

## **WIPO General Assembly**

**Fortieth (20<sup>th</sup> Ordinary) Session  
Geneva, September 26 to October 5, 2011**

**REPORT BY THE EXTERNAL AUDITOR: AUDIT OF 2010 FINANCIAL STATEMENTS**

*prepared by the Secretariat*

1. The present document contains the External Auditor's Report: Audit of 2010 Financial Statements (document WO/PBC/18/4), which is being submitted to the WIPO Program and Budget Committee (PBC) at its eighteenth session (September 12 to 16, 2011).
2. The recommendation of the PBC in respect of this document will be included in the "Summary of Recommendations Made by the Program and Budget Committee at its Eighteenth Session Held from September 12 to 16, 2011" (document A/49/16).
3. *The General Assembly is invited to approve the recommendation of the Program and Budget Committee made in respect of document WO/PBC/18/4, as recorded in document A/49/16.*

[Document WO/PBC/18/4 follows]



## **Program and Budget Committee**

**Eighteenth Session  
Geneva, September 12 to 16, 2011**

### **REPORT BY THE EXTERNAL AUDITOR: AUDIT OF 2010 FINANCIAL STATEMENTS**

*prepared by the Secretariat*

1. According to Regulation 6.5 of the Financial Regulations and Rules, financial statements of the Organization shall be submitted to the External Auditor. Regulation 8.11 requires that the Program and Budget Committee (PBC) examines the financial statements and the audit reports thereon and forwards them to the General Assembly with comments and recommendations, as appropriate. The 2010 Financial Statements are being transmitted to the PBC under cover of document WO/PBC/18/3.
2. The present document contains: (i) the summary of External Auditor's recommendations made with regard to the Organization's 2010 Financial Statements and the management's responses thereto; and (ii) the full Report by the External Auditor on the World Intellectual Property Organization's (WIPO) 2010 Financial Statements (consisting of: "Audit of 2010 financial statements" and "Audit of 2010 opening balance sheet following reprocessing according to IPSAS").
3. The conclusion of the Auditor's Report on the 2010 Financial Statements is as follows:

"77. As a result of the work done, I am able to confirm that the WIPO financial statements for 2010 have been presented in compliance with IPSAS. Furthermore and taking into account the materiality threshold predefined on the basis of the International Standards on Auditing, I also confirm that the accounting data published in the financial statements correspond to the Organization's accounts.

“78. Consequently, I am able to issue the audit opinion annexed to this report and drawn up in accordance with Paragraph 5 of the Terms of Reference Governing External Audit (Annex 2 of the WIPO Financial Regulations and Rules)”.

*4. The Program and Budget Committee is invited to recommend to the General Assembly of WIPO to take note of the contents of this document.*

[Summary of Recommendations follows]

## **SUMMARY OF RECOMENDATIONS BY THE EXTERNAL AUDITOR ON THE 2010 WIPO FINANCIAL STATEMENTS AND WIPO MANAGEMENT'S RESPONSES**

### **I. AUDIT OF 2010 FINANCIAL STATEMENTS**

#### **Recommendation No.1**

"I recommend the Organization to define in formal terms the key processes, to introduce and document the audits carried out and, in time, to establish a monitoring mechanism for the audits conducted."

#### **Response**

This important area of work falls under the Strategic Realignment Program (initiative 15: strengthen internal control system). As at the date of this report, a Request for Proposals is to be issued with a view to engaging a consultancy firm who will assist the Organization in determining the strategy to follow with regard to this initiative.

#### **Recommendation N°2**

"I invite WIPO to seek a solution allowing fees to be fixed for PCT services in three or four key currencies (CHF, EUR, USD and JPY for example). I remain convinced that such a solution would simplify the administrative work of the Finance Services and the PCT, while reducing the risks linked to exchange rates."

#### **Response**

The Secretariat acknowledges that foreign currency exchange rates represent an area of risk with regard to PCT revenue. The majority of payments received currently are made in the four principal currencies mentioned in the recommendation (CHF, EUR, USD, JPY) and so further concentration on these currencies will not reduce the risk to any significant degree. In addition, provisions already exist within the PCT Treaty, which are designed to mitigate the exchange risks associated with tariffs and the currencies in which they are expressed.

It is very important to note that a key advantage of the PCT system for users is that of being able to pay in their local currency and this is the principal argument for retaining all currencies. This recommendation is not therefore appropriate in terms of a system which aims to be readily accessible to all. However, the Secretariat will continue to monitor the situation and to investigate ways of mitigating the remaining exchange rate risk.

#### **Recommendation N°3**

"I invite WIPO to take the appropriate measures to ensure the mutual replacement of key employees and to set up a working group. Referring more specifically to the Finance Services, I suggest that a group of several additional multipurpose colleagues be designated to deal with the closure of accounts and able to fill any occasional vacancy left by one of them."

#### **Response**

Acquiring sufficient knowledge of IPSAS in order to prepare the financial statements of the Organization represents a considerable challenge for Finance Services. It is recognized that certain members of Finance Services need to enhance their understanding of the IPSAS standards so that they are better able to replace one another in case of unforeseen absences and to become more involved in IPSAS-related work. Accordingly, several staff members are following IPSAS-related training courses during the course of 2011. An IPSAS Financial Accountant is to be recruited into Finance Services this year and further ways of strengthening the team responsible for the preparation of financial statements are under consideration.

**Recommendation N°4**

"I recommend WIPO to remove from the Excel sheets of the "Trial Balance" information that is of no use or is out of date, which may lead to risks of mistakes when the financial statements are next closed."

**Response**

This recommendation is duly noted and the work will be carried out during 2011.

**II. AUDIT OF THE 2010 OPENING BALANCE SHEET FOLLOWING REPROCESSING ACCORDING TO IPSAS****Recommendation No.1**

"I invite WIPO to seek, as an essential matter, an IPSAS specialist who will be in charge of monitoring the implementation of these standards and their application, in order to support the person responsible in the Finance Services in this complex task."

**Response**

The response to this recommendation is included within the response to recommendation 3 above,

**Recommendation No.2**

"I invite WIPO to seek an automated solution designed to provide easy verification of accounting types when several accounts are grouped together under a single heading in the financial statements."

**Response**

A report has accordingly been prepared in AIMS which provides the information required regarding accounts and their groupings.

[Annex follows]



## Report by the Auditor

**WORLD INTELLECTUAL PROPERTY  
ORGANIZATION (WIPO)****Audit of 2010 financial statements**

*The mandate of external auditor of the World Intellectual Property Organization (WIPO) must be carried out by a member of the highest authority of public financial auditing of the selected country and it is assigned on an individual basis. On the strength of this provision and further to the WIPO General Assembly and the Assemblies of the Paris, Berne, Madrid, Hague, Nice, Lisbon, Locarno, IPC, PCT and Vienna Unions, the Member State representatives have renewed the mandate of the Swiss Government as auditor of the accounts of WIPO and the Unions administered by WIPO, as well as the accounts of the technical assistance projects carried out by the Organization, up to and including 2011. The Government of the Swiss Confederation entrusted me, as Director of the Swiss Federal Audit Office ("my Office"), with the auditing of the accounts of WIPO.*

*My terms of reference are defined in Regulation 6.2 of the WIPO Financial Regulations as well as by the Additional Terms of Reference Governing Audit annexed to those Regulations. I carry out my duties autonomously and independently with the help of colleagues from my Office.*

*My Office carries out external audits of the accounts of WIPO 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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## AUDIT SUMMARY

Firstly, I would like to emphasize in this report that for the first time in its history, WIPO has produced its 2010 financial statements according to the International Public Sector Accounting Standards (IPSAS). As I underlined on September 27, 2010 at the General Assembly of Member States, then reiterated in my report of October 27, 2010 on the audit of the balance sheet after the IPSAS restatements, I had acquired the certainty that WIPO was on the right track to obtain certification for observance of IPSAS. This kind of declaration now belongs firmly to the past, since I have the honor to confirm that the Organization's 2010 financial statements comply with IPSAS.

Furthermore, I would like to recall that the transition to IPSAS has been a real challenge, both for WIPO and for the auditors. Indeed it was a total change of paradigm which required numerous restatements of the financial headings. In this regard, I wish to emphasize the particular nature of the situation during this first financial period. Finance Services have continually been requested to solve technical problems and placed under time pressure to produce a final version of the 2010 financial statements. On this occasion, I would like to reiterate my thanks to the WIPO Director General for his support and, above all, to the whole team in Finance Services and the external consultant who have spared no efforts to achieve this objective.

Subsequently I would like to return to three elements which I deem essential. Firstly, there is the recruitment of a specialist who will be responsible for monitoring the implementation and application of IPSAS. Since the mandate of the external consultant is coming to an end, it is essential for the Organization to commission quickly the skills of such a specialist so that the specialist may familiarize him or herself sufficiently early with the accounting and financial practices particular to WIPO, well before the closure of the 2011 financial statements. In the same context, I would add that the Organization must ensure particularly that the staff in Finance Services continue their "on the job" training in order also to guarantee a certain flexibility in their operations.

Secondly, I would like to underline that the reconciliation of budget values with actual values on a comparable basis shows surplus revenue of CHF 3.1 million prior to the IPSAS adjustments made. The application for the first time of IPSAS has required the restatement and a fresh evaluation of the balance sheet headings so as to respect these standards. The final result of these operations is a deficit of CHF 13.6 million at the end of 2010.

Thirdly, I would like to note that no form of accounts has been produced by the Organization for the actuarial debt to the United Nations Joint Staff Pension Fund (UNJSPF). Such accounts would have a significant impact on the Organization's financial statements. Furthermore, according to my information UNJSPF was not able to provide a calculation of the welfare commitments according to IPSAS 25. However, the application of this specific standard does not relate only to WIPO. There are other divergences in interpretation of this standard among my counterparts on the United Nations Panel of External Auditors and the members of the IPSAS Task Force. In conclusion, as the situation is not unique to WIPO, I will limit myself to drawing the attention of the Member States to this kind of potentially significant risk, while stating that it is not necessary for the time being to express a reservation or to mention it specifically in my audit opinion of the 2010 financial statements.

## REGULATIONS, STANDARDS AND INFORMATION

### Financial regulations and subject of audit

1. In addition to the relevant provisions of the different Conventions and in accordance with the International Public Sector Accounting Standards (IPSAS), the new accounting period now covers a calendar year and is no longer based on a biennium. By contrast, the provisions of the WIPO Financial Regulations and Rules, which entered into force on January 1, 2008 and were amended on October 1, 2009, still remain valid.
2. The audits related to the financial statements of WIPO and the Unions it administers as at December 31, 2010, and also to the budget accounts and their consistency.

3. The accounts for the 2010-2011 biennium of the International Union for the Protection of New Varieties of Plants (UPOV) are not the subject of an interim audit in the middle of the biennium.
4. The accounts for the 2010 financial year of the WIPO Pension Fund (closed) were the subject of a separate audit report. As regards the construction project for the new administrative building, an audit of the final accounts will be done during the summer of 2011.
5. The opening balance sheet which was reprocessed according to IPSAS was the subject of a specific audit and a separate report issued on October 27, 2010.
6. The financial supervision audit relating to human resources carried out during the second half of 2010 was the subject of a separate report issued on July 4, 2011.

#### **Audit standards, information and acknowledgments**

7. The audit was carried out according to the International Standards on Auditing (ISA – 2010 Edition)<sup>1</sup>, as well as observance of the additional terms of reference forming an integral part of the WIPO Financial Regulations and Rules.
8. Questions of minor importance have been clarified and discussed with those responsible during the work done; they are not included in this report.
9. During the audit work, my colleagues had regular discussions with Mrs. Janice Cook Robbins, Head of Finance Services, with other colleagues in her service, with staff members from other departments in the Organization, based on the subject being discussed, and with the external consultant responsible for introducing IPSAS at WIPO.
10. Where audits by means of random sampling were carried out, my colleagues selected the samples based on the risks or relative size of the amounts recorded under the headings examined.
11. I wish to emphasize the sound collaboration and spirit of openness which prevailed during the performance of the audit. I also express thanks for the obliging manner in which information and documents were provided by all WIPO staff members who were so requested.
12. The result of the audit was communicated during the final discussion on July 4, 2011. This conversation took place in the presence of Mr. Philippe Favatier, Chief Financial Officer (Controller), Mrs. Janice Cook Robbins, Head of Finance Services, Mr. Tuncay Efendioglu, Head of the Internal Audit Section, Mrs. Thérèse Dayer, Deputy Director of the Human Resources Management Department (HRMD), and with the external consultant responsible for introducing IPSAS at WIPO.

#### **FOLLOW-UP TO RECOMMENDATIONS MADE IN PREVIOUS REPORTS**

13. The different recommendations<sup>2</sup>, which had been made during previous audits and which may be considered implemented or in the process of being implemented, are not included in this report.

#### **Introduction of the internal control system**

14. As I noted in my report on the audit of the accounts for the 2008-2009 biennium, I welcomed the initiative taken by WIPO aimed at setting the general principles relating to the existence of an internal control system in the WIPO Financial Regulations and Rules. I was of the opinion that the relevant provisions should also include the role of auditing and approval of the existence of the

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<sup>1</sup> "International Standards on Auditing (ISA) 2010 Edition" published by the International Auditing and Assurance Standards Board (IAASB).

<sup>2</sup> Recommendations Nos. 1 and 3, made in the report of July 5, 2010, on the audit of the accounts for 2008-2009 (report No. 10027), and also Recommendations Nos. 1 and 2, mentioned in the report of October 27, 2010 on the audit of the 2010 opening balance sheet following restatement according to IPSAS (report No. 10327).

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internal control system by the WIPO management. I consequently suggested that the Organization should define in formal terms the key processes, put them into practice and document the audits carried out. I now note that, to date, the introduction of the internal control system requires further implementation work. I have noted that a request for proposals was launched at the beginning of the second half of 2011 among external consultants specialized in implementing an internal control system. The choice of consultant still remained open at the end of my audit work. As a result, I reiterate my recommendation as follows:

**Recommendation No. 1**

I recommend the Organization to define in formal terms the key processes, to introduce and document the audits carried out and, in time, to establish a monitoring mechanism for the audits conducted.

**Reduction in the number of currencies accepted as payment in PCT business relations**

15. In my previous report relating to the audit of the accounts for the 2008-2009 biennium, I was of the opinion that the principle of fee-setting reduced to three or four key currencies (for example CHF, EUR, USD and JPY) in Patent Cooperation Treaty (PCT) business relations should be envisaged. On the basis of this principle, I urged WIPO to consult its different internal partners in order to seek an amendment to the PCT Regulations, including in particular the provisions of Rule 16.1(e) of the Regulations under the PCT. Based on the information which I have received, I note that this recommendation still remains open, but also note the discussions which are in progress. Consequently, I reiterate my recommendation as follows:

**Recommendation No. 2**

I invite WIPO to seek a solution allowing fees to be fixed for PCT services in three or four key currencies (CHF, EUR, USD and JPY for example). I remain convinced that such a solution would simplify the administrative work of the Finance Services and the PCT, while reducing the risks linked to exchange rates.

**PRODUCTION OF FINANCIAL STATEMENTS ACCORDING TO IPSAS**

**The recruitment of an IPSAS specialist is of fundamental importance**

16. I have noted with satisfaction that my recent recommendation<sup>3</sup>, concerning the recruitment of a specialist who will be responsible for monitoring the implementation and application of IPSAS has been the subject of an open competition. The deadline for the receipt of applications was on May 10, 2011. I am of the opinion that a prompt appointment to this post is of fundamental importance for the Organization. This person will provide undoubted support for the Head of Finance Services in the performance of the tasks for which she is responsible.

**Production of the financial statements according to IPSAS is a sizeable and complex task**

17. The task of my colleagues was to audit the WIPO financial statements closed as at December 31, 2010. This audit demonstrated that the production of the financial statements, in accordance with IPSAS, represented a sizeable and complex task for the Organization. Numerous changes in the wording of the texts (notes) and the presentation of values were therefore necessary. This was done in successive stages during the audit period. Consequently, and taking account of the requested changes, the final version of the financial statements was not yet available at the end of the audit. This required an extension to the mission entrusted to my colleagues on the spot relative to what had initially been planned.

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<sup>3</sup> Report No. 10327 of October 27, 2010 on the audit of the 2010 opening balance sheet, following the restatement in accordance with IPSAS.

18. However, given the change in paradigm imposed on Finance Services by the transition to IPSAS, I wish to emphasize the particular nature of the situation during this first financial year. Finance Services were continually requested to solve technical problems and placed under time pressure to manage to produce a final version of the 2010 financial statements. Clearly, the situation which prevailed during this audit was special, since it was the first time that financial statements were produced according to IPSAS. I would like to take this opportunity to reiterate my thanks to the whole team in Finance Services and to the external consultant who spared no effort to achieve this objective.

**The one-off absence of key staff members must be guaranteed by mutual replacements**

19. My colleagues were faced during the final audit with one-off absences of key staff members of the Organization, who were the only ones able to participate in certain situations encountered. This contributed to the delay in the accounting changes and in the corrections to the financial statements. Consequently, I consider that the replacement of key posts, in particular in Finance Services, should be scheduled in the business processes in general, and then introduced. This moreover forms part of the introduction of the internal control system (see paragraph 14).

**Recommendation No. 3**

I invite WIPO to take the appropriate measures to ensure the mutual replacement of key employees and to set up a working group. Referring more specifically to the Finance Services, I suggest that a group of several additional multipurpose colleagues be designated to deal with the closure of accounts and able to fill any occasional absences of one of them.

**Need to update the different Excel tables of the trial balance**

20. My colleagues informed me that the different reference documents received, in particular the Excel table for the trial balance<sup>4</sup>, which recapitulates all the essential elements for producing the financial statements, still contained information relating to the restatements concerning the production of the IPSAS opening balance sheet. Furthermore, even if certain links between the sheets in the table were not accurate or did not work, the values contained in the financial statements were correct. In order to facilitate the transfer of the files for closing the financial statements to the future IPSAS specialist and to avoid in future any risk of error, I am of the opinion that Finance Services should remove from the Excel sheets for the trial balance information that is of no use or out of date for the work that will be done to close the 2011 accounts.

**Recommendation No. 4**

I recommend WIPO to remove from the Excel sheets of the "Trial Balance" information that is of no use or out of date, which may lead to risks of mistakes when the financial statements are next closed.

**AUDIT OF 2010 BUDGET PERFORMANCE**

**Budget performance, figures, reconciliations and transfers compliant**

21. Even if the financial statements are now produced annually following the introduction of IPSAS, the WIPO Program and Budget still covers the 2010-2011 biennium. It was revised and then approved by the Assemblies of the Member States of WIPO on October 1, 2009. Taking into account the effects of IPSAS on budgetary practices, income and expenditure have been estimated separately for 2010 and 2011, in accordance with Annex VIII of the 2010-2011 Program and Budget<sup>5</sup>.
22. In their audits of the information contained in notes 24 "Revenue" and 25 "Expenses", my colleagues verified the reconciliation of the budget values with the table in note 23 "Comparison of

<sup>4</sup> Trial balance.

<sup>5</sup> According to WIPO publication No. 360E/PB1011.

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budget and actual income and expenditure (financial statement V) in relation to the statement of cash flow (financial statement IV)". This leads to the observation that the budgetary data reconciled with the actual amounts on a comparable basis of the revenue and expenses of the 2010 accounting year show surplus revenue of CHF 3.1 million prior to the IPSAS adjustments made. This result is moreover confirmed in the two tables "Financial statements V relating to revenue and expenses".

23. As regards budgetary performance in general, I refer to the comments by the Director General contained in the Financial Management Report. The audits carried out by my colleagues showed that the budgetary transfers between the programs were carried out in accordance with Article 5.5 of the Financial Regulations.

### **AUDIT OF 2010 FINANCIAL STATEMENTS**

#### **The 2010 financial statements are presented for the first time according to IPSAS**

24. The subject matter of the audit carried out by my colleagues is explained in the WIPO financial statements for 2010. These statements consist of the balance sheet (financial statement I), income and expenditure (financial statement II), statement of changes in net assets (financial statement III), statement of cash flow (financial statement IV) and comparison of budget and actual income and expenditure (financial statements V relating to income and expenditure) for the financial year ending at December 31, 2010, together with a summary of the main accounting methods and other explanatory notes.
25. As shown in the different tables and the explanations for each group of accounts, the WIPO financial situation remains healthy, despite the observed reduction in reserves. The application for the first time of IPSAS has required the restatement and a fresh evaluation of the headings of the opening balance sheet in order to respect these standards. The result of these operations is a reduction in WIPO's financial reserves at the beginning of the financial year of about CHF 20 million. These reserves were therefore initially CHF 208.2 million. Furthermore, the restatements made during the financial year now brings the amount of WIPO's reserves to CHF 194.6 million at the closure of the 2010 financial statements.

#### **Liquid assets and equivalent liquid asset funds, three-month availability**

26. The balances, as at December 31, 2010, of the different cash accounts were compared with those contained in the statements issued by the depositors. Several accounts showed different balances between the amounts indicated on the bank statements and the sums on the balance sheet. These differences have all been accounted for using the reconciliation documents which were specially produced. The amounts displayed in cash (a total of CHF 383.5 million) respect the principle of availability of funds within 90 days.
27. Furthermore, WIPO has decided to distinguish between non-limited and reserved liquid assets. This way of presenting cash complies with IPSAS 2 which stipulates that: "an entity should disclose, together with a commentary by management in the notes to the financial statements, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the economic entity". For my part, I do not oppose this optional presentation of the categories of funds presented.

#### **Debts owed to WIPO are displayed as net values**

28. The amounts entered into the accounts under the different debtor headings<sup>6</sup> represent a total of CHF 27.2 million. The contributions by the Member States still due as at December 31, 2010 constituted a net value of about CHF 2.2 million following reduction of the provision on bad debtors

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<sup>6</sup> Contributions by Member States, debts relating to commercial business, funds advanced to UNDP and the WIPO Pension Fund.

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of some CHF 0.9 million. The debts incurred relating to commercial business alone represent more than CHF 17 million. The different random samples produced by my colleagues did not reveal any errors. In accordance with IPSAS 19, the debtor positions of the least developed countries were deducted from the heading concerned.

#### **Inventory of publications, evaluation at the right level difficult**

29. The inventory of publications, stock of paper and articles in the Conference Center shop constitute close to CHF 2.6 million. When the value of publications was audited, my colleagues noted that reliable statistical information allowing the actual value of the stock of publications, which was estimated at more than CHF 3.3 million on the basis of an average cost per page higher than the cost of production, to be evaluated, was missing. As a reminder, the amount of the opening balance sheet was about CHF 2.0 million. In view of this situation, my colleagues requested the WIPO Finance Services to review the basis of the calculation. This audit led to a reduction in the balance of almost CHF 950,000, which now brings its value to CHF 2.4 million.
30. The change in the value of the stocks of publications was made so as to avoid an overvaluation of the accounting position in relation to IPSAS 12, figure 30, which provides for depreciation in the stocks below the cost of bringing them back to net production value.

#### **Recommendation No. 5**

I recommend WIPO to ensure that it obtains accounting information based on reliable and exhaustive statistics concerning the management of publication inventories so as to be able to guarantee correct evaluation of these inventories in accordance with IPSAS.

#### **Equipment, numerous items catalogued**

31. The amount activated under the "Equipment" heading is close to CHF 3.7 million for more than 35,000 items recorded in the related management system. This sum corresponds to the cumulative value of the individual net balances of the different categories of fixed assets corresponding to the various kinds of existing equipment. The audit of incoming and outgoing fixed assets recorded in 2010 did not reveal any significant errors. An insubstantial discrepancy of some CHF 40,000 previously observed between the accounting data in the PeopleSoft<sup>7</sup> system was eliminated during the audit.

#### **Meyrin rental building, a cautious evaluation**

32. The buildings generating a return are governed by the provisions of IPSAS 16, which applies to the Meyrin building. My colleagues audited the estimate of the accounting value for this investment building, which must be assessed at its true value. They noted that in order to determine that value, in 2009 WIPO mandated the company CBRE. CBRE conducted an estimate of the market value of the building, taking into account its return. The analysis carried out by my colleagues shows that the amount activated on the balance sheet for about CHF 4.3 million is based on a cautious calculation, in particular as regards the level of costs. Even though I consider them rather high, I accept the conclusions of the building evaluation specialist. I also note that the conduct of such an evaluation is scheduled within a period of three years, beginning from the date of the last estimate.

#### **The surface rights in the PCT building are entered into the accounts as part of intangible fixed assets**

33. The PCT building has been built on land which has surface rights until 2073. The provisions of IPSAS 31 stipulate that redemption of this intangible fixed asset is calculated based on the expiry date of the rights in question. My colleagues verified that the residual value appearing in the balance sheet corresponds to the actual remaining value of the property, which is the case.

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<sup>7</sup> AP-Account Payable and AM-Asset Management modules.

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Consequently, I consider that the sum of CHF 27.8 million recorded on the balance sheet complies with IPSAS.

**The work in progress includes the new building and the new conference hall**

34. The new building is included in the balance sheet for an amount of CHF 155.2 million. This value takes account of the work done during 2010 for around CHF 39.6 million. The random sampling done by my colleagues in the 2010 accounting documents enabled me to validate this sum.
35. The work in progress on the new conference hall is entered into the accounts for CHF 6.6 million, i.e. more or less double the value included in the opening balance sheet. My colleagues were able to verify the accuracy of this amount by auditing the relevant accounting documents.

**Arpad Bogsch (AB), Bodenhäuser I and II (GBI and GBII) and PCT buildings**

36. These buildings were surveyed in 2010 by the company Acanthe SA, which specializes in building surveys. The survey done by this company is based on a component approach, on which the individual lifespan of each of the buildings depends. The survey report has already been analyzed by my colleagues during the audit of the IPSAS restatements, done in order to determine the balances on the opening balance sheet.
37. A request for amendment of values had therefore been suggested, as subsequently confirmed by an update of the survey in a second document which was brought to the attention of my colleagues. The values on the opening balance sheet which have been validated have been redeemed, component by component, during 2010. The audits conducted by means of random sampling have not shown any errors. The redemptions performed (about CHF 3.3 million) correspond to the values based on the periods for redemption of the components.
38. Furthermore, my team also conducted audits by means of random sampling of the invoices entered into the accounts in 2010 concerning the buildings under review. Thus, I was able to ensure that no expense concerning the buildings should be activated in the financial statements. In this particular case, the overall net value of the AB, GBI, GBII and PCT buildings now stands at CHF 126.3 million.
39. Finally, my colleagues carried out audits by means of random sampling in the AIMS accounting system. They confirmed to me that the data relating to the components included in this accounting system (initial amounts, redemption period - remaining lifespan) were correct.

**Land for new building, an asset owned by WIPO**

40. The value of the land for the new building is based on a survey done by the external company CBRE in 2009. My colleagues examined this survey and accept the approach used. The amount activated for this land which belongs to WIPO has been valued at CHF 28.6 million. Since no redemption is calculated for the land, the value included in the closing balance sheet remains identical to that of the opening balance sheet.

**Other non-current assets (FCIG loan)**

41. The heading "Other non-current assets" shows an amount of CHF 10 million. This sum comes under the loan agreement signed on October 25, 1991 between WIPO and the International Centre of Geneva Foundation (FCIG). Addendum No. 1, dated November 1, 1996, which forms an integral part of this agreement is aimed to settle reimbursement of the loan which, contrary to what is stated in my last report relating to the audit of the opening balance sheet<sup>8</sup> will not take effect during the second half of 2011. WIPO has in the meantime decided to retain the "CAM" premises.

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<sup>8</sup> Report No. 10327 of October 27, 2010 on the audit of the 2010 opening balance sheet, following the restatement in accordance with IPSAS.

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**Accounts payable, the situation of one commitment remains to be clarified**

42. The majority of the accounts payable (CHF 19.5 million) are entered in WIPO account 33200 "AP Accounts Payable Control". The audits conducted by my colleagues related to different positions on the balance sheet concerning WIPO's current commitments. They gave a good result. I note quite simply that this heading shows an amount of 21 per cent less than that on the opening balance sheet.
43. Furthermore, I note that a commitment of about CHF 1.1 million to the Republic of Korea is included in account 36300 (Transitory Liability Income). In this particular case, the provisional commitment comes under Rule 16.1(e) of the Regulations under the PCT on the coverage of exchange differences. I was informed that discussions had been launched between WIPO and this State with a view to finding an understanding to resolve the case. I have noted that the current provision of CHF 1.1 million did not take into account the income and expenditure recorded during the months of September to December 2010, for which the exchange differences would represent surplus costs for WIPO of CHF 370,000. As there is currently uncertainty regarding the development of this conflict situation between both parties, I have not requested an adjustment of the provision.

**Staff benefits; "Voluntary Separation Program"**

44. During 2010, a sum of about CHF 15 million was devoted to the "Voluntary Separation Program" (VSP). My financial supervision audit report<sup>9</sup>, relating to human resources deals with this Program. The program will finally be completed during the first half of 2012. The residual balance of CHF 1.1 million included in the 2010 financial statements represents funds belonging to staff members who have taken early retirement. Current availabilities will be exhausted at the latest in June 2012, either through the coverage of possible surcharges in expenses linked to the Vanbreda Medical Insurance Fund, the Pension Fund<sup>10</sup>, or by means of a return to the beneficiaries.

**Staff benefits; home leave**

45. I noted that the provision of CHF 0.2 million included in the 2010 financial statements concerns a number of staff members who have not availed themselves of their right to home leave in 2010. Since this benefit may not be carried over, the amount provided for is not the subject of an actuarial calculation. The brief audit conducted by my colleagues enables me to validate the amount of this provision.

**Staff benefits; overtime and variable time**

46. The provision for overtime and for variable time<sup>11</sup> is included in the balance sheet for a sum of CHF 0.5 million. The random sampling done by my colleagues based on the accounting documents confirm that this amount is justified.

**Staff benefits; accumulated annual leave**

47. The provisions for accumulated days of leave are entered into the accounts as short-term liabilities for an amount of CHF 2.0 million and in long-term liabilities for CHF 10.2 million. My colleagues verified that these amounts are accurate and relevant by analyzing the individual data for WIPO staff. Based on their audits, I consider the values of the provisions to be accurate.

**Staff benefits; repatriation grants**

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<sup>9</sup> Report No. 10195 of July 4, 2011 on the financial supervision audit relating to human resources.

<sup>10</sup> United Nations Joint Staff Pension Fund (UNJSPF).

<sup>11</sup> Staff subject to rules of the electronic system for recording working time (Flexitime).

48. The funds entered into the accounts as at December 31, 2010 as repatriation grants are close to CHF 1.1 million in short-term liabilities and CHF 7.7 million in long-term liabilities. My colleagues analyzed the assumptions considered and validated them. I note that the amounts provided correspond to the balances carried over in the actuarial analysis prepared by the company Mercer in the document of April 28, 2011 "Consolidated Total for All Plans, WIPO, Actual Valuation Report under IPSAS". I can thus validate the amounts under these two headings.

**United Nations Joint Staff Pension Fund (UNJSPF), a potential future risk for the WIPO financial statements**

49. WIPO is affiliated to the United Nations Joint Staff Pension Fund (UNJSPF) through its 1,100 staff members. As I have already noted in my audit report on the opening balance sheet<sup>12</sup>, no actuarial commitment was provided for the main retirement fund of the Organization's employees. In accordance with the provisions of IPSAS 25, I consider that the actuarial commitment relating to WIPO staff pensions with the UNJSPF should be included in the balance sheet. The plan in which the Organization participates has the characteristics of a "defined benefit plan where the participating entities are under common control"<sup>13</sup>, according to IPSAS 25, owing to the following elements:
- participation in the risk of organizations subject to the plan;
  - UNJSPF statutes relating to share of future contributions;
  - UNJSPF organizational structure, affiliated organizations.
50. It should be noted that, if such a commitment should be entered into the accounts under IPSAS 25 according to the aforementioned criteria, that standard would have a significant impact on WIPO's financial statements. That could represent a commitment of more than CHF 200 million, corresponding to WIPO's share of the UNJSPF's theoretical actuarial debt.<sup>14</sup> Furthermore, according to my information, UNJSPF was unable to provide a calculation of the welfare commitments according to IPSAS 25.
51. Since the application of IPSAS 25 in this form does not concern only WIPO but all the United Nations agencies, I submitted this problem to my counterparts on the United Nations Panel of External Auditors. In view of the still restricted experiences to date in this area, the question has not yet been the subject of a joint approach by members of the Panel. Exchanges of opinions between the different specialists in the Panel Technical Group and those responsible on the United Nations IPSAS Task Force took place, *inter alia*, at the Fifty-First Session of the Panel in December 2010. These exchanges gave rise to a broad discussion which did not produce a common interpretation of the provisions of IPSAS 25.
52. That being the case and whatever the future interpretation of IPSAS 25 to be given in this area and which will be chosen by the United Nations, my task as External Auditor is to draw the attention of the Member States to this kind of potentially significant risk. In conclusion, since the situation does not relate solely to WIPO, I consider that it is not necessary for the time being to express a reservation or to mention it specifically in my audit opinion of the 2010 financial statements.

**Staff benefits; After-Service Health Insurance (ASHI)**

53. WIPO's current financial statements show ASHI (medical insurance) funds of some CHF 12.1 million in short-term liabilities and more than CHF 83.8 million in long-term liabilities. The Mercer actuarial evaluation report is based on the assumption that the increase in medical insurance benefits will show annual growth of 2.5 per cent. In relation to the structure of the

<sup>12</sup> Report No. 10327 of October 27, 2010 on the audit of the 2010 opening balance sheet following the restatement in accordance with IPSAS.

<sup>13</sup> The official IFAC French translation of IPSAS 25 is not yet available.

<sup>14</sup> A report by an external consultant referred to possible actuarial debt of USD 7.4 billion as at December 31, 2009.

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presentation of the financial statements, my colleagues have also asked Finance Services for various changes to be made at the end of the audit in order to respect the provisions of IPSAS 25.

54. Regarding the accounting technique, I note that the Organization has adopted the corridor method for recognizing actuarial profits and losses. In this way, the variations in profits and losses exceeding 10 per cent of the value of the actuarial obligations are deferred and recorded over the average anticipated duration of the working life of the employees participating in the plan. I can therefore validate this option which complies with the guidelines in IPSAS 25.

#### **Transferable income**

55. The balance of income to be transferred increased slightly during 2010 and is included in the current short-term liabilities for a value of CHF 64.1 million. This amount represents the cumulative total of individual accounts on the balance sheet concerning Arbitration and Mediation Center (AMC) deposits, supplementary and special income from the Madrid and Hague Unions, as well as PCT revenue. Most of the sums pending as at December 31, 2010 have in the meantime been paid to the clients concerned. Based on the checks made by my colleagues, I note that almost CHF 8 million relate to posts pending, the seniority of which predates 2009.

#### **Anticipated income**

56. At the end of 2010, anticipated income subject to periodical delimitation constitutes a sum in advance of CHF 178 million. This deferred income concerns, *inter alia*, accounting entries relating to fields of activities of the PCT, the Madrid and Hague Unions, and voluntary contributions.

#### **PCT**

57. Deferred PCT revenue constituted, alone and in overall terms, more than CHF 136.1 million as at December 31, 2010. It is composed of anticipated receipts of income for patent applications, complementary fees for additional pages and the costs of translation of patentability. I consider the calculation amount and the model presented to be an appropriate estimate of the portion of PCT revenue to be deferred.
58. I note, nevertheless, a significant upward trend in the percentage of files submitted electronically. Although this trend seems reasonable and is considered consistent by WIPO, I envisage assigning my IT audit team, with its ACL tool, during a future audit, in order to assure myself of the relevance and updating of the model. I invite, moreover, WIPO to review in the future the calculation of the average cost of translation every two to three years, in order to ensure that the estimate is based on up-to-date data. I will not, however, make a recommendation on this subject for this year.
59. Note 4 of the WIPO 2010 financial statements shows an amount of CHF 11.9 million in "PCT debtors". The counterpart of this entry representing "Receivable income" is included in note 14 under the heading "PCT revenue deferred" which shows CHF 136.1 million. The sum in question is based on a number of "PCT Applications Filed with RO", estimated at 162,900 units.

#### **Madrid Union**

60. The deferred income and advances on deposits relating to the Madrid Union represented a sum of CHF 26.8 million as at December 31, 2010. During the analysis of the determination of the deferred income relating to the Madrid Union (CHF 2.2 million), my colleagues noted that the calculation model used to determine such income at the closure of the accounts as at December 31, 2010 was improved in relation to that used for the opening balance sheet. New calculation assumptions were applied in the current model of deferred income. These assumptions seem reasonable and I am able to validate them. Furthermore, I note that an explanation specific to the change in method is included in the 2010 financial statements.

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61. I would add also that the latter calculation contained an error of almost CHF 0.6 million. Nevertheless, I have not requested an adjustment in the accounts in this regard, since this difference is an integral part of the overall materiality threshold defined, which does not require a change in the accounts.
62. In the same way as I mentioned above regarding PCT revenue, I envisage assigning my IT audit team, with its ACL tool, to audit the statistical table demonstrating the status of the applications serving as a basis for the calculation of deferred Madrid income. That should allow the quality of the information relating to the exhaustive nature of unpublished applications to be validated.

### **Other anticipated income**

63. In the other anticipated income which constitutes a total of some CHF 15.1 million, CHF 11.6 million represent voluntary contributions. I note that these external contributions (FIT projects) are operations with no direct counterpart. My colleagues analyzed in detail the contracts relating to the highest amounts of voluntary contributions. Since these contracts are subject to conditions, their entry into the accounts under the above heading and the resulting periodic delimitation observe the IPSAS standard concerned.
64. The Funds in Trust table<sup>15</sup> is included on page 50 of the 2010 financial statements. My colleagues have audited the opening and closing balances, together with the income and expenses transactions recorded in these funds. The auditing thereof has led to a number of changes, all of which have been made during the audit by WIPO. The detailed audits of the costs by accounting type did not reveal any errors. I am now therefore in a position to validate this table.
65. A Member State undertook, in a letter from its Permanent Mission, to pay a sum of CHF 1.4 million (EUR 1 million) on a voluntary basis. This conditional contribution is included in the opening balance sheet as at January 1, 2010. Since this contributor subsequently decided not to honor this contribution, the contribution was reversed in the accounts during 2010. I have, as a result, validated the change in value of the opening balance sheet.

### **Borrowings**

66. Short-term and long-term borrowings from FIPOI and the Banque Cantonale de Genève (BCGE) are entered into the accounts on the balance sheet for an overall amount in excess of CHF 140.3 million. I note that WIPO contracted a loan with a drawing right which has not yet been used 100 per cent. In November 2010, the Organization increased its debt to the BCGE of a total of CHF 64 million by subdividing the sum relating to two due dates, one in the medium term and the other of 15 years.
67. The Organization borrowed funds from FIPOI in order to build some of its buildings. These loans were originally subject to interest payments. However, in 1996, the Federal Department for Foreign Affairs of the Swiss Confederation decided no longer to receive interest on these loans; it now requires only the reimbursement of loans according to a fixed repayment schedule. However, as stipulated in IPSAS 5 with regard to borrowings, my colleagues requested WIPO to provide clarification in note 15 of the financial statements on the value of the interest abandoned by the creditor.

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<sup>15</sup> "Funds in Trust" (FIT).

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### **Other funds, an acceptable modified presentation**

68. In my audit report on the opening balance sheet<sup>16</sup>, I validated an amount of CHF 2.5 million concerning the heading "Other provisions". This amount included the heading "Expense accruals<sup>17</sup>" for a sum of CHF 0.6 million. When the financial statements are closed, these expenses appear in accounts payable. This new presentation is, in my opinion, acceptable. Taking into account this change, only the funds for disputes and for study costs are included under this heading. As at December 31, 2010, they represented a total of CHF 2.6 million. I note that the provision for disputes more than doubled during the financial year since it now stands at more than CHF 1.1 million. The analyses and random sampling done by my colleagues confirm the amounts entered into the accounts.

### **Other current and financial liabilities**

69. The checks made by my colleagues allow me to validate the amount in excess of CHF 53.7 million included under this heading. I simply note a justified increase in the balance of 11 per cent.

### **Expenses and revenue**

70. During the last three audit missions in the second half of 2010 and the audit of the 2010 financial statements, my colleagues made checks by means of random sampling and analyses of expenses and revenue. The result of this work enables me to be reasonably sure of the accuracy of the expenses and income entered into the accounts in 2010.
71. On that subject, I wish to emphasize that for 2010 personnel costs in general, including all categories of staff members, are slightly below CHF 198.2 million, which represents more than 68 per cent of the Organization's total costs. These personnel costs have, moreover, been slightly reduced, compared to those for 2009 (CHF 200.6 million; a reduction of 1.2 per cent).

### **Table of flow of funds**

72. My colleagues reviewed all the positions of the statement of cash flow (financial statement IV). They verified that the amounts presented coincide with the variations in balances noted between the opening and closing of the balance sheet. Various corrections were made by WIPO to this table during the mission, including a change of CHF 6 million in the heading "Increase in investments". The final statement of cash flow is now correct.

### **Segment reporting presented by WIPO in the notes**

73. A report by segments is included in the 2010 financial statements. The aim of such segmentation is to be able to assign budgetary expenses directly to the segments concerned. The methodology thus provides for a distribution of direct and indirect expenses, taking into account the different Unions. Furthermore, the aim is to assign the expenditure linked to the activities specific to each Union, while allocating administrative expenses and other related budgetary expenses.
74. The allocation of indirect expenses is calculated on the basis of certain specific programs, the expenses for which are then distributed taking into account the respective payment capacity of the Unions. Such a distribution key is designed to be able to allocate expenses so as to assign the Unions on the basis of their respective financial capacity.

### **Two tables presented according to the old UNSAS standards have not been audited**

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<sup>16</sup> Report No. 10327 of October 27, 2010 on the audit of the 2010 opening balance sheet, following the restatement in accordance with IPSAS.

<sup>17</sup> ULO-Travels. ULO Suppliers Invoices and ULO-Staff Costs.

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75. The two tables appearing in Annex I, "Statement of financial position by business unit", and in Annex II, "Expenses and revenue by business unit", show a "historical" situation of the accounts according to the United Nations System Accounting Standards (UNSAS). These two tables have not been audited by my colleagues and are, moreover, clearly distinguished by the annotation "not audited" which appears in their header.

#### **ANALYSIS OF IPSAS IMPLEMENTATION GUIDE**

76. An application guide for general WIPO policy regarding application of IPSAS (2010 edition) was prepared as part of the introduction of these new standards. My colleagues analyzed the content of the guide which presents the relevant general applicable provisions and instructions for the processing of accounting information. They made various comments which WIPO has taken into account and adapted the relevant elements. During the audit of the 2010 financial statements, Finance Services submitted to my colleagues version 12 of the guide, dated April 23, 2011.

#### **CONCLUSION**

77. As a result of the work done, I am in a position to confirm that the WIPO 2010 financial statements have been presented in conformity with IPSAS. Furthermore, and taking into account the materiality threshold predefined on the basis of the international audit standards, I also confirm that the accounting data published in the financial statements correspond to the Organization's accounts.
78. Consequently, I am able to issue the attached audit opinion in the annex to this report, and drawn up in accordance with paragraph 5 of the terms of reference governing audit (annex 2 of the WIPO Financial Regulations and Rules).

K. Grüter  
Director  
Swiss Federal Audit Office  
(External Auditor)

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Annex to 1.11355.944.00333.02

## **AUDIT OPINION OF THE EXTERNAL AUDITOR**

I have audited the financial statements, as at December 31, 2010, of the World Intellectual Property Organization (WIPO), including the balance sheet (financial statement I), income and expenditure (financial statement II), statement of changes in net assets (financial statement III), statement of cash flow (financial statement IV) and comparison of budget and actual income and expenditure (financial statements V relating to income and expenditure) for the financial year ending on the above date, together with a summary of the main accounting methods and other explanatory notes.

### **Responsibility of the WIPO management for the financial statements**

The management is responsible for producing and presenting an accurate version of these financial statements in accordance with the provisions set by the International Public Sector Accounting Standards (IPSAS) and in the WIPO Financial Regulations and Rules. In addition, the management is responsible for carrying out internal control, which it considers necessary for producing financial statements not including significant anomalies, whether these are the result of fraud or of errors.

### **Responsibility of the auditor**

My responsibility is to express an opinion on the WIPO financial statements on the basis of my audit. I have conducted my audit according to the International Standards on Auditing, 2010 edition, published by the International Auditing and Assurance Standards Board (IAASB). On my part these standards require me 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 lies within the judgment of 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 entity relating to the production of the financial statements in order to define audit procedures appropriate in the circumstances, and not for the purpose of expressing an opinion on the effective operation of the entity's internal control. An audit also includes an assessment of the appropriate nature 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. I consider that the proof gathered is sufficient and appropriate for basing my opinion.

### **Opinion**

In my opinion, the financial statements give a faithful reflection, in terms of all their significant aspects, of the financial situation at WIPO as at December 31, 2010, and of its financial performance and its cash flows for the financial year which ended on that date, in accordance with the International Public Sector Accounting Standards (IPSAS) and the WIPO Financial Regulations and Rules.

In accordance with Article 6 of the Terms of Reference Governing Audit, annexed to the WIPO Financial Regulations, I have also produced a detailed report on my audit of the financial statements in the document dated July 4, 2011.

Bern, July 4, 2011

K. Grüter  
Director  
Swiss Federal Audit Office<sup>18</sup>  
(External Auditor)

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<sup>18</sup> Postal address: Monbijoustrasse 45, CH-3003 Bern.



## Report by the Auditor

# WORLD INTELLECTUAL PROPERTY ORGANIZATION (WIPO)

## Audit of the 2010 opening balance sheet, following the restatement in accordance with IPSAS

*The mandate of external auditor of the World Intellectual Property Organization (WIPO) must be carried out by a member of the highest authority of public financial auditing of the selected country and it is assigned on an individual basis. On the strength of this provision and further to the WIPO General Assembly and the Assemblies of the Paris, Berne, Madrid, Hague, Nice, Lisbon, Locarno, IPC, PCT and Vienna Unions, the Member State representatives have renewed the mandate of the Swiss Government as auditor of the accounts of WIPO and the Unions administered by WIPO, as well as the accounts of the technical assistance projects carried out by the Organization, up to and including 2011. The Government of the Swiss Confederation entrusted me, as Director of the Swiss Federal Audit Office ("my Office"), with the auditing of the accounts of WIPO.*

*My terms of reference are defined in Regulation 6.2 of the WIPO Financial Regulations as well as by the additional Terms of Reference Governing Audit annexed to those Regulations. I carry out my duties autonomously and independently with the help of colleagues from my Office*

*My Office carries out external audits of the accounts of WIPO 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.*

*For more information, please contact:*

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Bern, October 27, 2010

Reg. No.: 1.10327.944.00333.02  
modli/dear

## AUDIT SUMMARY

As I highlighted on September 27, 2010 during the General Assembly of the Member States and as I noted in my audit report of July 5, 2010, the 2008-2009 WIPO biennium was closed for the last time based on the United Nations System Accounting Standards (UNSAS). As from the financial period starting January 1, 2010, financial statements must be presented based on the International Public Sector Accounting Standards (IPSAS). This report is the result of the first interim audit carried out in this context. It is true that I do not usually issue an audit report following interim work, however, given the paradigm shift, I believed it was important to report to Member States on the steps taken to implement the new standards and to prepare the opening balance sheet as at January 1, 2010. My colleagues have therefore examined the balances of the headings of this opening balance sheet based on IPSAS and have analyzed the many restatements which have sometimes been necessary to ensure a transition in line with both primary accounting frames of reference.

Firstly, I would like to confirm in this report what I have already stated during the General Assembly, namely that WIPO is well positioned to achieve IPSAS certification of its financial statements and I encourage it to stay the course. With the exception of the two important elements described below, most of the balances on the opening balance sheet as at January 1, 2010 have been audited and validated by my colleagues. The adjustments and corrections that they have deemed necessary have all been implemented over the course of the audit. I also note that the resources deployed, good planning of implementation work and the support of the Director General of WIPO have contributed to this good result.

Subsequently, I would like to return to two elements that I believe are essential and which are still pending. The first concerns the value of the components of the buildings which still finally need to be analyzed, validated and listed by WIPO. Secondly, I note that no accounting has been done with regard to the actuarial liability of the United Nations Joint Staff Pension Fund (UNJSPF). Such accounting would have a significant impact on the financial statements of the Organization. However, as the implementation of this specific IPSAS standard does not only concern WIPO, I have restated this issue to my opposite numbers on the United Nations Panel of External Auditors in order for them to give their views. Given the limited experience of this to date, no common approach to this issue has yet been formulated by Members of the Panel. I await therefore the outcomes of the Fifty-First Session of the Panel to be held at the start of December 2010 before expressing my views on implementing this standard.

## **REGULATIONS, STANDARDS AND INFORMATION**

### **Financial Regulations and subject of audit**

1. In addition to the relevant provisions of the different Conventions, the 2010 new accounting period now covers the calendar year and no longer extends over the biennium. However, under the provisions of the WIPO Financial Regulations and Rules, which came into force on January 1, 2008 and were amended on October 1, 2009, still remain applicable.
2. Audits have been carried out of the positions of the opening balance sheet of WIPO and of the Unions administered by WIPO as at January 1, 2010, corresponding to the balances of the closing balance sheet as at December 31, 2009 (according to UNSAS), restated pursuant to the new IPSAS.

### **Audit standards, information and acknowledgements**

3. The audit was carried out in accordance with the International Auditing Standards published by IAASB (ISA – 2010 Edition)<sup>19</sup>, whilst also observing the additional Terms of Reference forming an integral part of the WIPO Financial Regulations and Rules.
4. Issues of minor importance were clarified and discussed with those responsible during the course of the work and are not commented on in this report.
5. The results of the audit were discussed with Mr. Philippe Favatier, Chief Financial Officer (Controller), Mrs. Janice Cook Robbins, Head of Finance Services, and with other members of staff of the Finance Services and the external consultant in charge of implementing IPSAS at WIPO during the final discussion on October 27, 2010.
6. Where checks were carried out by random sampling, my colleagues selected the samples based on the risks or the relative size of the amounts recorded under the headings examined.
7. In the course of the audit, my colleagues had regular meetings with Mrs. Janice Cook Robbins, Head of Finance Services, with other members of staff of her Services, with members of staff of other departments within the Organization depending on the issue discussed and with the external consultant in charge of implementing IPSAS at WIPO.
8. I wish to underline the successful collaboration and spirit of openness in which this audit was carried out, which consisted in my colleagues undertaking two verification and analysis phases. I would also like to express my thanks for the cooperative manner in which information and documents were supplied by all WIPO officials whom we approached.

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<sup>19</sup> „International Standards on Auditing (ISA 2010)”, published by the International Auditing and Assurance Standards Board (IAASB).

## GENERAL CONSIDERATIONS

### **The recruitment of an IPSAS specialist is of fundamental importance**

9. A significant portion of the IPSAS implementation work at WIPO is carried out currently by an external consultant whose mission will end probably at the time of final closure of the 2010 financial year. Given the specificities and complexity of IPSAS, I am of the opinion that WIPO should seek to recruit a specialist who would be in charge of following up on the implementation and application of such standards.

**Recommendation No. 1:** I invite WIPO to recruit, as an essential matter, an IPSAS specialist who will be in charge of monitoring the implementation of these standards and their application in order to support the person responsible in the Finance Services in this complex task.

### **The structure of a balance sheet does not guarantee an easy follow up of the headings included in the financial statements**

10. The cost elements which comprise the structure of the WIPO balance sheet defined in the People Soft computer system does not allow for a smooth reconciliation with the headings listed in the existing financial statements. This problem creates much work for WIPO staff to carry out this reconciliation. Moreover, my colleagues have to spend a lot of time auditing and justifying such information. Therefore, they have suggested to Finance Services that an automatic solution be sought, which would ensure a smooth follow-up of cost elements merged into a joint heading of financial statements.

**Recommendation No. 2:** I invite WIPO to seek an automated solution designed to provide easy verification of accounting types when several accounts are grouped together under a single heading in the financial statements.

### **IPSAS restatements processed in a test system**

11. The work carried out by my colleagues has included auditing the amounts submitted by WIPO on the opening balance sheet of January 1, 2010 in accordance with IPSAS. Different restatements of the accounting values regulated by UNSAS have been necessary. Such restatements have been carried out by the Finance Services on a test system and on supplementary tables prepared with Microsoft Office tools. Given this situation, the opening balance sheet data will be finally validated by the Auditor when they appear in the People Soft production system. Such work will be carried out by my colleagues during the next interim audit scheduled for December 2010.

## RESTATEMENT OF THE BALANCE SHEET POSITIONS

12. By way of an introduction to the findings of the audit of the opening balance sheet positions as at January 1, 2010, I have decided to present below a summary overview of the accounting headings.

<b>Opening balance sheet as at January 1, 2010 Version of September 30, 2010 (UNSAS vs. IPSAS adjustments)</b>	<b>UNSAS balance (incl. FITSW)</b>	<b>IPSAS balance (incl. FITSW)</b>	<b>IPSAS Adjustments</b>	<b>Paragraph in Report</b>
<b>Current assets</b>				
Non-limited liquid assets	223.1	223.1	-	13
Reserved liquid assets	143.6	143.6	-	13
Contribution debtors	2.1	2.7	0.6	14
Commercial company debtors	12.4	23.9	11.5	14
Shop inventory	-	0.1	0.1	-
inventory of publications	-	2.3	2.3	15
Subtotal of current assets	<b>381.2</b>	<b>395.7</b>	<b>14.5</b>	
<b>Fixed assets</b>				
Contributor debtors	7.0	0.6	-6.4	14
Equipment	-	3.8	3.8	16
New construction land	-	28.6	28.6	17
Surface right of the PCT Building	-	28.1	28.1	18
Building rental (Madrid)	3.4	4.3	0.9	19
Work in progress; new construction	98.0	115.6	17.6	20
Work in progress; conference hall	-	3.4	3.4	21
PCT (ex-WMO) Building	-	66.1	66.1	22-24
Bodenhausen I Building (GBI)	5.2	11.6	6.4	22-24
Bodenhausen II Building (GBII)	-	6.9	6.9	22-24
Bogsh 1 Building (AB)	22.5	47.0	24.5	22-24
Other non-current assets	10.0	10.0	-	25
Subtotal of fixed assets	<b>146.1</b>	<b>326.0</b>	<b>179.9</b>	
<b>Total assets</b>	<b>527.3</b>	<b>721.7</b>	<b>194.4</b>	
<b>Short-term liabilities</b>				

<b>Opening balance sheet as at January 1, 2010 Version of September 30, 2010 (UNSAS vs. IPSAS adjustments)</b>	<b>UNSAS balance (incl. FITSW)</b>	<b>IPSAS balance (incl. FITSW)</b>	<b>IPSAS Adjustments</b>	<b>Paragraph in Report</b>
Accrued charges	24.0	24.1	0.1	26
Employee benefits; WIPO Pension Fund	-	0.4	0.4	27
Employee benefits; Voluntary separations	-	16.1	16.1	28
Employee benefits; Home leave	-	0.2	0.2	29
Employee benefits; Accumulated working hours	-	0.5	0.5	30
Employee benefits; Accumulated annual leave	0.7	2.4	1.7	31
Employee benefits; Repatriation grant	1.1	1.1	-	32
Employee benefits; ASHI	7.3	7.3	-	36
Transferable income	63.8	63.8	-	37
Expected income	37.4	171.0	133.6	38-39
Short-term loans	2.7	1.4	-1.3	40
Other provisions	2.5	2.5	-	41
Other short-term liabilities	47.7	47.7	-	42
Subtotal of short-term liabilities	187.2	338.5	151.3	
<b>Long-term liabilities</b>				
Employee benefits; WIPO Pension Fund	0.4	2.6	2.2	27
Employee benefits; Accumulated annual leave	5.6	9.7	4.1	31
Employee benefits; Repatriation grant	9.1	9.1	-	32
Employee benefits; ASHI	21.9	75.4	53.5	36
Long-term loans	75.0	76.4	1.4	40
Subtotal of long-term liabilities	112.0	173.2	61.2	
<b>Total liabilities</b>	<b>299.2</b>	<b>511.7</b>	<b>212.5</b>	
<b>Reserves and profit brought forward</b>				44
Reserves and profit brought forward	203.6	203.6	-	
2008-2009 profits brought forward	24.6	24.6	-	
Subtotal of equity before IPSAS restatements	228.2	228.2	-	
IPSAS adjustments	-	-18.1	-18.1	
<b>Total net assets</b>	<b>228.2</b>	<b>210.1</b>	<b>-18.1</b>	

### **Liquid assets**

13. The amounts displayed under liquid assets (a total of CHF 366.7 million) respect the principle of fund availability within 90 days. Also, WIPO has decided to make a distinction between non-limited liquid assets and reserved liquid assets. This manner of presenting liquid assets is in line with IPSAS 2 which stipulates that: "An entity should disclose, together with a commentary by management in the notes to the financial statements, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the economic entity". This heading has been audited and is considered to comply with IPSAS.

### **Debtors**

14. The amounts entered into the accounts under the different debtor headings (contributions from Member States and from commercial enterprises, particularly from the PCT, and the Madrid and Hague Unions) represent a total of CHF 27.2 million. Various restatements of the amounts in IPSAS have all been justified and validated by my colleagues, including the adjustment of the balance of voluntary contributions of CHF 1.4 million entered into the accounts by WIPO during the audit. In conformity with IPSAS 19, the debtor positions of the least-developed countries have been deducted from the relevant heading. This heading has been audited and is considered to comply with IPSAS.

### **Inventory of publications**

15. In accordance with the provisions of IPSAS 12, the calculation of the value of the inventory of publications does not include expenses related to storage and distribution. Over the course of the audit, my colleagues requested a modification to the model for calculating this inventory and verified that the obsolete publications were not included in this amount. The value of the inventory of publications which appear in the opening balance sheet amounts to CHF 2.3 million. This heading has been audited and is considered to comply with IPSAS.

### **Equipment**

16. The amount recorded under the heading "Equipment" stands at CHF 3.8 million. Checks of the parameters used in the accounting system, and the various surveys and analyses of documents carried out by my colleagues have not revealed any significant problem. This heading has been audited and is considered to comply with IPSAS.

### **New construction land**

17. The external assessment carried out by the company, CBRE, with respect to the valuation of the New Building also includes the value of the land on which it is built. In this instance, the land belonging to WIPO has been valued at CHF 28.6 million. My colleagues have examined this assessment and accept the approach used and the amount entered. This heading has been audited and is considered to comply with IPSAS.

### **Surface rights for the PCT Building**

18. The land on which the PCT Building has been built is subject to a surface right until 2073. In line with the provisions of IPSAS 31, the residual value of the surface right for this land is CHF 28.1 million. This valuation approach is correct. I note that this amount

appeared in September 2010 in the long-term assets heading of "land and buildings". At my request, as these are intangible fixed assets, a new position has meanwhile been created within such assets. This heading has been audited and is considered to comply with IPSAS.

#### **Madrid Union rental building in Meyrin**

19. The realization of the building in Meyrin is governed by IPSAS 16. My colleagues have audited the valuation approach as regards the accounting value of this investment property. Given their opinion, I note that the amount which appears in the balance sheet is based on a very cautious calculation, particularly as concerns the relatively broad estimate of costs. However, I accept the value of the building estimated at CHF 4.3 million. This heading has been audited and is considered to comply with IPSAS.

#### **Work in progress: new construction and conference hall**

20. The new building under construction appears in the balance sheet for an amount of CHF 115.5 million, including CHF 1.5 million of interest expenditure. I note that, in compliance with the provisions of IPSAS 17, a reversal of CHF 1.7 million has been made at the request of my colleagues, since the expenses for the architects' competition were erroneously included. This heading has been audited and is considered to comply with IPSAS.
21. The work in progress with respect to the new Conference Hall is listed as amounting to CHF 3.4 million. My colleagues have been able to ensure the accuracy of the amount by auditing the appropriate accounting documents. This heading has been audited and is considered to comply with IPSAS.

#### **Arpad Bogsch (AB), Bodenhausen I and II (GBI and GBII) and PCT buildings**

22. These buildings were surveyed by the company, Acanthe SA, which specializes in building surveys. This company used a component-based approach, with the individual lifespan being directly linked thereto. Based on this survey, my colleagues have analyzed the relevance of the estimated replacement values, and also the residual values of the components as at January 1, 2010. The analysis of the various components which set the price per square meter of the buildings reveal significant differences when compared to other administrative buildings located in Geneva. In this case, the prices per square meter of the following components have been considered to be excessive:
  - Structural work I for the four buildings;
  - Structural work II, electrical installations, heating, ventilation and air conditioning of GBII;
  - Interior fittings 1 and 2 of GBI and GBII.
23. My colleagues have sent their conclusions to the Finance Services and have specified that it is the responsibility of WIPO to establish finally the residual value of each building component. Moreover, WIPO should arrange a further meeting with the experts from the company, Acanthe SA, to discuss and adapt the numbers listed in their survey. As regards accounting, I recall that the data which will appear in the opening balance sheet as at January 1, 2010 should correspond to the net residual values of the components. No accumulated depreciation should appear in the accounts at that time. Later depreciations will be calculated on the basis of the remaining lifespans of the components. My colleagues will audit the data on the opening balance sheet and the residual depreciation periods during the interim audit of December 2010.

24. However, I note that at the end of the work done to analyze the IPSAS restatements, my colleagues indicated that each building component should still be recorded individually in the accounts of tangible assets, which was still not the case.

**Other non-current assets (FCIG loan)**

25. The value of CHF 10 million appearing in "Other non current assets" falls under the loan agreement signed between the contracting parties, namely WIPO and the International Centre of Geneva Foundation (FCIG) on October 25, 1991. Addendum No. 1, dated November 1, 1996 and considered an integral part of this agreement, aims to regulate the reimbursement of the loan. It is therefore expected that FCIG will reimburse the amount of CHF 9 million, to which should be added the amount of CHF 1 million in interest, that is, a total of CHF 10 million to be reimbursed no later than three months after the vacation of the premises by WIPO during the second half of 2011. This heading has been audited and is considered to comply with IPSAS.

**Accounts payable**

26. The majority of the accounts payable (CHF 24.1 million) are recorded in WIPO account 33200 "AP Accounts Payable Control". This heading has been audited and is considered to comply with IPSAS.

**Staff benefits; WIPO Pension Fund (closed)**

27. My colleagues have analyzed the assessment by the company, Hewitt, regarding WIPO's closed pension fund. I note that the assessment carried out is based on Swiss law which does not require an actuarial analysis of the situation according to the projected unit credit method to be undertaken. As this is a small fund, with a total amount provided of CHF 3 million, I do not question the exemption from IPSAS 25 and I accept that WIPO waives an actuarial analysis exceptionally. I consider that the assumptions made to calculate the two provisions are reasonable. This heading has been audited and is considered to comply with IPSAS.

**Staff benefits; Voluntary separation program**

28. The amount of CHF 16.1 million entered under the heading "Voluntary separation program" corresponds to the amount due to employees who left the Organization during the first half of 2010. This one-off campaign had commenced in autumn 2009 and ended on June 30, 2010. This heading has been audited and is considered to comply with IPSAS.

**Staff benefits; Home leave**

29. The conditions applicable to home leave are governed by Paragraph 5.3 of the Staff Regulations and Staff Rules. The relevant provision which appears in the opening balance sheet amounts to CHF 0.2 million. This concerns some cases of staff members who did not take home leave in 2009. Since this benefit cannot be carried over, the amount provided is not subject to an actuarial calculation. This heading has been audited and is considered to comply with IPSAS.

**Staff benefits; Overtime and Flexitime**

30. A provision for overtime and for Flexitime (staff who clock) has recently been created in the balance sheet. The total amount represents more than CHF 0.5 million. This amount is divided nearly equally between the provision calculated for overtime and that for Flexitime. It has been calculated according to the personal data of staff members and is based on needs. This heading has been audited and is considered to comply with IPSAS.

**Staff benefits; Accumulated annual leave**

31. Accumulated leave is entered into the short-term liabilities for a total of CHF 2.4 million and in long-term liabilities for a total of CHF 9.7 million. My colleagues have audited the accuracy of the amounts by analyzing individual WIPO personal data. Based on their findings, I consider the values of the provisions to be correct. This heading has been audited and is considered to comply with IPSAS.

**Staff benefits; Repatriation grant**

32. The provision entered as at January 1, 2010, as repatriation grants amounts to some CHF 1.1 million in short-term liabilities and CHF 9.1 million in long-term liabilities. My colleagues have analyzed and validated the assumptions made. I note that the amounts provided match the balances reported in the actuarial analysis prepared by the company, Mercer, in the document dated April 27, 2010 entitled "Consolidated Total for All Plans, WIPO, Actuarial Valuation Report under IPSAS". This heading has been audited and is considered to comply with IPSAS.

**United Nations Joint Staff Pension Fund**

33. WIPO is affiliated to the United Nations Joint Staff Pension Fund (UNJSPF) via its 1,100 members of staff. I note that no actuarial commitment has been scheduled for the main retirement fund for employees of the Organization. It is my view that, in compliance with the provisions of IPSAS 25, the actuarial commitment for WIPO employee pensions with UNJSPF should appear in the balance sheet. The plan in which the Organization participates has the features of a "defined benefit plan where the participating entities are under common control" according to IPSAS 25, due to the following elements:
- participation in the risk of organizations subject to the plan;
  - statutes of the UNJSPF as regards shares of future contributions;
  - UNJSPF–organizational structure, affiliated organizations.
34. It should be mentioned that such a commitment would have a significant impact on the financial statements of the Organization, even if WIPO's share of the theoretical actuarial debt of UNJSPF amounts to some three per cent. Additionally, at present, UNJSPF is not able to provide a calculation of welfare commitments in compliance with IPSAS 25.
35. Since the implementation of IPSAS 25 does not only concern WIPO, I submitted this issue for the first time to my opposite numbers at the Fiftieth Session of the United Nations Panel of External Auditors in December 2009. In view of the limited experience gained to date in this area, there has been no common approach to this issue by Panel Members. This issue has been put on the Agenda of the Fifty-First Session which will be held at the start of December 2010 in Bern.

### **Staff benefits; After-Service Health Insurance (ASHI)**

36. The current financial statements of WIPO contain ASHI provisions (medical insurance fund) of some CHF 7.3 million under short-term liabilities and more than CHF 75.4 million under long-term liabilities. The Mercer actuarial report, which shows various alternatives, states that CHF 82.7 million entered under the short and long-term provisions is based on the assumption that the increase in medical insurance premiums will amount to annual growth of 2.1 per cent. It is also stated that this rate, chosen by WIPO on the basis of a long-term view, was based on a statistic covering the period from 2003 to 2007. In the absence of ideal, comparable data to be able to calculate precisely the level of the amounts to be provided, my colleagues have requested the Controller of WIPO to confirm the reasonable nature of the rate of 2.1 per cent chosen. In his reply of October 8, 2010, the Controller stated that WIPO had based its judgment on the elements provided by Mercer and reaffirmed the sufficiency of this rate. This heading has been audited and is considered to comply with IPSAS.

### **Transferable income**

37. The amount of CHF 63.8 million appears in the figure under transferable income from short-term liabilities. This amount comprises various individual accounts of the balance sheet concerning Arbitration and Mediation Center (AMC) deposits, supplementary and special income from the Madrid and Hague Unions, as well as income from the PCT affecting revenues. Most of the sums pending as at December 31, 2009, have been paid in the meantime to the relevant customers. I note that some amounts payable have been pending for many months and that their settlement has not yet been initiated. Among these, the amounts payable to Serbia and Montenegro stand at over CHF 7.3 million. In compliance with IPSAS, such an amount should rather appear as a long-term liability instead of a short-term liability. Finance Services have confirmed since then that the presentation of the financial statements has been adapted accordingly. This heading has been audited and is considered to comply with IPSAS.

### **Anticipated income**

38. The IPSAS opening balance sheet as at January 1, 2010, shows a value of CHF 171 million as advance payments, which represents adjustments of CHF 133.7 million (UNSA balance as at December 31, 2009 of CHF 37.3 million). By itself, anticipated income from the PCT is valued at CHF 124.2 million. At the request of my colleagues, WIPO's initial calculation model has been adapted as regards the length of the period in question, which has been extended from 12 to 24 months. Also, income related to supplementary pages is now included in the calculation. I therefore consider the amount entered and the model presented as an appropriate valuation of deferred income from the PCT. This model comprises deferment of income for patent applications, additional fees for supplementary pages and patentability translation costs. Other anticipated income concerns trademark application filings (CHF 3.9 million) and industrial designs (CHF 0.2 million). Moreover, a voluntary contribution made by Italy (CHF 1.4 million) under a conditional contract was entered under anticipated income during the audit. This heading has been audited and is considered to comply with IPSAS.
39. Voluntary contributions (Funds-in-Trust) are governed by IPSAS 23, since these are non-exchange transactions. My colleagues have analyzed in detail the contracts with the highest amounts of voluntary contributions. As these contracts are bound by conditions, their recognition in the above heading and the resulting periodical limit respect the standard. This heading has been audited and is considered to comply with IPSAS.

### **Borrowings**

40. Short-term and long-term loans with FIPOI and the Banque Cantonale de Genève (BCGE) have been recognized in the balance sheet for a total amount of some CHF 77.7 million. After various analyses and requests for amendment of the amounts, the values of the IPSAS opening balance sheet are in line with prevailing standards. Conversely, it has to be stated that the financial statements should indicate the essential elements of IPSAS 15 as regards the principle of faithful representation. Also, my colleagues reminded the Finance Services that IFRS 7 on financial instruments, which is yet to be implemented in IPSAS, will involve additional information as from January 1, 2013 (IPSAS 30). This heading has been audited and is considered to comply with IPSAS.

### **Other provisions**

41. Provisions for disputes, for education grants and for unliquidated obligations amount to some CHF 2.9 million. The provision for disputes with WIPO employees appear in this heading for a value of CHF 0.4 million as at December 31, 2009. In light of the new elements, an increase in this amount has meanwhile been calculated and entered into the accounts. Conversely, I note that WIPO has not provided for future costs relating to the refurbishment of the premises of the P&G Building which are estimated at less than CHF 0.3 million. For the other buildings which will soon be vacated, WIPO has also not provided for refurbishment expenses. Given the materiality threshold established for this audit, I have not required the recognition of a provision for this, the costs for which have also been included in the annual budget. This heading has been audited and is considered to comply with IPSAS.

### **Other current and financial liabilities**

42. Over CHF 47.3 million appear in this heading. The accuracy of its contents will be checked by my colleagues during the interim audit of December 2010. I would simply note that the balance has remained the same under both UNSAS and IPSAS.

### **Other intangible fixed assets**

43. As allowed for under IPSAS 31, I take note that WIPO will not recognize other intangible assets in the opening balance sheet of January 1, 2010 (see figure 18), nor will it do so over the course of this year. WIPO does, however, expect to implement an integrated and global Organization resource planning system (ERP) from 2011 to 2015. The estimated cost of this project amounts to CHF 25.3 million. WIPO anticipates recognizing future costs from 2011 in a heading "work in progress". This accounting method seems reasonable and is considered to comply with IPSAS.

### **Reserves**

44. Since certain positions on the opening balance sheet are still open, my colleagues have decided not to audit the accuracy of the reserves. These will be checked during the interim audit in December 2010.

## **ANALYSIS OF THE IPSAS IMPLEMENTATION GUIDE AND OF THE FINANCIAL STATEMENTS MODEL**

45. An implementation guide for general WIPO policy with respect to international public sector accounting standards, 2010 Edition, has been prepared in the context of the implementation of IPSAS. My colleagues have analyzed the contents of this guide which presents the relevant general applicable provisions and instructions for processing accounting information. However, the analysis of the document is still ongoing, which means that I am not able to consider the document valid and in conformity with the provisions of IPSAS.
46. The IPSAS-valid model of the financial statements has been audited partly by my colleagues. Given this situation, presently I am not able to consider the document to be in conformity with existing provisions and with the general policy defined by WIPO as regards IPSAS.
47. The analysis of both of these documents will continue during the interim audit in December 2010.

## **CONCLUSION**

48. As a result of the work done, I am able to confirm that WIPO is well-placed to finalize the implementation of the presentation of the financial statements according to IPSAS. As some auditing remains to be done, I am not able presently to validate the IPSAS opening balance sheet data as at January 1, 2010, as they appear in the People Soft accounting system.
49. As such work goes beyond the usual remit of an audit of WIPO annual accounts, I have decided to issue a separate report. This does not contain an audit opinion, as that is issued only following the final audit of the 2010 accounts (Unions) of the Organization, which will take place during the first half of 2011.

K. Grüter  
Director  
Swiss Federal Audit Office  
(Auditor)

[End of Annex and of document]