service Health Insurance as established under the United Nations Common System.

Post-employment benefits

16. UPOV's most dominant liabilities remain its employee benefits. As set out in note 5 to the financial statements, these comprise most significantly the staff members' after-service health insurance, their repatriation entitlements and accumulated leave liabilities. During 2022, the estimated overall liability for these staff benefits has decreased from CHF 4.5 million to CHF 3.8 million. In line with decisions of the Council of UPOV at its thirty-third extraordinary session, UPOV holds strategic cash of CHF 1.11 million (2021: CHF 1.03 million) which is earmarked to partially fund certain portions of these liabilities, leaving an unfunded liability of CHF 2.7 million (2021: CHF 3.5 million).

17. The after-service health insurance liabilities totalling CHF 3.5 million are calculated by an independent actuary based on underlying data and assumptions. They reflect the value of the contractual obligations to staff and retirees, on 31 December 2022, for their underlying claims expected in the future. The year-on-year movement arises from changes in the actuarial assumptions including those relating to medical claims costs. As part of this year's valuation the actuary has further refined how the valuation reflects the ASHI claims costs of the members.

18. We recognise that there will likely be significant future fluctuations in the liability for these benefits arising from changes in the discount rate and inflation assumptions. The liability disclosed in the financial statements reflects the assumptions at 31 December 2022. We further recognise that UPOV currently mitigates the financial risks of medical claims costs through an insurance scheme. Ultimately, however, the liability as presented in the financial statements represents the best estimate of UPOV's total liability for the scheme members past service.

19. The most significant factors that have impacted the valuation of the liability are the actuarial assumptions, which reduced the liability by CHF 872,000 (**Figure 3**). These comprise:

- CHF 396,000 loss on **demographic assumption** changes. These cover updates to assumptions such as turnover, mortality and disability, retirement and age-related

adjustments to medical cost claims. The loss related significantly to changes in the approach to assessing the expected claims costs as outlined below.

- CHF 1,265,000 gain on **financial assumption** changes. These cover updates to assumptions such as discount rates, inflation and medical trends. The gains here related primarily to the discount rate increasing from 0.5 per cent to 2.5 per cent which significantly reduces the overall liability. This “gain” was partially offset by increased healthcare inflation rates.
- CHF 3,000 gain on **experience** changes. These cover adjustments required due to the difference between assumptions made and actual results.

Figure 3: Evolution of ASHI defined benefit obligation (CHF'000)

	2022	2021
Defined benefit obligation 1 January	4,085	3,034
Interest cost	20	9
Current service cost	287	336
Contribution paid	-39	-37
Actuarial assumption changes	-872	743
Defined benefit obligation 31 December	3,481	4,085

Source: UPOV financial statements

20. In 2021, UPOV’s actuary analysed claims from the plan provider arising over the period 2017-2020 to develop a profile of the expected claims costs at different age ranges. We agreed that this approach, looking over a four-year period of recent claims data, was valid and a reasonable basis to assess future claims costs. During 2022, UPOV has increased these assumptions by 9.2 per cent which reflects the average increase in per capita claims cost between 2021 and 2022.

21. We challenged this on the basis that the methodology makes no attempt to understand the movement in claims costs year on year, such as determining whether some of the increase could be attributable to a small number of “high cost” individuals. While we believe the approach is simplistic and could lead to more volatile results than other approaches, it is acceptable and we have suggested that management establish a consistent policy for setting this assumption for future years.

Future impact of the liabilities

22. The value of UPOV’s liabilities evolves over time, based on changes in both demographic and other economic factors. As part of the annual valuation performed by the Union’s expert, UPOV receives a projection for the value of liabilities over the following four years, assuming current assumptions remain consistent. The forecast highlights that the impact of current assumptions on the liability will result in a projected increase to CHF 4.0 million at 31 December 2026 – an increase of 7.4 per cent.

23. This forecast presents useful information to members of UPOV, as it provides insight into the future liabilities arising from the current terms and conditions approved by the UPOV Council. This is presented within the financial analysis accompanying the financial statements.

24. In our report in 2020, we recommended that UPOV consult with its Members on the costs and benefits of the continued alignment with the full provisions of the Staff Regulations and Staff Rules of WIPO and the associated UN common system entitlements to ensure that it provides best value for UPOV. UPOV is not a UN system entity, and the employment terms and conditions can be fully determined by its Members.

25. The Secretariat has confirmed they will prepare a document to address our previous recommendation for consideration at the October 2023 Consultative Committee. We will review this document and the subsequent consideration by the Committee, during our 2023 audit.

UN Joint Staff Pension Fund

26. Staff members of UPOV participate in the United Nations Joint Staff Pension Fund (UNJSPF). However, as the pension scheme cannot accurately determine a reliable estimate of the corresponding risk borne by each participating organization, no actuarial liabilities for the pension scheme appear in UPOV's financial statements.

27. The characteristics of the UN pension scheme are outlined in Note 5 to the financial statements and this disclosure is consistent across many participating organizations. At the latest actuarial date, 31 December 2021, UNJSPF has concluded that there was no requirement for deficiency payments to be made under Article 26 of the Fund's Regulations. Should this situation change in the future, deficiency payments would be required from UPOV. This situation represents a potential future financial risk to UPOV which needs to continue to be tracked.

Other matters for the Council

28. The Secretary-General reported no frauds, or ex-gratia payments during 2022. We identified no instances of fraud in our audit, and no cases have come to our attention through our testing.

Prior year recommendations

29. At the date of our previous report in July 2022, there was one previous recommendation on the management of the ASHI liability. **Appendix One** contains a detailed commentary on the status of the previous recommendations.

Acknowledgments

30. We would like to thank the Secretary-General and his staff for their co-operation in facilitating our audit engagement, especially during such a significantly challenging period.

Original as signed

Gareth Davies

Comptroller and Auditor General, United Kingdom - External Auditor

3 July 2023

Appendix One

Follow-up of prior year recommendations

Previous reference	Summary of recommendation	Administration's comments on status: November 2022	External Auditor's view	Status
2020 R#2	UPOV regularly consult with its Members on the costs and benefits of continued alignment with the full provisions of the Staff Regulations and Staff Rules of WIPO and the associated UN common system entitlements to ensure that it provides best value for the Union.	A document will be prepared for consideration by the Consultative Committee at its one hundred and first session, on Oct. 26, 2023, to address R#2 2020.	In our view, it is important for UPOV Members to actively consider whether the cost benefits of continued alignment with the full provisions of the Staff Regulations and Staff Rules of WIPO and the associated UN common system entitlements. We will review the outcomes of the 101 st Session of the Consultative Committee.	In progress.

INDEPENDENT AUDITOR'S REPORT TO THE COUNCIL OF THE INTERNATIONAL UNION FOR THE PROTECTION OF NEW VARIETIES OF PLANTS

Opinion on financial statements

I have audited the financial statements of the International Union for the Protection of New Varieties of Plants for the year ended 31 December 2022, which comprise the statement of financial position, statement of financial performance, statement of changes in net assets, statement of cash flow, the statement of comparison of budget and actual amounts, and the related notes, including the significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the International Union for the Protection of New Varieties of Plants as at 31 December 2022 and of its surplus 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 of the International Union for the Protection of New Varieties of Plants and the financial transactions conform to the Union's Financial Regulations.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) and the Union's Financial Regulations. My audit of regularity was undertaken using the principles set out within the ISAs. My responsibilities under these standards are further described in the Auditor's responsibilities for the Audit of the Financial Statements section of my report.

I am independent of the International Union for the Protection of New Varieties of Plants in accordance with the ethical requirements that are relevant to my audit of the financial statements in the United Kingdom, namely the Financial Reporting Council's Ethical Standards 2019 as applicable to listed entities. 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 opinions.

Other Information

Management is responsible for the other information. The other information comprises information included in the Introduction, Financial results for the year ended December 31, 2022 and the Statement on Internal Control 2022.

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.

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

Management 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 the International Union for the Protection of New Varieties of Plants' 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 the International Union for the Protection of New Varieties of Plants or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the International Union for the Protection of New Varieties of Plants' financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives 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 a certificate 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 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the International Union for the Protection of New Varieties of Plants' 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 the International Union for the Protection of New Varieties of Plants' 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 the International Union for the Protection of New Varieties of Plants' ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my 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 report. However, future events or conditions may cause the International Union for the Protection of New Varieties of Plants to cease to continue as a going concern; and
- 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.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that revenue and expenses reported in the financial statements have been applied to the purposes intended by the UPOV Council and the financial transactions confirm to the Financial Regulations which govern them.

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.

Report

I have also issued a long-form audit report on the results of my audit.

Original as signed

Gareth Davies
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London. SW1W 9SP
United Kingdom
Date: 3 July 2023

[End of Annex and of document]