

Council**C/58/10****Fifty-Eighth Ordinary Session
Geneva, October 25, 2024****Original:** English
Date: August 22, 2024

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, 2023, 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 2023 are presented in document C/58/9. 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/58/10

ANNEX



JULY 2024

International Union for the Protection of New Varieties of Plants

External Auditor's Report on the 2023 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

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 now has 79 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 my opinions on UPOV's financial statements, this report presents the key findings from our work. We have also followed up the outstanding recommendation raised in a previous financial period.

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

Overall audit results

My audit comprised the examination of the 2023 financial statements and the associated transactions and events for that year. I 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 2023 which comprise the Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets, Statement of Cash Flows, the Statements 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 my opinion, the audited financial statements fairly present the financial position of UPOV as at 31 December 2023 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 deficit for the year of CHF23,000 (2022: surplus CHF97,000) within its Statement of Financial Performance. The deficit arose mainly from a reduction in voluntary contributions and an increase in travel costs and contractual services, partially offset by a decrease in personnel expenditure. Personnel costs remain UPOV's most dominant expense at CHF2.3 million (2022: CHF2.4 million). These represent 54.8 per cent of the Union's total expenditures during the year (2022: 57.3 per cent). Overall, expenditure remained broadly consistent at CHF4.2 million.

4 Total revenue in 2023 of CHF4.2 million represented a decrease of 3.5 per cent on the previous year (CHF4.3 million). This decrease was primarily due to revenue from funds in trust (extrabudgetary funds). The decrease was partially offset by a modest increase in revenue from UPOV PRISMA and PLUTO, which increased to CHF164,000 (2022: CHF143,000).

5 UPOV's assets have remained broadly consistent at CHF5.6 million. The majority of the Union's assets are held in the form of cash and cash equivalents, which decreased modestly to CHF5.4 million (2022: CHF5.5 million). During the same period UPOV's liabilities increased by some 8.0 per cent to CHF5.7 million (2022: CHF5.3 million). This was primarily due to an increase of CHF506,000 in the employee benefits liability for the After-Service Health Insurance, of which CHF364,000 was charged directly to net assets as it related to actuarial changes, and an CHF142,000 expense in year related to the current service cost and interest, less contributions paid. This employee benefit liability now totals CHF4.0 million (2022: CHF3.5 million).

6 The impact of the outturn in 2023 has resulted in an overall net liability position for UPOV of CHF55,000 (2022: net asset CHF332,000) in the Statement of Financial Position.

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 CHF3.5 of current assets for every CHF1 of current liabilities. The significant difference between the current and asset ratios are due to 72 per cent of UPOV's liabilities being employee benefit liabilities that are due after 12 months or more.

Figure 1

UPOV Key financial ratios 2018-2023

Ratio	2023	2022	2021	2020	2019	2018
Current ratio						
Current assets:	3.50	3.42	3.35	3.09	2.55	3.07
Current liabilities						
Asset ratio	0.99	1.06	0.89	1.07	1.22	1.18
Assets: Liabilities						
Cash ratio						
Cash and cash equivalents:	3.38	3.35	3.28	2.98	2.48	2.97
Current liabilities						

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: UPOV financial statements

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. UPOV has earmarked funds of some CHF1.2 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 CHF4.0 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 for the biennium

9 The UPOV Program and Budget is prepared on a modified accrual basis each biennium. In accordance with IPSAS provisions, Statement V in 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 CHF7.6 million. This was allocated approximately 50:50 between 2022 and 2023. No further amendments were made to this allocation. The results for the biennium are shown in Figure 2 below. UPOV achieved a small surplus of CHF190,000 on its overall budget position.

Figure 2

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

	2022-2023 Budget	Outturn	(Deficit)/ Surplus
Income	7,635	7,572	(63)
Personnel Expenditure	(5,319)	(4,626)	693
Non-personnel expenditure	(2,316)	(2,756)	(440)
Net result	Nil	190	190

NOTES

Source: UPOV's financial statements

11 As set out in UPOV's Statement V, income from contributions continued to be the single largest source of budgeted income representing 94 per cent of total income. The modest budgetary income deficit arose from lower than planned service fees and miscellaneous income offset by new Member contributions.

12 Personnel expenditure for the biennium amounted to CHF4.6 million, which was only 87 per cent of the overall budget allocation. As also highlighted last year, lower personnel expenditure was driven by savings arising from a vacant post, as well as delays in the recruitment of temporary staff. This was offset by exceeding the budget on contractual services, particularly due to the two additional sessions of the Council and Consultative Committee and other meetings of the Union's Members. While the non-personnel expenditure exceeded the budget, the overall expenditure outturn was within the budget approved by the UPOV Council. More detail on variances is provided in the 2023 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 for UPOV's financial management and reporting.

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 2023, the estimated overall liability for all staff benefits has increased from CHF3.8 million to CHF4.2 million. In line with decisions of the Council of UPOV at its thirty-third extraordinary session, UPOV holds strategic cash of CHF1.2 million (2022: CHF1.1 million) which is earmarked to partially fund certain portions of these liabilities, leaving an unfunded liability of CHF3.0 million (2022: CHF2.7 million).

17 The after-service health insurance liabilities totalling CHF4.0 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 2023, for their underlying claims expected in the future.

18 Given the high level of estimation and judgement in the valuation, we treat this as a significant risk to the audit. Alongside, reviewing the controls in place over the valuation including the census data used by the actuary, we consider how management determine that the assumptions used are reasonable and appropriate. We test the veracity of the census data and perform procedures to earn the right to rely on management’s expert. Our actuarial team evaluate the assumptions and methodology used to ensure they are appropriate, compliant with IPSAS and in line with industry comparators.

19 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 2023. 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.

20 The most significant factors that impact the valuation of the liability are the actuarial assumptions, which increased the liability by CHF364,000 (Figure 3). These mainly comprised the CHF392,000 loss on **financial assumption** changes, which included discount rates, inflation, and medical trends. The loss related primarily to the discount rate decreasing from 2.5 per cent to 1.8 per cent. This was partially offset by actuarial gains due to a decrease in the ultimate medical cost trend rate, which moved from 2.80 per cent to 2.60 per cent.

Figure 3

Evolution of ASHI defined benefit obligation (CHF'000)

Column Heading	2023	2022
Defined benefit obligation 1 January	3,481	4,085
Interest cost	86	20
Current service cost	97	287
Contribution paid	-41	-39
Actuarial assumption changes	364	-872
Defined benefit obligation 31 December	3,987	3,481

Source: UPOV's financial statements

21 Over several years, UPOV's actuary has evolved its approach to the model used for calculating the liability. The model was originally based on an age adjusted premium calculation. In 2021, actual claims over the period 2017-2020 were analysed to develop a profile of the expected claims costs at different age ranges, which was uplifted in 2022 to reflect the average increase in per capita claims cost between 2021 and 2022.

22 Following the changes to the approach, which we highlighted last year, UPOV has now established this as a consistent policy for setting this assumption for future years. For 2023, the medical claims cost at each age was increased by 2.8 per cent, the trend rate from the prior year valuation. To ensure assumptions remain valid, it is expected that a full medical claims experience study will be performed every 3 to 5 years.

Future impact of the liabilities

23 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 decrease to CHF3.8 million at 31 December 2027. This decrease is due to the limited additional service costs of existing members and the increasing proportion of the accrued benefits expected to be paid to retired members over this period as they age.

24 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.

25 In response to a recommendation from the WIPO External Auditor on separating its ASHI plan assets, WIPO identified two options for its Member States to consider. These options are the creation of a multi-employer plan, covering both WIPO and UPOV, or a Foundation established under Swiss law. Both options provide a structure to separate the employee benefits and associated plan assets, thereby safeguarding those assets to ensure they were only available to fund the employee benefit liabilities. During the October 2023 meeting, the Consultative Committee endorsed that UPOV should follow the approach adopted by WIPO.

26 In June 2024, WIPO's Program and Budget Committee recommended the proposal for the establishment of a multi-employer plan meeting the requirements of IPSAS 39 with responsibility for the funds set aside by the WIPO Assemblies and the UPOV Council for the financing of employee benefit liabilities. The WIPO Assembly will be invited to approve the recommendation in July.

UN Joint Staff Pension Fund

27 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.

28 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

29 The Secretary-General reported no frauds, or ex-gratia payments during 2023. No instances of fraud came to our attention through our audit.

Prior year recommendations

30 At the date of our previous report in July 2023, there was one recommendation open for UPOV to regularly consult with Members on the costs and benefits of the continued alignment with WIPO's Staff Regulations and Rules outstanding. This was considered at the October 2023 meeting of the Consultative Committee where it agreed, for cost efficiency purposes, to continue the alignment of UPOV with the full provisions

of the Staff Regulations and Staff Rules of WIPO and the associated UN common system entitlements. This recommendation is now closed.

Audit handover

31 We look forward to engaging our successors in the handover of the external audit to The Swiss Federal Audit Office. We have a long-standing relationship with our Swiss colleagues, and we have a proven track record of securing effective handovers with all our previous audits. We will ensure we provide them with our full co-operation and will follow the framework of the UN Panel of External Auditors in handing over key audit documentation.

Acknowledgments

32 We would like to thank the Secretary-General and his staff for their co-operation in facilitating our audit engagement. I would like to take this opportunity to thank the Members for the confidence they have shown in us during our six-year mandate.

Original as signed

Gareth Davies
Comptroller and Auditor General, United Kingdom - External Auditor
10 July 2024

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 2023, which comprise the:

- Statement of Financial Position as at 31 December 2023,
- Statement of Financial Performance, Statement of Changes in Net Assets, Statement of Cash Flow, Statement of Comparison of Budget and Actual Amounts Revenue and Statement of Comparison of Budget and Actual Amounts Expenses for the year then ended,
- Statement of Comparison of Budget and Actual Amounts Revenue and Statement of Comparison of Budget and Actual Amounts Expenses for the biennium then ended, and
- 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 2023 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 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 International Union for the Protection of New Varieties of Plants 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code.

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, the Financial Results and the Statement on Internal Control, but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 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.

Management and those charged with governance are responsible for overseeing 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 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 identify 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.
- I 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 the International Union for the Protection of New Varieties of Plants' internal control.
- I evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- I 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 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 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 the International Union for the Protection of New Varieties of Plants to cease to continue as a going concern.
- I 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 the revenue and expenses reported in the financial statements have been applied to the purposes intended by the 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
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Date: 10 July 2024

[End of Annex and of document]