E

WIPO

WO/PBC/8/2
ORIGINAL: French
DATE: April 4, 2005

WORLD INTELLECTUAL PROPERTY ORGANIZATION
GENEVA

PROGRAM AND BUDGET COMMITTEE

Eighth Session
Geneva, April 27 to 29, 2005

ACCOUNTS FOR THE 2002-2003 BIENNIUM;
INTERIM FINANCIAL STATEMENT FOR 2004

Memorandum by the Director General

I. Accounts for the 2002-2003 biennium

1. The accounts of the International Bureau for the 2002-2003 biennium are contained in the *Financial Management Report 2002-2003*. Copies of that report were communicated to each Member State of WIPO, the Paris Union or the Berne Union on July 31, 2004.

2. The accounts were audited by the Director of the Swiss Federal Audit Office, appointed by the Government of Switzerland. The *Report on the Auditing of the Accounts of the World Intellectual Property Organization (WIPO) for the 2002-2003 Accounting Period* was communicated to each Member State of WIPO, the Paris Union or the Berne Union, together with the*Financial Management Report 2002 -2003*, on July 31, 2004.

3. The conclusion of the report of the Auditor reads as follows:

> "As a result of our work, I am able to issue the audit opinion annexed to this report and drawn up in conformity with paragraph 5 of the Terms of Reference Governing Audit (annexed to the WIPO Financial Regulations)."

4. The audit opinion referred to reads as follows:

"I have examined the financial statements constituted by Tables 9, 10, 22, 35, 36, 37 and 38 of the Financial Management Report of the World Intellectual Property Organization (WIPO) for the financial period ending on December 31, 2003. The establishment of those financial statements is the responsibility of the Director General. My role consists of expressing an opinion on them in the light of the audit undertaken by me.

"I conducted my audit in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency. Those standards require me to plan and carry out the audit in such a way as to gain reasonable assurance that the financial statements are free of serious errors. An audit consists notably of examining, by sampling and to the extent considered necessary by the External Auditor in the circumstances, the supporting documents provided to back up the amounts and the data appearing in the financial statements. I consider that the audit that I undertook provides a reasonable basis for the opinion that I present here.

"In my opinion, the financial statements give a satisfactory account, on all essential points, of the financial position on December 31, 2003, and of the results of operations and movements of funds for the financial period ending on that date, in accordance with the specified accounting policies of WIPO which are set forth in the Notes on the 2002-2003 Financial Management Report, and which have been applied in a manner consistent with the previous accounting period.

"In addition, it is my opinion that the WIPO operations that I checked by sampling in the course of my audit were on all essential points consistent with the Financial Regulations and the authority given by the deliberative bodies of the Organization.

"Pursuant to paragraph 6 of the Terms of Reference Governing Audit annexed to the WIPO Financial Regulations, I have also drawn up a detailed report on my auditing of the financial statements of WIPO, which is dated July 15, 2004."

5. In the detailed report mentioned, the Auditor makes the following recommendations. In paragraph 35, regarding "Reserve Funds," the Auditor writes:

"35. The levels of the Reserve Funds have had a tendency to decrease for a number of years (353 million at the end of 1998 to 115.4 million at the end of 2003) on account of budgetary imbalances due, among other things, to the lowering of the scales of registration fees. The financial indicators for the 1998-2009 period, given in Table 18 of the Revised Proposal for Program and Budget 2004-2005 (document WO/PBC/7/2), foresee a drop in the Reserve Funds up to 2005, with a recovery as from 2006.

"Recommendation No. 1: I consider the status of the Reserve Funds to be a matter of sufficient concern for WIPO to be encouraged to monitor their levels with all due care, and also to take all appropriate action with a view to restoring budgetary balance on the one hand and on the other hand the levels of the Reserve Funds in such a way as to allow them, should the need arise, to perform the function for which they were constituted."

6. Since 2003 the Secretariat has been implementing stringent budgetary austerity measures intended to reduce the volume of expenditure and thereby lessen the budget deficit. Moved by fear of the possible depletion of reserves beyond the level agreed by the Member States, the Secretariat proposed at the fortieth series of meetings of the Assemblies of the Member States of WIPO (held in Geneva from September 27 to October 5, 2004) that the PCT's international filing fee be revised upwards as from January 1, 2005 (document PCT/A/33/5). The measure was not adopted by the PCT Assembly. However, the Member States noted that the Secretariat would draw on the reserves in order to maintain the present level of program implementation (document PCT/A/33/7) until such time as the matter of a possible adjustment of PCT fees could be considered at a later session of the Program and Budget Committee. At the informal session of the Program and Budget Committee held on February 16, 2005, Member States were informed that, thanks to the economy measures implemented and an increase in the income from the PCT system, the Secretariat no longer considered it useful to propose any readjustment of PCT fees for 2005. They were also informed that, according to the latest expenditure projections for the 2004-2005 biennium, the level of reserves would be 92.5 million Swiss francs at the end of 2005 (Annex VI to document WO/PBC/IM/05/2).

7. It should therefore be noted that Table 18 of document WO/PBC/7/2, to which the External Auditor refers in paragraph 35 of his report, has now been brought up to date. With regard to the level of reserves for the 2004-2005 biennium in particular, reference should be made to the data presented in Table VIII of document WO/PBC/8/3.

8. In paragraphs 36 to 39 of his detailed report, under "Provision for the Separation Reserve," the Auditor makes the following recommendation:

> "Recommendation No. 2: In the interest of having objective, equitable and financially justified criteria to rely upon, I consider that, in future, indemnification in connection with the separation from service of high-ranking staff members by mutual agreement before retirement age should be defined in the context of a memorandum. I invite WIPO, if it sees fit, to bring the 1998 memorandum up to date in the light of the latest decisions taken in that connection."

9. By decision of November 12, 2004, the Director General of WIPO put an end to all termination indemnities for separation from service of high-ranking staff members before retirement age by mutual agreement and to the implementation of the 1998 memorandum which defined the principles governing the award of such indemnities. As a consequence, as of that date, the relevant provisions of the Staff Rules and Regulations are the only regulatory framework for termination indemnities for separation from service before retirement age by mutual agreement.

10. In paragraph 45 of his detailed report, under "Rent for Premises," the Auditor states:

> "45. WIPO is the lessee of a building located in Chambésy which has been occupied by the WIPO Academy since the latter's creation in 1998. In accordance with the lease, the entire amount of the rent for the 2002-2003 biennium was paid in advance in the amount of 4,089,656 francs, which is not provided for in Rule 3(a)(i) of the WIPO

> Financial Rules. What is more, this is contrary to the principle of prudence, as no guarantee was given by the owner in return.
>
> "Recommendation No. 3: In accordance with the provisions of its Financial Regulations, WIPO should abstain from making advance payments."

11. The Secretariat of WIPO will indeed endeavor to limit making advance payments. It points out, however, that local market conditions sometimes dictate the payment of advances for certain services (such as rents or guarantee deposits or advance payments in respect of building projects) and that the Organization's Financial Regulations, which have no provision for such an eventuality, do not formally preclude it.

12. In paragraph 46 of his detailed report, also on the subject of rent for premises, the Auditor writes:

> "46. Between 1999 and 2000 WIPO incurred substantial expenditure on the conversion of the building in question, amounting to more than three million francs, the owner having agreed to the work. At the time of the audit, according to information received, WIPO apparently intended to vacate the premises by the end of 2005, in which case it could be obliged to return the building to its original state at its own expense, as no specific clause on the subject has been written into the rental contract.
>
> "Recommendation No. 4: I consider that WIPO should come to an arrangement with the owner and renegotiate the rental contract, incorporating in it a clause to the effect that it does not have to return the premises to their original state in the event of termination of the contract."

13. The Secretariat has noted the above recommendation, and negotiations with the owner will be put in hand accordingly. In view of the added value represented by the conversion work done during the currency of the lease, the Secretariat believes that it will be able to secure the owner's agreement to the proposal not to return the premises to their former state. Furthermore, notice of termination of the lease on the building was given in 2004, to take effect on December 31, 2006, and, to the extent possible, the Secretariat will propose to the owner a tenant who is in a position to succeed it and take over the lease as soon as is practicable.

II. Interim Financial Statement for 2004

14. The table below gives the figures for income and expenditure as of December 31, 2004, compared with the revised budget for the biennium as per document WO/PBC/8/3, and the percentage relation between the two. It should however be noted that the figures are provisional, and have not been audited.

	Actual figures for 2004 (thousands of Swiss francs)	**2004-2005 revised budget** (thousands of Swiss francs)	**Percentage**
Income			
Contributions	17,209	34,500	49.9
Fees			
PCT system	193,956	388,800	49.9
Madrid system	27,172	62,000	43.8
The Hague system	2,593	5,300	48.9
	223,721	456,100	49.1
Publications	2,240	4,000	56.0
Other income	3,125	7,000	44.6
Interest	4,278	6,800	62.9
Total income	**250,573**	**508,400**	**49.3**

Expenditure			
Staff expenditure			
Posts	142,892	284,129	50.3
Short-term staff	25,561	48,195	53.0
Consultants	8,237	13,153	62.6
Contracts for services rendered	1,833	3,799	48.2
	178,523	349,276	51.1
Other expenditure			
Official travel and fellowships	7,159	28,874	24.8
Contractual services	21,616	49,743	43.5
Operational expenses	39,133	71,326	54.9
Material and supplies	3,294	18,603	17.7
	71,202	168,546	42.2
Not allocated	1,542	5,178	29.8
Total expenditure	**251,267**	**523,000**	**48.0**

Result	**(694)**	**(14,600)**	

15. The WIPO Program and Budget Committee is invited

(i) to express its views on the audited accounts for the 2002-2003 biennium appearing in paragraphs 1 to 13;

(ii) to recommend to the Assemblies of the Member States of WIPO the approval of the Financial Management Report 2002-2003 (document FMR/2002-2003);

(iii) to note the provisional interim financial statement for 2004 presented in paragraph 14.

[End of document]