

## **Program and Budget Committee**

**Twenty-Eighth Session**  
**Geneva, September 10 to September 14, 2018**

### **REPORT BY THE EXTERNAL AUDITOR**

*prepared by the Secretariat*

1. This document comprises the following items:
  - (i) The Independent Auditor's report which contains the opinion of the External Auditor on the financial statements of the World Intellectual Property Organization (WIPO) for the year ended December 31, 2017;
  - (ii) Report of the External Auditor for the financial year 2017 to the 58<sup>th</sup> Series of Meetings of the Assemblies of the Member States of WIPO (also known as the "long form report"). This report contains the External Auditor's recommendations arising from the three audits undertaken during the year 2017/18;
  - (iii) Responses from the Secretariat of WIPO to the recommendations of the External Auditor;
  - (iv) WIPO's Statement of Internal Control, signed by the Director General.
2. The following decision paragraph is proposed.

*3. The Program and Budget Committee recommended to the General Assembly and other Assemblies of the Member States of WIPO, to take note of the "Report by the External Auditor" (document WO/PBC/28/4).*

[Report by the External Auditor follows]



## **INDEPENDENT AUDITOR'S REPORT**

**To**  
**THE GENERAL ASSEMBLY**  
**THE WORLD INTELLECTUAL PROPERTY ORGANISATION**

### **Opinion**

We have audited the financial statements of the World Intellectual Property Organization (WIPO), which comprise the statement of financial position (statement I) as at 31 December 2017, the statement of financial performance (statement II), statement of changes in net assets (statement III), statement of cash flows (statement IV), statement of comparison of budget and actual amounts (statement V) for the year then ended, and notes to the financial statements including significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of WIPO as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS).

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of WIPO in accordance with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Information other than the Financial Statements and Auditor's Report Thereon**

Management is responsible for the other information. The other information comprises the information included in the annual financial report for the year ended 31 December 2017, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent

with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of WIPO's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on WIPO's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause WIPO to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

#### **Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion, the transactions of WIPO that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with WIPO's Financial Regulations and Rules and its legislative authority.

In accordance with the Regulation 8.10 of WIPO's Financial Regulations and Rules, we have also issued a long-form report on our audit of WIPO.



**(Rajiv Mehrishi)**  
**Comptroller and Auditor General of India**  
**External Auditor**  
**New Delhi, India**  
**5<sup>th</sup> July 2018**



**OFFICE OF THE  
COMPTROLLER AND  
AUDITOR GENERAL  
OF INDIA**

Our audit aims to provide independent assurance and to add value to the Management of World Intellectual Property Organization by making constructive recommendations

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**REPORT OF THE  
EXTERNAL AUDITOR**

**TO THE 58<sup>TH</sup> SERIES OF MEETING  
OF THE GENERAL ASSEMBLY OF**

**WORLD INTELLECTUAL  
PROPERTY ORGANIZATION**

**FOR THE FINANCIAL YEAR 2017**

## EXECUTIVE SUMMARY

1. This report presents the significant findings of the audit of the World Intellectual Property Organization (WIPO) for the financial year 2017. The audit included audit of the financial statements of WIPO, performance audit of the Madrid System and compliance audit of the Premises and Maintenance of WIPO.
2. The audit of the financial statements was aimed to provide an opinion on the financial statements of WIPO for the year ended 31 December 2017. The objective of the performance audit was to assess whether the systems and processes in the Madrid System were adequate to meet the objective of providing premier global IP services to its customers pertaining to trademarks. The compliance audit was conducted to assess whether the Premises Infrastructure Division (PID), which is responsible for the management of premises, physical accessibility measures and management of assets, carried out its activities in compliance with the prescribed financial rules, regulations, policies and procedures.
3. On the basis of our audit, I am of the opinion that the financial statements for the financial period ended 31 December 2017 present fairly in all material respects the financial position of WIPO as on 31 December 2017 and of its financial performance during the period from 1 January 2017 to 31 December 2017. Accordingly, I have placed an unqualified audit opinion on WIPO's financial statements for the financial period ended 31 December 2017.

### Financial Management

4. Surplus for the year 2017 was CHF 18.6 million, which has decreased by 50 per cent as compared to surplus for the year 2016 (restated). The Patent Cooperation Treaty (PCT) Union contributed 138 per cent in the surplus of 2017 (108 per cent in 2016-restated).
5. Total revenue of WIPO increased by 6.6 per cent from CHF 387.71 million in 2016 to CHF 413.48 million in 2017. The largest source of revenue during 2017 was PCT Union accounting for 74 *per cent*. Revenue from PCT Union fees increased in 2017 by 4 *per cent* in comparison to 2016.
6. In 2017, expenses in WIPO stood at CHF 394.85 million, up by 13 per cent compared to 2016 (restated) total expenses of CHF 350.45 million. The largest expense for the Organization in 2017 was personnel expenditure of CHF 228.59 million, accounting for 58 *per cent* of total expenses, and registering increase of four per cent compared to 2016 (restated).
7. As at 31 December 2017, the Organization has net assets of CHF 202.66 million, with total assets of CHF 1021.47 million and total liabilities of CHF 818.81 million. Net assets have increased to CHF 202.66 million at the end of 2017 compared to CHF 149.41 million at the end of 2016 (restated) principally as a result of actuarial gains through net assets of CHF 34.62 million for 2017.

### Financial Issues

8. The sale of Madrid Union Building was effected without competitive bidding as prescribed in Financial Regulations and Rules. **We have recommended that the sale of the Madrid Union Building be placed before the General Assembly in the next series of meetings.**
9. Three projects financed from the Special Project Reserves were no longer in operation. Their unspent balances were required to be returned to the Reserves from where they were appropriated. **We have recommend that the WIPO expedite the closures of the Geneva Lake Water, AB Buildings Replacement and Safety and Fire Protection projects, assess their status and expenditure and transfer the remaining balances to the Reserves. It is**

**also recommended that WIPO lay down clear guidelines for project closure, with timelines, for project closure to be effectively monitored.**

### **The Madrid System**

**10.** The Madrid System has Contracting Parties pre-dominantly from Europe (47 members) followed by Asia Pacific (22), Africa (21), Middle East (5), Caribbean (3) and one each from Latin America and North America. Out of the 47 Least Developed Countries (LDCs), 24 (51 per cent) are contracting parties. We observed that in April 2016, the Working Group on Legal Development had emphasized the importance of including countries in Latin America and the Gulf Cooperation Council as a strategic focus. We also observed that the IB had not identified key regions for geographical expansion and had also not developed tailored strategies for accession. **We have recommended that the Management should formulate a targeted strategy for accession of countries based on regional focus.**

**11.** The Common Regulations do not provide any time frame for completing examination of applications for different transactions. We noted that the processing of applications took long time leading to backlog of pending transactions. We also noted that the Program & Budget document has laid down time limit for processing transactions. **We recommend that the Management adhere to the time limit defined in the Program & Budget document of 2018/19 for examination and processing of regular applications and further strengthen its efforts to reduce backlogs.**

**12.** We observed that 36-41% applications in last 4 years had errors; over 75% of these were due to classification errors and share of irregular applications processed in more than 4 months time had gone up from 62% in 2014 to over 70% in 2017. **We have recommended that the Management, in addition to translating the Classification Guidelines in other languages, analyze the reasons for the errors in the applications and take mitigation measures.**

**13.** We observed that the Madrid System did not have an approved Customer Service Strategy, Standards and Best Practices supported by an effective Quality Feedback System. **We have, therefore, recommended that the Management establish a well-defined Customer Service Strategy, Standards and best practices supported by an effective e-based quality feedback system, to cater to the needs of customers efficiently. We have also recommended that the Management undertake regular Customer Surveys, as mentioned in CSC, for feedback to improve their services.**

**14.** We observed that the Quality Control Mechanism is not supported by requisite IT Tool to carry out Quality Control (QC)/ Quality Assurance (QA) processes effectively. We also observed that the Accepted Quality Levels (AQLs) were not reviewed periodically. **We have, therefore, recommended that Management use IT Tool to carry out QC/QA processes effectively and conduct the QC process at the stipulated periodicity. We have also recommended that the Management adopt a policy for periodic review of Assured Quality Levels.**

**15.** We noted that the Madrid International Registry Information System (MIRIS) had operational problems since its roll out in March 2016. We also noted that WIPO plans to implement a new Madrid IT Platform in 2018-19. **We are, therefore, recommending that the Management perform a detailed analysis of the performance of MIRIS, including**



any possible failures in accountability, for the lessons learned, and also inform the General Assembly.

### Premises and Maintenance

16. We observed deficiencies in the date of assets recorded in the Asset Management Module (AM) of Administrative Integrated Management System (AIMS). The deficiencies were primarily attributable to lack of proper entry/validation controls and non-cleaning of historical data. **While acknowledging the steps taken by the Management so far, we recommend that the WIPO complete the clean-up of AIMS database to ensure that they represent the actual details of the assets.**

17. We observed that WIPO had engaged external firms for physical verification of property in 2016 and 2017 respectively. These firms had pointed out non-availability of barcodes for assets. **We recommend that the WIPO complete the tagging of the taggable assets, that should be tagged as per Office Instruction, but not tagged so far, in a time bound manner.**

18. We also observed the external agencies had pointed out that some Works of Art were not properly recorded in WIPO database. **We recommend that the WIPO management complete, in a time-bound manner, the updating of the information in the database in respect of the remaining items qualifying as works of art.**

19. We observed that the WIPO had not implemented a number of recommendations regarding accessibility of handicapped persons to the (WIPO) campus. **We recommend that the WIPO formulate an appropriate plan for implementation of the remaining recommendations of the 2012 expert report for improved physical access to WIPO campus.**

## **Introduction**

### **Scope and Approach of Audit**

1. The audit of the World Intellectual Property Organization (WIPO) for the financial years 2012 to 2017 was assigned to the Comptroller and Auditor General of India in terms of the approval of WIPO General Assembly Fortieth (20th Ordinary) Session, Geneva, held from 26 September to 5 October, 2011. The scope of the audit is in accordance with Regulation 8.10 of the Financial Regulations and the principles set out in the Annex to these Regulations.
2. The audit for the financial year ending December 2017 was conducted as per an audit plan drawn up on the basis of risk analysis of WIPO conducted by us. Our audit included the audit of the financial statements, audit of the Madrid System and audit of the Premises and Maintenance of the WIPO. Professional reliance was placed, wherever necessary, on the work of the internal audit.
3. Important findings arising from these audits were discussed with the management and thereafter conveyed through Management Letters. The more significant of these findings, appropriately aggregated, are presented in this report.

### **Auditing Standards**

4. The audit was conducted in accordance with the International Standards of Auditing issued by the International Federation of Accountants and adopted by the Panel of External Auditors of the United Nations, its Specialized Agencies and the International Atomic Energy Agency; Auditing Standards of the International Organization of Supreme Audit Institutions (ISSAI) and Regulation 8.10 of the Financial Regulations of WIPO and the Additional Terms of Reference governing the audit of WIPO as set out in the Annex to the Financial Regulations.

### **Financial Statements**

5. Our audit included a review of the financial statements to ensure that there were no material errors and that the requirements of International Public Sector Accounting Standards (IPSAS) had been met. WIPO adopted IPSAS in 2010 and adopted IPSAS 28, 29 and 30 relating to Financial Instruments in the year 2013 and IPSAS 39 in 2017.

### **Audit Opinion on the 2017 Financial Statements**

6. According to the terms of reference for the External Auditor, I am required to express an opinion on WIPO's financial statements for the financial period ended 31 December 2017. Audit of the financial statements for the financial period 2017 revealed no weaknesses or errors that I consider material to the accuracy, completeness and validity of the financial statements as a whole. Accordingly, I have placed an unqualified audit opinion on WIPO's Financial Statements for the financial period ended 31 December 2017.

### **Key financial Indicators**

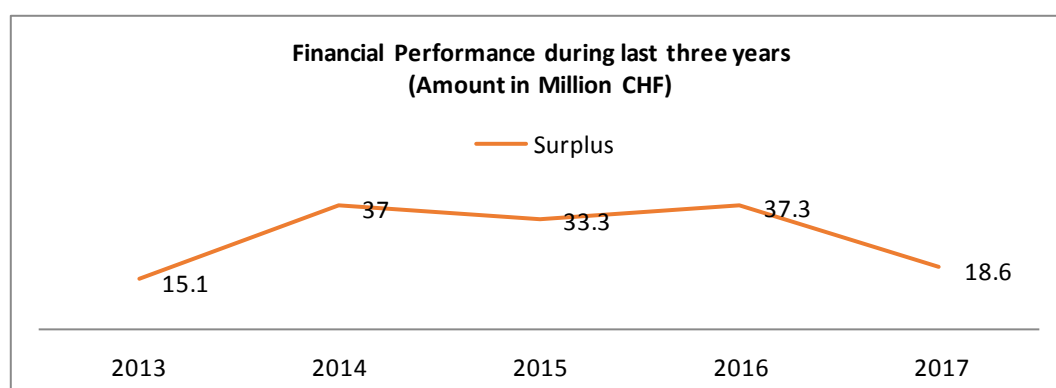
7. The key financial indicators that merit the attention of the Member States are discussed below:
8. The total revenue and total expenditure are shown in Table 1.

**Table: 1**

(Amount in CHF million)

Operating Results	Year				
	2017	2016	2015	2014	2013
Revenue	413.47	387.71	381.94	370.18	351.61
Expense	394.84	350.45	348.67	333.21	336.48
Surplus/deficit	18.63	37.26	33.27	36.97	15.13

Chart No.1



9. The decrease in the operating surplus in 2017 as compared to 2016 was mainly due to increase in expenditure of CHF 15.02 million on contractual services and CHF 9.50 million in expenditure on personnel. As compared to 2016, the improvement in the revenue was mainly due to increase in revenue of Patent Cooperation Treaty (PCT) Union and investment revenue. PCT Union, a constituent unit of WIPO, which has been contributing more than 70 per cent of the revenues of WIPO, as shown in Table 2 and Chart 2.

10. The revenue, expenditure and surplus / deficit across different segments<sup>1</sup> are shown in Table 2.

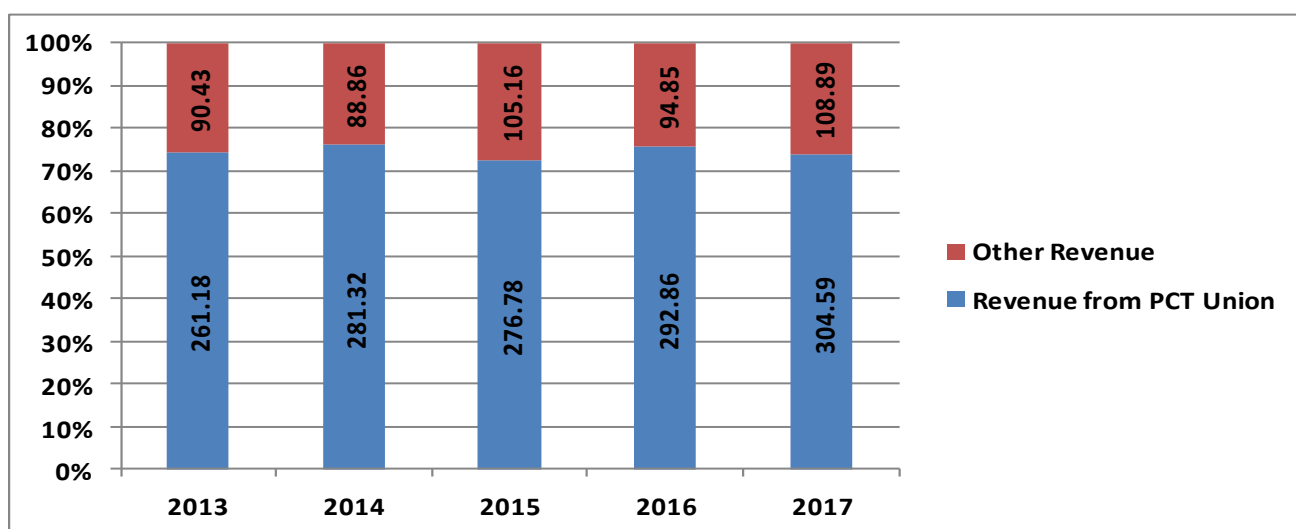
**Table 2: Segment wise Revenue and Expenditure of WIPO (in CHF thousands)**

Year	Operating Results	Total	PCT Union	Contribution Financed Union	Madrid Union	Hague Union	Lisbon Union	Special Accounts
2017	Revenue	413,476	304,587	18,753	73,241	5,537	1,285	10,073
	Expense	394,847	278,832	19,453	71,364	13,928	1,197	10,073
	Surplus/deficit	18,629	25,755	-700	1,877	-8,391	88	0
2016	Revenue	387,713	292,862	18,115	61,187	5,635	1,073	8,841
	Expense	350,453	252,451	17,307	60,286	10,351	1,217	8,841
	Surplus/deficit	37,260	40,411	808	901	-4,716	-144	0

<sup>1</sup> Segment reporting is presented in a format which represents the various Unions as the segments that make up the WIPO.

2015	Revenue	381,943	276,781	18,803	71,010	5,034	1,102	9,213
	Expense	348,673	250,945	17,107	62,811	7,011	1,586	9,213
	Surplus/deficit	33,270	25,836	1,696	8,199	-1,977	-484	0
2014	Revenue	370,180	281,318	18,817	57,285	3,927	764	8,069
	Expense	333,206	242,133	17,560	57,330	7,322	792	8,069
	Surplus/deficit	36,974	39,185	1,257	-45	-3,395	-28	0
2013	Revenue	351,611	261,181	19,277	58,456	4,531	1,308	6,858
	Expense	336,479	242,349	19,068	59,749	7,603	852	6,858
	Surplus/deficit	15,132	18,832	209	-1293	-3,072	456	0

Chart: 2



11. In 2017, the total expenses increased by 13 percent while the revenue increased by 6.7 per cent over 2016, resulting in a reduced surplus of CHF 18.6 million.

### Revenue

12. For the year 2017, total revenue of WIPO is CHF 413.48 million, up by CHF 25.77 million compared to the 2016 total revenue of CHF 387.71 million.

13. As shown in the Table 2 above, the largest source of revenue during 2017 was the PCT Union, accounting for 74 *per cent* of total revenue. The revenue from PCT Union increased in 2017 by 4 *per cent* in comparison to 2016.

14. The revenue from Madrid Union represented the second largest source of revenue for the WIPO, accounting for 18 *per cent* of total revenue. The revenue from Madrid system increased by 20 *per cent* in 2017 compared to 2016. The Revenue from Contribution Financed Union of CHF 18.75 million represented 4.5 *per cent* of total revenue, while the revenue from voluntary contributions of CHF 10.07 million received under Special Accounts represented 2 *per cent* of total revenue.

15. The revenue from Hague Union decreased by 2 *per cent* in 2017 compared to 2016.

### Expenses

16. In 2017, the expenses in WIPO stood at CHF 394.85 million, up by 13 *per cent* compared to CHF 350.45 million in 2016 (restated).

17. The largest expense in 2017 of CHF 228.59 million was on personnel, constituting 58 *per cent* of total expenses, which was up by CHF 9.50 million compared to 2016 (restated).

18. The Contractual services remained the second largest expense of the WIPO in 2017 at CHF 89.42 million, having 23 *per cent* share of total expenses. The expenses on Contractual services increased by 20 *per cent* compared to 2016 (restated).

19. The Operating expenses amounting to CHF 26.30 million, constituted 7 *per cent* of total expenses incurred by the WIPO in 2017, and had increased by 20 *per cent* compared to 2016 (restated).

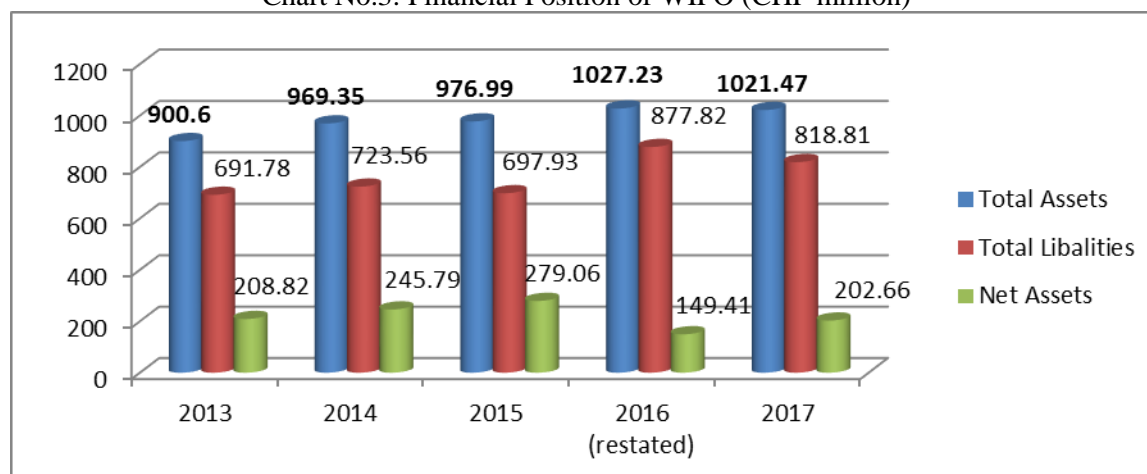
20. The Expenses on travel, training and grants amounting to CHF 18.20 million constituted 5 *per cent* of the total expenses in 2017 and had increased by 15 *per cent* compared to the year 2016 (restated).

## Financial Position

21. The surplus / deficit is the difference between the revenue and expenses of WIPO during the year. The surplus for the year 2017 was CHF 18.6 million, down by 50 *per cent* as compared to surplus of CHF 37.3 million for the year 2016 (restated) and by 44 *per cent* as compared to surplus of CHF 33.3 million for 2015.

22. As at 31 December 2017, WIPO had net assets of CHF 202.66 million, with total assets of CHF 1021.47 million and total liabilities of CHF 818.81 million. The Net assets had increased by CHF 53.25 million compared to net assets of CHF 149.41 million at the end of 2016 (restated), principally as a result of actuarial gains of CHF 34.62 million for 2017 on adoption of IPSAS 39 for accounting the After-Service Health Insurance (ASHI) liability.

Chart No.3: Financial Position of WIPO (CHF million)



## Budgetary Performance

23. WIPO prepares biennial budget. The budget for the period 2016-2017 was approved by the Assembly of the Member States of WIPO on October 14, 2015. Against the total budgeted revenue of CHF 756.30 million, the actual revenue was CHF 807.55 million. The total expenses for the biennium were CHF 688.70 million, CHF 18.34 million less than the budgetary estimates of CHF 707.04 million.

## **Improvements effected in the Financial Statements for 2017 as a result of External Audit**

24. The management carried out, based on the external audit observations, the following changes / improvements in the Financial Statements for the year ended 31st December 2017:

- i. Statement I – Statement of Financial Position and Note 17: In accordance with Paras 80 (c) and 83 of IPSAS1, the loan balance of CHF 16.9 million from Foundation for Buildings for International Organizations (FIPOI), repaid in full in January 2018, was reclassified from non-current (CHF 15.5 million) to current borrowings. In addition, Note 17: Borrowings was modified to indicate that WIPO incurred a penalty charge of CHF 11.6 million for the early payment of the remaining balance of loan taken from the Banque Cantonale de Genève (BCG) and interest of CHF 153,000 on the loan up until the date of repayment.
- ii. Note 9: Investment Property was modified as follows:
  - a) The value of non-cancellable leases of not later than one year was changed from CHF 364,000 to CHF 31,000.
  - b) The value of non-cancellable leases of later than one year and not later than five years was changed from CHF 540,000 to nil.
  - c) The text “The organisation is not aware of any restrictions on the realizability or remittance of revenue from the investment property” was deleted.
- iii. Note 10: Intangible Assets schedule was modified to reclassify CHF 500,000 under “software internally developed” instead of “software externally acquired”.
- iv. Note 14: Employee Benefits was modified to (a) indicate break up of Actuarial gains / losses under defined benefit obligation; and (b) add an explanatory text about the factors which impact the size of the ASHI liability.
- v. Note 23: Net Assets was modified to indicate the retention and distribution of surplus of the Madrid Union compared to all other unions.
- vi. Note 25: Revenue was modified to indicate that Madrid system fees increased by CHF 10.4 million in 2017 compared to 2016, due to clearance of backlog of registrations, which is estimated to have generated additional revenue of CHF 9.4 million in 2017.
- vii. Note 30: Segment Reporting was modified to indicate that a property in Meyrin, owned by the Madrid Union, was sold in January 2018.
- viii. Note 2: Change in Accounting Policy was modified to indicate that the details of the impact of IPSAS 39 implementation on the current year 2017 were not provided, as this would have required an additional actuarial calculation for 2017 under the previously applied standard IPSAS 25 which was not considered practicable.
- ix. A text under Note 29 of the financial statements (Events After the Reporting Date) was added in respect of Reward and Recognition Program.

## **Audit Findings**

### **Financial Matters**

#### **Investment Property**

25. Rule 105.31 regarding sale / disposal of property under WIPO Financial Regulations and Rules (Regulation 5.11) prescribes that sales of supplies, equipment or other property

declared surplus or unserviceable shall be based on competitive bidding, unless the Property Survey Board specifies otherwise.

26. According to Note 9: Investment Property, the organisation signed on January 31, 2018 an act of sale for Madrid Union Building, acquired by WIPO in 1974 for CHF 7.0 million. The property was held at fair value of 6.2 million Swiss francs, based on a valuation at October 1, 2015 by an independent expert CBRE (Geneva) SA (CBRE). The Note stated that the gain resulting from this will be recognized in the surplus or deficit of 2018.

27. The said property was sold to Rolex Pension Fund, which already owned four of the five blocks of the “Building” and had offered to purchase the remaining block owned by WIPO for CHF 7 million. WIPO received the sale proceeds in February 2018.

28. We observed that in the absence of competitive bidding and fresh fair valuation, there was no assurance on the reasonableness of the sale consideration of Madrid Union Building.

29. WIPO referred to another valuation report of January 2016, by Analyses & Developments Immobilierssarl (ADI), which valued the property at CHF 5.3 million compared to CHF 6.2 million valued by CBRE (Geneva) SA (CBRE) in October 2015. WIPO stated that the fair value of the building was not assessed again as all indications at the time were that the building was held in the books at a materially correct value.

30. We observed that the CBRE, whose valuation had been adopted by WIPO for the purpose of financial Statements, had mentioned that the values stated in the report represented their objective opinion of Market Value as of the date of valuation, on the assumption that the property had been properly marketed and that exchange of contracts took place on that date. Further, keeping in view the then prevailing volatility in the global financial system, CBRE had recommended that the situation and the valuations should be kept under regular review, and that specific marketing advice be obtained at the time of disposal of the property. This was not done by WIPO.

31. WIPO stated that being an investment property, management of the building will be governed by Financial Regulation 4.11, which in turn refers to WIPO’s Policy on Investment, and not by Financial Regulation 5.11 and Financial Rule 105.31.

32. WIPO further elaborated its position, as advised by the Office of the Legal Counsel, stating that neither Financial Regulation 5.11 nor Financial Rule 105.31 are applicable to the sale or disposal of land or buildings. Financial Regulation 5.11 governs procurement activities necessary for the acquisition of property (including real property), but, importantly, does not pertain to the sale or disposal of such property. Conversely, while Financial Rule 105.31 does concern the sale or disposal of property, it does not, however, apply to “real property”. Further, Financial Rule 105.31 refers to the Property Survey Board (PSB) as the entity charged with the responsibility to advice on such sale and disposal consistent with the requirements of the rule. OI 9/2017 Rev., on “WIPO Policy on Property Management”, sets out the terms of reference of the PSB and explicitly excludes land and buildings from its scope. WIPO stated that in compliance with Financial Regulation 4.11 and Financial Rule 104.11 and the applicable standards, disclosure of the sale of the Madrid Union Building has been provided in Notes 9, 29 and 30 of the Financial Statements. The Financial Statements and the report of the External Auditor will be considered by the Program and Budget Committee who will make appropriate recommendations to the Assemblies of Member States of WIPO.

33. While acknowledging the views of the Management, we also note that Rule 105.29 under Regulation 5.11 pertains to the management of *property* of the Organisation, and for all

systems governing its receipt, recording, utilization, safekeeping, maintenance and disposal, including by sale (emphasis added). Rule 105.31 applies to sales of supplies, equipment, or other property declared surplus or unserviceable and mandates that such sales shall be based on competitive bidding, except under conditions specified therein. The reference to property in Rules 105.29 and 105.31 is without any qualification. In our view, the provisions of these rules cannot be superseded by any policies or manuals that are subordinate to the Financial Regulations and Financial Rules. In any event, as also stated by WIPO management, the Policy on Investments framed under Regulation 4.11 does not apply to purchase, disposal or sale of real estate or building. In the absence of any provision in the Policy for disposal or sale of real estate, the overarching provisions for disposal as prescribed in Rules 105.29 and 105.31 must apply. Therefore, considering the material value of the transaction and in the interest of transparency, we believe that the circumstances under which the transaction for sale of the Madrid Union building was entered into without following the competitive bidding process should be fully disclosed and explained to the General Assembly.

### **Recommendation 1**

**We recommend that the sale of the Madrid Union Building be placed before the General Assembly in the next series of meetings.**

### **Employee Benefits**

34. Para 33 (f) of IPSAS 3 regarding Accounting Policies, Changes in Accounting Estimates and Errors stipulates that when initial application of an IPSAS has an effect on the current period or any prior period, an entity shall disclose for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected. Similarly, Para 34 (c) of IPSAS 3, stipulates that when a voluntary change in accounting policy has an effect on the current period or any prior period, an entity shall disclose for the current period and each prior period presented, to the extent possible, the amount of the adjustment for each financial statement line item affected. Further, Paras 44 and 45 of IPSAS 3 stipulate that an entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect on future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect. If the amount of the effect in future periods is not disclosed because estimating it is impracticable, the entity shall disclose that fact.

35. Effective January 1, 2017, WIPO changed its accounting policy to recognize employee benefits in accordance with IPSAS 39, which prescribes the accounting and disclosure for employee benefits. Under IPSAS 39, the previously unrecognized actuarial losses are now recognized in the statement of financial position. The effect of this change in accounting policy was recognized retrospectively, requiring adjustment to prior years' balances and restatement of the 2016 comparative numbers. The adjustment relating to prior periods before those presented (prior to 2016) resulted in a reduction in net assets of 78.9 million Swiss francs.

36. The restatement of the 2016 comparative numbers has been detailed in Note 2: Significant Accounting Policies – Change in Accounting Policy, of WIPO's financial statements for 2017. However, the amount of the adjustment for each financial statement line item affected for 2017 has not been disclosed therein.

37. WIPO stated that as IPSAS 39 was applied from January 1, 2017, there is no 2017 adjustment to disclose. WIPO did not consider this to be a requirement under IPSAS 3;



however, it drafted a disclosure to be included in Note 2 of the Financial Statements. In view of this, no separate recommendation is being made.

### **Special Projects Reserve**

38. Para 16 of the Policy on Reserves states that a separate reserve is created, entitled Special Projects Reserve, which contains the appropriations to projects financed by reserves, less accumulated expenditure. The balance of the reserve reflects the amounts still to be used for projects already approved.

39. The Program and Budget Committee (PBC) in Twenty-Seventh Session from September 11 to 15, 2017 while discussing the Capital Master Plan (CMP) for 2018-27 indicated that an estimated unspent project balance of CHF 3.435 million in the Special Project Reserves will no longer be required due to savings in respect of the CMP 2014-19 and will be returned to the Reserves. Note 23: Net Assets under Special Projects discloses the budgetary balance of CHF 206,000 for AB Building windows replacement project (closed and the expenditure written off for the year end 2017), CHF 487,000 for the Geneva Lake Water project and CHF 209,000 for the Safety and Fire Protection project, which need to be returned to Reserves.

40. WIPO stated that the official closure of the three projects (Geneva Lake Water, AB buildings replacement and Safety and Fire Protection) was moved to 2018 following the financial closure of 2017 and the unspent balances on these projects will be transferred to accumulated surpluses during 2018. WIPO added that official closure of a project financed from the reserves, in addition to ascertaining unspent balances, includes an assessment of project performance, assessment of delivery of scope versus timeline, identification of lessons learned and follow-up actions if any. Once the assessment has been completed by a project manager, the report would need to be approved by the relevant Program Manager, the Program Performance and Budget Division and Finance. The closure process is therefore a both qualitative and financial process which requires sufficient time in order to ensure a quality output.

41. We observed that the balance of the Geneva Lake Water project (CHF 487,000) continued from December 2015 with no further expenditure in 2016 and 2017. The balance of AB building windows replacement project (CHF 206,000) continued from December 2016; the project was not found feasible and the transfer of the balance to Reserves was discussed in PBC held in September 2017. The work-in-progress relating to this project of CHF 87,781 has been written off in the 2017 year-end financial statements. As the Budget for the Biennium ended by 2017, WIPO needed to assess the unspent project balances for the financial closure of 2017 and transfer them to accumulated surpluses.

### **Recommendation 2**

**We recommend that WIPO expedite the closures of the Geneva Lake Water, AB buildings replacement and Safety and Fire Protection projects, assess their status and the expenditure and transfer the remaining balances to the Reserves. It is also recommended that WIPO lay down clear guidelines for project closure, with timelines, for project closure to be effectively monitored.**

42. The Management accepted the recommendation.

## **Expenditure on Rewards and Recognition Program**

43. According to Para 7 of IPSAS 1 expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

44. The Rewards and Recognition Program (RRP) of WIPO, 2015 aims to acknowledge, publicly appreciate and reward excellent performance demonstrated by staff and teams as well as create interest and motivate all staff members to achieve similar recognition and rewards in the future.

45. We observed that WIPO had provided for CHF 3.072 million as rewards and recognition awards under the expenses for the year ending December 31, 2017 as against CHF 0.060 million for the year ending December 31, 2016.

46. We observed that:

- i. OI No. 31/2015/Rev.2 related to the performance reward was issued on April 19, 2018.
- ii. As per Para 25, the said Office Instructions would enter into force on the day of its publication i.e. 19 April, 2018. The office instructions having been issued much after finalization of Financial Statements for 2017 in March 2018 could not be the basis for accounting for 2017.
- iii. The amount included organizational performance award of one-off lump sum cash of 2,000 Swiss francs to be paid in May 2018 to every staff member who worked in WIPO for at least six months in 2017. However, the basis / approval on which the amount of 2,000 Swiss francs for every staff member was decided was not available.

47. According to the information provided by WIPO, the Rewards and Recognition scheme applied to performance in 2016 and 2017, under which CHF 2,000 will be paid to 946 staff members and a pro-rata amount will be paid to 136 staff members who worked part time and to 103 staff members who have worked at least 6 months (all figures are estimated). WIPO stated that under IPSAS, the cost of RRP has been recognized in the year to which the staff performance relates, in accordance with the principles of accrual accounting. The final total estimate of the amount to be paid under the RRP has been determined prior to the authorization for issue of the 2017 financial statements, which is in line with the requirements of IPSAS.

48. We observed that the calculation given was for CHF 2,531,800 only, though provision has been made for CHF 3 million for the year 2017. Further, the decision of the Director General to grant the performance award was announced by him on 12 April 2018 and documented in the Director General's memorandum to the Controller dated April 23, 2018 after the Financial Statements were provided to External Auditor in March 2018.

49. On our recommendation that WIPO review the correctness of the expenses under Rewards and Recognition Awards and recognize them in conformity with IPSAS 14 - Events after the Reporting Date, WIPO added a text under Note 29 of the financial statements (Events After the Reporting Date)

## **The Madrid System**

50. The Madrid System is a solution for registering and managing trademarks worldwide. The Madrid System for the International Registration of Marks is governed by the Madrid

Agreement, concluded in 1891, and the Protocol relating to Madrid Agreement, adopted in 1989. The Contracting Parties (Madrid Members) to the Madrid Agreement and the Madrid Protocol together form the Madrid Union. The Madrid System is administered by the International Bureau (IB) of WIPO. In addition, there are the Common Regulations and the Administrative Instructions.

51. The Madrid System enables trademark holders to submit a single application and pay a single set of fees in one currency, to obtain protection of mark in multiple jurisdictions. The registration is valid for ten years and can be renewed upon payment of a fee.

### **Strategies**

52. The following strategies were set for the Madrid System in the Mid-term Strategic Plans (MTSPs) (2010-15 and 2016-21) and Program & Budget documents (2014/15 and 2016/17):

- i. Identifying factors hindering accessions to the Madrid Protocol and engaging more actively with non-Madrid States with tailored strategies for geographical coverage;
- ii. Working with Contracting Parties to determine and assist in developing IP (Intellectual Property) policy and legal provision;
- iii. Transforming the system into a truly global system by encouraging States not party to the system to consider the benefits of the system;
- iv. Working with the Contracting Parties to determine if the necessary IP policies and legal provisions are in place to fully implement the System, and assisting these Parties in developing and applying the necessary measures to achieve this objective;
- v. Encouraging Contracting Parties to examine the benefits of simplifying the System by moving to an environment based solely on the Madrid Protocol;
- vi. Engaging in an ongoing assessment of operations to deliver a more streamlined and efficient service;
- vii. Fostering an organizational culture oriented towards quality service delivery, and monitoring user satisfaction;
- viii. Considerable investment in IT to improve the productivity of the internal processing system and to create an environment for offices and users and to meet the needs of different legal and regulatory systems and the different users;
- ix. With the rapid expansion of its geographical scope the Madrid System will need to serve the interests of all stakeholders equally to deliver its full potential in the new environment. The Working Group on the Legal Development of the Madrid System will consider how the System's legal framework needs to evolve to cater to the changing needs by simplifying the regulatory framework.
- x. Examining the question of languages of filing as the Madrid System continues its expansion and the composition of the main filing countries evolves.
- xi. Aligning skill profiles of staff in keeping with growing sophistication of administrative tasks to the continuing development of the IT system and with changing geographical and linguistic composition of users' base of the Global IP Systems.

### Wider and better use of the Madrid System

53. Budget and actual expenditure for the biennia 2014/2015 and 2016/2017 (up to November 2017) in respect of the Madrid System, is depicted in Table 3.

**Table 3** (Amount in thousands of Swiss Francs)

Expected Result and Description	2014/2015 (percentage to final budget after transfer)		2016/2017 (percentage to final budget after transfer)	
	Final Budget after transfer	Actual expenditure	Budget after transfer	Actual expenditure
Wider and better use of the Madrid System, including by developing countries and least developed countries	16,543	15,784 (95%)	16,326	13,761 (84%)
Improved productivity and service quality of the Madrid Operation	40,885	39,925 (98%)	41,736	37,065 (89%)
Total	57,428	55,709 (97%)	58,062	50,826 (88%)

54. The total budget allocation had been utilized to the extent of 97 per cent in 2014/15 and 88 per cent for 2016/17 (till November 2017).

### Accession of New Member Countries to the Madrid System

55. WIPO has currently 191 member states, out of which, 116 are covered by the Madrid Union through the 100 Contracting Parties. Two of the parties are intergovernmental organizations with several member states<sup>2</sup> as of November 2017. The Madrid System has Contracting Parties pre-dominantly from Europe (47 members) followed by Asia Pacific (22), Africa (21), Middle East (5), Caribbean (3) and one each from Latin America and North America. Out of the 47 Least Developed Countries (LDCs), 24 (51 per cent) are contracting parties.

56. We observed that :

- i. Based on the baseline of 92 Contracting Parties at the end of biennium 2012-13, the target to cover 100 member countries was fixed for the biennium 2014-15. No member country acceded in 2014, while five acceded in 2015. Thus, the total number of Contracting Parties stood at 97 at the end of 2014/15.

<sup>2</sup> One of the 100 Contracting Parties is the African Organization of Industrial Property (OAPI) which is a regional IP organization including 17 states. The OAPI states have renounced to be Madrid Contracting Parties individually, and it is the OAPI that is the Contracting Party on its own right and embodying the interest of its 17 member states. Therefore, instead of obtaining protection in one or several of the OAPI Member States via separate national marks, only one mark, the regional OAPI mark may be granted to a Madrid User, and it covers the 17 OAPI member states. So, they are included in the country count but not in member count.

- ii. The target to cover 103 contracting parties was fixed during 2016/17, against which one acceded in 2016 and two in 2017 till November 2017. Thus, the total number of Contracting Parties stood at 100 at the end of November 2017. The Management does not expect further accession by the end of December 2017.

57. The Medium Term Strategic Plan (MTSP) 2010-15 envisaged that factors hindering accession to Madrid Protocol be identified and 'tailored strategies' formulated for geographical expansion. Further, in Program and Budget (P&B) 2016/17, less attractiveness of the Madrid System as compared to the national route in respect of certain designated Contracting Parties was flagged as a risk, due to inherent complexity of the System, lack of appropriate legal infrastructure and absence of quality customer service by the International Bureau (IB). As a part of mitigation strategy, P&B envisaged promotion of new accession in 'key regions' and countries.

58. We noted that in April 2016, the Working Group on Legal Development had emphasized the importance of including countries in Latin America and the Gulf Cooperation Council as a strategic focus. We observed that the IB had not identified key regions for geographical expansion and had also not developed tailored strategies for accession.

59. The Management stated that they have no control over internal matters of new potential members such as presenting revised legislation to their parliament, possible adoption by parliament, revision of IT structure, elections etc, but conducted mission to assess the readiness of the member countries to join the Protocol, their examination procedure legislation and IT, and also assisted in drafting new legislation compatible with the Madrid Protocol and the Common Regulations.

60. While we appreciate the initiatives taken by management, we noted that 49 per cent LDCs are yet to accede and only one Latin American country (Mexico) has acceded since 2014/15. The countries identified in P&B document and in Quarterly Accession Reports were based on the countries that expressed intent to accede and that they felt an accession would be realistic. Therefore, a targeted strategy in their cases would likely be more successful.

### **Recommendation 3**

**The Management should formulate a targeted strategy for accession of countries based on regional focus.**

61. The Management accepted the recommendation.

### **Timeliness in processing of Regular International Applications for Marks Registration**

62. The International Bureau (IB) processes six different categories of transactions namely international applications, renewals, subsequent designations, modifications, decisions and corrections.

63. We observed that the Common Regulations do not provide any time-frame for completing/carrying out examination of the applications, and the IB took considerable time in processing the documents as shown in Table 4.

Table: 4

Number of days taken for processing regular applications				
Category of document	2014	2015	2016	2017 (up to October17)
Applications	44-75	34-73	32-86	46-85
Renewals	45-67	47-69	49-74	54-75
Subsequent designations	35-67	22-67	24-62	25-52
Modifications	42-90	34-92	34-86	63-106
Decisions	6-30	6-23	7-51	26-82
Corrections	182-331	75-187	94-215	160-291

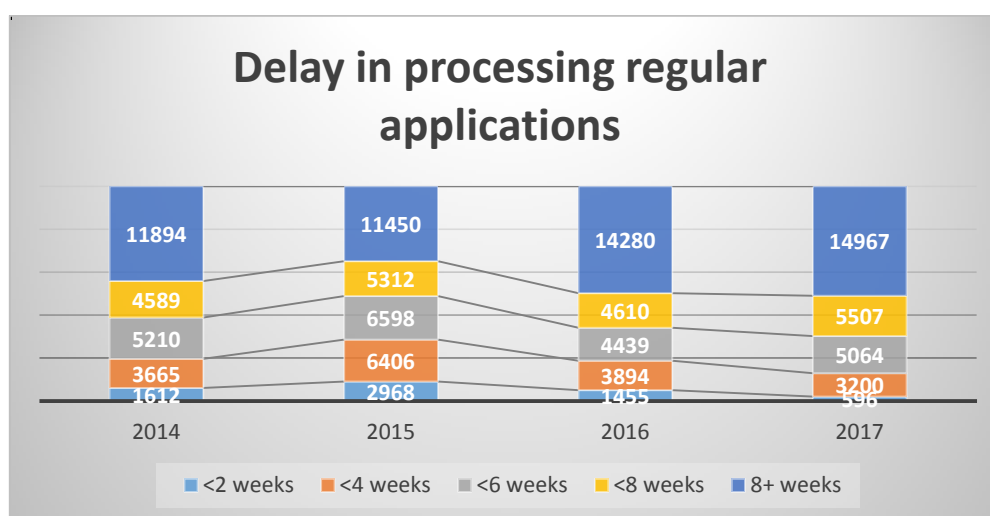
64. We also observed that the majority of regular applications took more than 8 weeks to process (Table 5 and chart 4):

Table : 5

Number of regular applications processed						
Year	Less than 2 weeks	Between 2-4 weeks	Between 4-6 weeks	Between 6-8 weeks	More than 8 weeks	Total
2014	1612 (5.97%)	3665 (13.59%)	5210 (19.32%)	4589 (17.01%)	11894 (44.10%)	26970
2015	2968 (9.07%)	6406 (19.57%)	6598 (20.16%)	5312 (16.23%)	11450 (34.98%)	32734
2016	1455 (5.07%)	3894 (13.58%)	4439 (15.48%)	4610 (16.08%)	14280 (49.80%)	28678
2017	596 (2.03%)	3200 (10.91%)	5064 (17.26%)	5507 (18.77%)	14967 (51.02%)	29334

(figures in parenthesis represent percentage with respect to the total)

Chart: 4



65. The share of regular applications processed in more than 8 weeks had gone up from 34.98 per cent in 2015 to 51.02 per cent in 2017. The share of regular applications processed within 4 weeks had gone down steadily from 28.64 *per cent* in 2015 to 12.94 *per cent* in 2017.

66. We observed that delayed processing led to increase in the backlog of applications under all the categories as at the end of 2014 and 2016 as detailed in the Table 6.

Table 6 : Backlog of applications

At the end of the year	Category-wise applications						
	Applications for new registration	Renewals	Sub. Designation	Modifications	Decisions	Corrections	Total of backlog
2014	8261	570	1856	6912	9521	2575	29695
2015	3951	847	1721	3706	4440	2000	16665
2016	10196	1755	2014	10705	61824	3758	90252
2017(upto 10 November 2017)	6456	1860	857	4067	12841	3022	29103

67. The total backlog had increased by 441 per cent in 2016 over 2015.

68. We noticed that the processed workload and pendency were impacted by the operational difficulties of the new IT System (MIRIS) rolled out in March 2016; and the delays at the examination level were attributable to vacancies in the post of Examiners (four on average) and high turnover of the flexible workers (agency workers and fellow workers).

69. To liquidate the backlog, the Special Madrid Program (SMP) was established in February 2017 in the Madrid Registry under which Operations Division staff and Fellows served during the weekends and official holidays on payment of compensation. Resultantly, the Madrid Registry had incurred expenditure of CHF 579,475 towards compensation during March 2017 to November 2017.

70. The Management stated that although the Common Regulations do not provide any time frame for processing applications, target for timeliness had been defined in the P&B document 2018/19.

#### Recommendation 4

**We recommend that the Management adhere to the time limit defined in the Program & Budget document of 2018/19 for examination and processing of regular applications and further strengthen its efforts to reduce backlogs.**

71. The Management stated that with extra resources in place in the Operation Division in 2018, the volume of pending applications has decreased and four out of six transactions are within levels defined by Program and Budget document.

#### Processing of Irregular Applications

72. Under Rule 11(2) (b), Rule 12 (1) and Rule 13 (1) of the Common Regulations, if the International Application does not comply with the applicable requirements and the Common Regulations, IB notifies the applicant/ the Office of Origin which will remedy the irregularities within three months from the date of the notification of the irregularity, failing

which the international application shall be considered abandoned and the IB shall notify accordingly the Office of Origin and the applicant under Rule 11 (4) (b) and Rule 12 (2).

73. We observed that the targets for reducing the percentage of irregular applications to 24 per cent in 2014-15 was increased gradually from 36 in 2014 to 41 *per cent* in 2017 (up to August 2017) mainly due to classification errors, errors in fee (missing and insufficient) and specifications mentioned in the applications. The classification errors accounted for 75% to 79% of the total applications with errors as depicted in Table 7. We further noted that the percentage of irregular applications processed in more than four months was significantly high, ranging between 59 and 70 per cent as detailed in Table 8:

Table: 7

Year	Applications received (Number)	Error free applications (Number)	Applications with errors (Number)	Classification errors (Number)	Classification errors as a percentage of applications with error
2014	48020	30665	17355 (36%)	13091	75
2015	49292	30085	19207 (39%)	15119	79
2016	52902	31870	21032 (40%)	15874	75
2017 (upto August)	35615	21157	14458 (41%)	10940	76

Table : 8

Number of irregular applications processed ( from the date of receipt to the date of inscription)							
Year	Less than 2 months (1)	Between 2-4 months (2)	Between 4-6 months (3)	Between 6-8 months (4)	More than 8 months (5)	Total	No of application processed in more than 4 months (3+4+5)
2014	1282 (7.31%)	5409 (30.85%)	6086 (34.71%)	2866 (16.46%)	1891 (10.78%)	17534	10843 (61.85%)
2015	2241 (10.28%)	6780 (31.11%)	6400 (29.36%)	3467 (15.91%)	2909 (13.35%)	21797	12776 (58.61%)
2016	1073 (6.01%)	5102 (28.58%)	6440 (36.08%)	3104 (17.39%)	2130 (11.93%)	17849	11674 (65.40%)
2017 (upto 31 August 2017)	917 (4.00%)	5883 (25.65%)	7351 (32.05%)	4432 (19.32%)	4356 (18.99%)	22939	16139 (70.36%)

(Figures in parenthesis is percentage to total applications)

74. While noting that the follow up to irregular applications and related timelines depend also on the timely reply by applicants and the offices of origin, we observe that the delay in processing irregular applications may result in customers' dissatisfaction, and potentially impact the attractiveness of the Madrid System, apart from the productivity. The Management



informed that the Classification Guidelines (presently available in three formal languages) would be translated in all six UN languages in 2018, and that a more simplified fee structure and automation would reduce the number of irregular applications.

### **Recommendation 5**

**We recommend that the management, in addition to translating the Classification Guidelines in other languages, analyze the reasons for the errors in the applications and take mitigation measures.**

75. The Management stated that it has initiated a detailed analysis of irregularities, which are being analyzed per classes and per Contracting Parties, yielding important information for further actions.

### **Customer Service**

76. The March 2015 Customer Service Charter (CSC) of WIPO promises that their customers will always “receive reliable and valuable assistance in a timely and professional manner”. CSC also promises that when customers have any issue, WIPO would view the suggestions and complaints as an opportunity to improve their service, carry out regular surveys on customer satisfaction, and share the results with the customers.

77. WIPO has established (January 2016) a Customer Service Board (CSB) to establish global Customer Service Strategy and approve the Customer Service Policies, Standards and best practices.

78. We reviewed the minutes of the meetings of the CSB held (between March 2016 and August 2017) and found no reference to formulation of Customer Service Strategy, Customer Service Policies, Standards and best practices.

79. We also noted that other than the customer surveys carried out occasionally, the Madrid System did not have any feedback system to invite views and comments from international community (country offices, individuals, contracting parties etc.), which would facilitate the creation of an eco-system for a better service delivery mechanism of Madrid Registry.

80. We found that against the target of 86% Customer Stakeholder Satisfaction rate fixed in the P&B 2014/15, the actual achievement was 81%. Similarly, a target of 90% was fixed for 2016/17. However, achievement could not be assessed as no survey had been conducted up to November 2017.

81. We further observed from the Quality Control Reports for 2015, 2016 and 2017 (September 2017) that the Customer Service Unit (CSU) had achieved quality levels of 79, 83, and 82 *per cent*, against the Accepted Quality level<sup>3</sup> of 90 *per cent*.

82. The Management stated that following a gap analysis and dedicated project in 2014/15, efficiency and quality of the responses delivered by CSU has improved and the latest changes will further streamline the processing of requests received by the IB. The Management added that CSU was directly impacted by the backlog of 2016 & 2017 and that the quality of service should improve in 2018.

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<sup>3</sup> Accepted Quality level for the CSU has been evaluated in terms of their performance against the response to the written queries/e-mails of the customers.

### **Recommendation 6**

- i. We recommend that the Management establish a well-defined Customer Service Strategy, Standards and best practices supported by an effective e-based quality feedback system, to cater to the needs of customers efficiently.**
- ii. We also recommend that the Management undertake regular Customer Surveys, as mentioned in CSC, for feedback to improve their services.**

83. The Management stated that Madrid Registry Customer Service Policy and Standards will be developed by the third quarter of 2018.

### **Quality Control**

84. The Quality Management Framework (QMF) defines the Accepted Quality Levels (AQLs) for the transactions of the Madrid Registry against which the quality will be evaluated on a weekly basis. The AQLs were to be revised on a periodic basis. The QMF requires that an appropriate IT Tool be established for selection of samples and the dissemination of Quality Control (QC) results.

85. We observed that the IT Tool had not been established and the entire QC process was carried out manually. We further observed that the quality of works in the Madrid Registry was evaluated against the declared AQLs in QMF 2015 with no mechanism in place for periodic revision of AQLs.

### **Recommendation 7**

- i. We recommend that the Management use IT Tool to carry out QC/QA processes effectively and conduct the QC process at the stipulated periodicity.**
- ii. We also recommend that the Management adopt a policy for periodic review of Accepted Quality Levels.**

86. The Management stated that the project for the development of a computer program to support QC started in 2018. A business analyst was assigned to work on this project in close cooperation with Q&T. It is planned to make the relevant enhancements to the current IT system (MIRIS). Management also pointed out that the Quality Management Framework is maintained to achieve the defined quality objectives. Accepted Quality Levels are defined by the Director of the Registry in close cooperation with the Head of Q&T Section and revised on a yearly basis.

### **Human Resource Planning**

87. An efficient professionally trained and well- equipped human resource is a pre-requisite for efficient and effective running of an organization. One of the primary concerns in any organization therefore is to ensure that the human resource management performs effectively.

88. Currently, the Madrid System is served by four functional divisions namely Operations, Legal, Information & Promotion (I&P) and Madrid Information System. The number of persons in the four divisions is given in Table 9.

Table: 9  
The number of persons in Madrid System

Name of the Division	2014		2015		2016		2017	
	Permanent	Non-Permanent	Permanent	Non-Permanent	Permanent	Non-Permanent	Permanent	Non-Permanent
Operations	72	26	74	36	72	35	77	40.5
Legal	6	1	7	1	7	1	7	1
Information & Promotion	10	0	7	0	7	0	15	3
Madrid Information System	26	0	23	4	24	4	12	7

89. The Operation Division is responsible for processing of applications for international registration. We noticed that three teams including flexible workers<sup>4</sup> were engaged with the examination work. We found that the percentage of flexible resources for examination work increased from 25 in 2014 to 47 in 2017. Thus, the dependency on the flexible workforce was high.

90. The Management intimated that there was high turnover among flexible workforce, and the cost of training the new flexible resources became too high and caused delays in processing applications, while waiting for new resources to become available. The Management intimated that during 2017, 18 flexible staff had been deployed and the cost of training per staff was two months (one month training to flexible staff plus one month for trainer of the coach). Accordingly, 36 months were utilised for training those flexible staff during 2017. During these 36 months, processing work could not be undertaken. This resulted in loss of three man-years during 2017, as worked out by the Management.

91. The Legal Division is mandated to look after the issues relating to the accession of new countries to the Madrid System and the legal framework. The Legal Division is expecting accession of 14 new countries during 2018/19, which involves training, conducting workshop and discussion with the potential contracting parties. We observed that the number of personnel in the Legal Division has remained at the same level in 2014 and 2017.

92. The Information and Promotion Division is involved in disseminating information about the utilities and advantages of the Madrid System and servicing the queries as well as actively promoting its usefulness among potential users. Currently, this section has a team of 13 members to assist its 'Head', three of whom are non-permanent employees. We observed that the staffing in this section had gone up in 2017 with the increase of permanent staff from eight to ten and non-permanent staff from 0 to 3.

<sup>4</sup> Agency Workers, Fellows, Individual Contractors and Contractual Service Providers constitute Flexible workers

93. We noticed that the number of permanent staff in the Information System Division had reduced from 21 in 2014 to 11 in 2017, while the number of non-permanent staff had increased from zero to seven in the same period.

94. We noticed that the Madrid Registry had not conducted a comprehensive human resource plan taking into account the expected growth in filing, expected changes in the Rules, ideal mix of WIPO staff and flexible workers and upgrading of IT Platform.

### Recommendation 8

**We recommend that the Management formulate a long term strategy for human resource for the Madrid System in consultation with a view to working out an appropriate balance between permanent and flexible personnel resources.**

95. The Management accepted the recommendation.

### Financial Sustainability

96. Madrid System sources about 96 per cent of revenue from collection of Fees for registration, subsequent designations and renewals. The Revenue and Expenditure of the Madrid System are given in Table 10.

Table: 10

### Revenue and Expenditure in respect of the Madrid Union

*(Amount in thousands of Swiss francs)*

Year	Revenue			
<b>2012</b>	Fees	51,598	54329	(-) 04 per cent of revenue
	Non – Fees Income	2731		
	<b>Expenses</b>		56159	
	<b>Deficit</b>		2170	
<b>2013</b>	<b>Revenue</b>		58456	(-)02 per cent of revenue
	Fees	55401		
	Non – Fees Income	3055		
	<b>Expenses</b>		59749	
<b>Deficit</b>		1293		
<b>2014</b>	<b>Revenue</b>		57285	(-) 0.08 per cent of revenue
	Fees	55113		
	Non – Fees Income	2172		
	<b>Expenses</b>		57330	
<b>Deficit</b>		45		
<b>2015</b>	<b>Revenue</b>		71010	(+) 12 per cent of revenue
	Fees	67925		
	Non – Fees Income	3085		
	<b>Expenses</b>		62811	
<b>Surplus</b>		8199		
<b>2016</b>	<b>Revenue</b>		61187	(-) 0.02 per cent of revenue
	Fees	59580		
	Non – Fees Income	1607		
	<b>Expenses</b>		61204	
<b>Deficit</b>		17		

97. The revenue was insufficient to cover the expenses of Madrid System during all the years except in 2015.

98. In accordance with IPSAS, the revenue from fees is recognized as Income on the date of publication of Marks. We observed that while the number of transactions showed an increasing trend in terms of receipt of applications, subsequent designations, modifications and decisions, the recognition of revenue was not commensurate with that trend due to delays in processing of transactions leading to huge backlog that increased from 26,582 in 2013 to 90,621 in 2016. Resultantly, the Madrid System was not in a position to recognize revenue until the applications were registered and the amount so collected was kept under Madrid Union Deposit Account, which had increased from 16,587 in 2014 to 19,551 thousand Swiss Francs in 2016, representing 32 per cent of fees of 2016.

99. Further, we observed that the fees structure had not been revised for the last 20 years, even though the deficit was sustained consistently except during 2015.

100. The management stated that the revision of fees had been planned in the medium term plan (2019) of the Working Group.

### **Recommendation 9**

**We recommend that the Management review the existing fees structure with a view to making the Madrid Union self – sustaining, after carefully weighing its impact on the accession of new members and on the usage of Madrid System.**

101. The Management accepted the Recommendation and stated that the review of the fee structure of the Madrid System is a topic for work in the mid-term as per the revised Road Map for the Working Group on the Legal Developments of the Madrid Union.

### **Madrid International Registry Information System (MIRIS)**

102. The Assemblies of the Madrid Union and the Hague Union approved (September 2007) an IT modernization program of the Madrid and the Hague IT support systems. The program was scheduled to be implemented in two phases over a period of four years (2008 to 2011) with the possible addition of a third phase, for a total estimated cost of 15.3 million Swiss Francs for the three phases. Subsequently, this approach was revised (September – October 2009) to combine Phase II and III into a single phase (New Phase II). The New Phase II consists among other things of the one-to-one technical migration from the existing IT legacy system- Madrid Agreement and Protocol System (MAPS) and DMAPS (adoption of MAPS in Hague System), supporting both the Madrid and the Hague international registration procedure, to a modern technology that will ensure Madrid and Hague system stakeholders benefit in the years to come from industry standard technical platforms. The cost was estimated at 11.731 million Swiss Francs to be funded from Madrid Union (8.731 million Swiss Francs) and Hague Union (3 million Swiss Francs). The new Phase II was scheduled to be completed by the third quarter of 2012.

103. To execute the technical migration component for the Madrid System, WIPO entered into a contract with an agency on 6<sup>th</sup> January, 2012 for the ‘development and warranty’ (2.49 million Swiss Francs) and ‘enhancement and support activities’ (amount to be paid at the fixed daily rate). The contract *inter alia* provided that: (a) the agency would commence the work of development on 16 January 2012 and complete the same on 15 July 2013, (b) the payment would be released for the work in seven stages after meeting the acceptance criteria for the deliverables, (c) in case of ‘failing’ of the system in the User Acceptance Test (UAT),

the agency would fix the same within the targeted resolution time, and (d) the one year warranty period would commence following the system entering into the production.

104. The agency delivered the package to WIPO management on 31<sup>st</sup> October 2014 for UAT. The management came up with the “test and deployment plan” in June 2015, almost eight months after the receipt of the Beta Version of the MIRIS from the developer.

105. The Test and Deployment plan was approved on 25<sup>th</sup> June 2015. Almost one and a half years was taken between the date on which the system was delivered for testing by the developer and the date on which the system went live. It was observed that the User Assessment Testing (UAT) started on 2<sup>nd</sup> March 2016 and the decision to go live was taken shortly thereafter on 15<sup>th</sup> March 2016 even though the system was not ready with all the functionalities “fully operational”.

106. We observed from the final testing report of 14 March 2016 that out of 27 broad functionalities on which the UAT of the MIRIS was conducted, 10 functionalities were ‘almost operational or needed some more validation’ and 17 functionalities were ‘fully operational’. Thus, the system was not fully ready for going live. However, the Madrid Registry Operations Reform Board in its meeting dated 15 March 2016 decided to proceed with the MIRIS rollout commencing on 17 March 2016 without fixing the deficiencies identified in the UAT by the agency, holding that the risks associated with rollout of the MIRIS were manageable.

107. We observed that the MIRIS, rolled out in March 2016, with a time overrun of more than two years, had many operational problems.

108. We noticed that the project closure report for MIRIS had not been prepared and submitted to the Assembly as of November 2017 to signify the outcome of the project and the lessons learnt. The Management stated that the draft report on the closure of the project had been finalized.

109. We further observed that the P&B document 2018/19 made a proposal to the Madrid Union Assembly for the development of a new Madrid IT platform, and allocated an amount of 6 million Swiss Francs in the P&B document 2018/19.

### **Recommendation 10**

**We recommend that the Management perform a detailed analysis of the performance of MIRIS, including any possible failures in accountability, for the lessons learned, and also inform the General Assembly.**

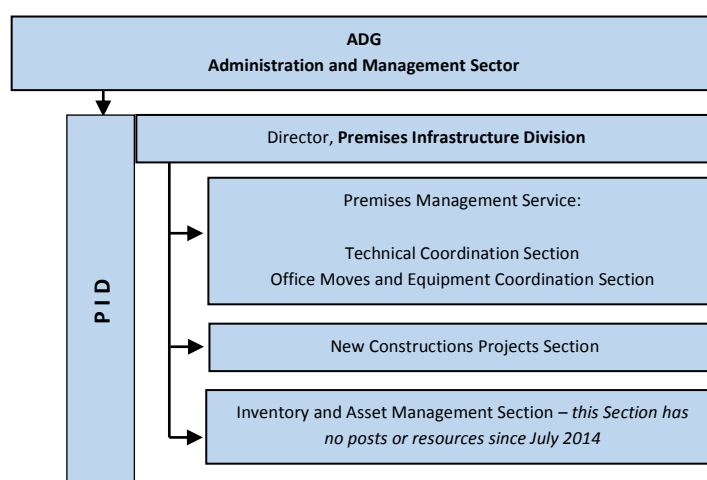
110. Management stated that a technical review of the existing MIRIS system, which is currently supporting all Madrid Registry operations, is planned as part of the upcoming Madrid Platform Project.

## **Premises and Maintenance**

### **Background**

111. We carried out the Compliance Audit of the Premises and Maintenance in accordance with the International Standards of Supreme Audit Institution (ISSAI) 4000, according to which compliance auditing includes both the aspects of regularity (adherence to formal criteria such as relevant laws, regulations and agreements) and/or propriety (observance of the general principles governing sound financial management and the conduct of public officials).

112. The Premises Infrastructure Division (PID) under the General Support Services (Program 24) in WIPO is responsible for the maintenance and management of premises, new constructions and renovations of existing premises and installations, development and implementation of physical accessibility measures, the environmental responsibility of the Organization, and the non-financial aspects of the management of WIPO's assets. Physical safety and security of premises is under the responsibility of the Safety and Security Coordination Service (SSCS), as part of the Security and Information Assurance Division (SIAD) (Program 28). PID is however called upon to supervise and undertake safety and/or security-related works in buildings and installations, as a support unit for SIAD/SSCS. The organizational structure of PID is stated below:



113. The audit covered examination of records for the period 1 January 2015 to 31 December 2017 relating to the following areas:

- Procurement, Renovation and Maintenance of Assets / Equipment
- Insurance Coverage of assets
- Energy Consumption
- Cost Efficiency
- Office Space Management
- Physical verification of assets
- Support for WIPO Events
- Capital Master Plan Works
- Safety and Security of premises and assets
- Risk assessment for PID areas of responsibility

#### **Asset Management**

114. According to Para 40 of the WIPO Property Management Manual the Director of PID shall be responsible for ensuring that all property is properly recorded in the Asset Management (AM) Module of Administrative Integrated Management System (AIMS), including the serial number, model description, barcode number, assigned location, custodian, Property Management Focal Point (PMFP) and other information specified by the Controller. Further, Para 16 (c) of the WIPO Property Management policy assigns to PID the responsibility of recording and keeping up to date in the AM of AIMS all asset-related physical details (receipt, description, location and custodian or property management focal point) of the Organization's fixed or tangible assets.

115. The AM Module of AIMS is used by WIPO to record all asset management transactions and to capture details of all property like serial number, model description, barcode number, assigned location, custodian, PMFP, and other information specified by the Controller.

116. We reviewed a list of fixed assets extracted from the AIMS, and observed that in many cases the serial numbers were not mentioned against items of assets; the serial number was entered in the field 'IMEI' field instead of the field 'Serial number'; the description of assets appeared in the serial number field; the location of assets was either not mentioned or incompletely mentioned etc. PID stated that a large number of anomalies and incorrect utilisation of certain fields in AIMS related to historical data as entered or downloaded in bulk in AIMS several years ago; and that significant efforts had been made during 2016-17 biennium to clean up data in a phased manner and reconcile the details and that it will remain a work in progress until end 2018.

### **Recommendation 11**

**117. While acknowledging the steps taken by the Management so far, we recommend that the WIPO complete the clean-up of AIMS database to ensure that they represent the actual details of the assets.**

118. The Management accepted the recommendation.

### **Tagging of Assets**

119. Para 35 to 38 of Property Management Manual stipulates that following receipt of property the Directors of the respective units concerned will verify that the property has been received as ordered, and ensure assigning the inventory barcode numbers and affixing the barcode labels to property after its receipt.

120. WIPO had engaged external firms for physical verification of property in 2016 and 2017 respectively. These firms had in their physical inventory reports pointed out non-availability of barcodes for assets. WIPO stated that for historical data, the inconsistencies and anomalies have been subject to verification and correction over the last two years, but it remains a work-in progress.

### **Recommendation 12**

**We recommend that the WIPO complete the tagging of the taggable assets, that should be tagged as per Office Instruction, but not tagged so far, in a time bound manner.**

121. The Management accepted the recommendation.

### **Recording of Works of Art (Heritage Assets)**

122. The external agency that carried out physical verification of assets in 2017 had pointed out 22 items of Works of Art, whose presence was physically verified by them, missing from the WIPO database. They further pointed out that 84 non-negligible items, whose presence was physically verified by them, were not available in the database and were not having barcodes. We observed that out of the 22 items of Works of Art, 13 were yet to be entered in AIMS; and out of the 84 non-negligible items, 13 had been entered in the database, 16 remained to be entered in database and the remaining 55 items were stated to be not required to be bar coded and entered in AIMS as they are not considered as Works of Art but "commemorative objects".



### **Recommendation 13**

**We recommend the WIPO management complete, in a time-bound manner, the updating of the information in the database in respect of the remaining items qualifying as works of art.**

123. The Management accepted the recommendation.

#### **Measures for safekeeping and protection of Works of Art**

124. As per Para 75(d) of WIPO Property Manual, the Director of PID is responsible for the management of works of art. The head of PID is required to put in place suitable measures ensuring security/protection of works of art in consultation with the head of Safety and Security Coordination Service (SSCS).

125. As per the physical verification reports of the external firms seven works of art were missing in WIPO during 2016 and 2017. We observed that of the seven items, four were still missing as on 12 March 2018. Out of these, three items were missing from before 2014.

126. WIPO stated that as at December 31, 2017, only one (new) item had been missing, from a total of about 500 works of art; that specific procedures for safekeeping and maintaining works of art were under preparation; and they had initiated several measures like moving the majority of the works of art to a new and dedicated storage area accessible to a very limited number of employees. They added that the works of art located on office floors and in lobbies are protected by video camera and the periodic physical verification by external firms provides an additional means of safekeeping.

127. While some specific procedures have been framed regarding security and protection of works of art in consultation with the head of SSCS, WIPO is yet to formulate a risk assessment framework and put in place suitable mitigation strategies regarding proper management of works of art. WIPO stated that risk assessment should be the decision of the Management.

128. In our view a proper risk assessment and review of the existing security measures would help in strengthening the measures taken by WIPO.

### **Recommendation 14**

**(i) We recommend the WIPO management locate the missing work of art and update its database; if the missing work of art cannot be located, then an appropriate report may be made to the General Assembly.**

**(ii) We also recommend that the Management carry out risk assessment and review the existing measures to assess whether additional security/protection measures are needed for works of art.**

129. The Management did not accept point (i) of this Recommendation as it currently stands and stated that there is no specific reporting to the General Assembly or Assemblies of Member States foreseen in the regulatory framework for such cases of missing work of art. Management also stated that it could be prepared to accept point (i) if it is revised as follows: “We recommend the WIPO management locate the missing work of art and reflect the status of that item accordingly in its database as the search for it continues.”

130. The Management accepted the recommendation 14 (ii).

## Follow up of physical verification reports

131. Para 28(a) and Para 49 of the WIPO Property Manual stipulate that the Director of PID shall be responsible for overseeing the regular process of annual physical inventory and issuance of the annual verification report.

### A. Follow-up of physical verification report (2016)

132. As per the physical verification report of the external agency for the year 2016, out of the 1155 items valuing CHF 5,000 or more, 51 items were not found. The details are stated in Table 11.

Table-11

Particulars of items	Number
Pieces of IT equipment	33
Works of art	7
Pieces of equipment	6
Audio visual devices	3
Office furniture	1
Access management system	1
<b>Total</b>	<b>51</b>

*Source: Physical verification report (2016) of the external agency*

133. WIPO Management stated that the number of missing items had been reduced from 51 to 39 as at the end of January 2017. We, however, observed that the action in respect of 20 missing items was still pending and the search for them was in progress.

134. PID stated that it had, over the last two years, initiated a number of steps to facilitate the process of physical verification by providing photos for better recognition of items, new type of tags for certain ICT (Information Communication and Techequipment etc.,

### B. Follow-up of physical verification report 2017

135. The physical verification report (2017) of the external agency indicated that:

(a) 84 laptops given as loan to WIPO employees by ICTD were missing. WIPO stated that PID along with ICTD was addressing this issue and the work is in progress.

(b) 58 items were reported as 'Objects awaiting certification' and not found by the external agency. WIPO stated that the physical verification of these items could not be independently completed by the external firm, which had to rely on certification of presence by ICTD. This work was in progress by PID with ICTD and other units.

(c) the data relating to some articles were overly vague and incorrect particularly in the case of computer and audio-visual equipment and the description of some contained vague terms. The WIPO management was yet to take remaining corrective action.

136. other items had been moved from office to office over the years or were introduced as replacement but were not scanned at the time of the move.

137. We observed that WIPO is yet to take action regarding transfer of property to new location or/ to new custodians in compliance with para 41 to 44 of the Property Management Manual. WIPO Management stated that efforts were on to diminish the anomalies with the help of other units and the work was in progress.

### **Recommendation 15**

**We recommend the WIPO Management:**

**(i) locate the missing items; and**

**(ii) review the recommendations of the physical verification report of the external agency and complete any pertinent follow-up action in a time-bound manner.**

138. The Management accepted the recommendation.

### **Improving physical accessibility to WIPO campus**

139. WIPO conducted an audit of the accessibility of handicapped persons to the WIPO campus in 2012. The 72 recommendations were divided into 20 Priority 1 (Immediate), 43 Priority 2 (Medium term) and 9 Priority 3 (Long term) recommendations. The recommendations were also divided into those requiring high, medium and low degree of complexity to implement. A summary of the recommendations is provided in Table 12.

Table: 12

<b>Building</b>	<b>No of recommendations</b>	<b>Priority 1 (Immediate)</b>	<b>Priority 2 (Medium)</b>	<b>Priority 3 (long term)</b>
AB Building	25	3(one high, medium and low degree of complexity each)	21 (4 High,15 medium and 2 low degree of complexity)	1 (low level of complexity)
GB Building	13	7 (5 medium and 2 low level of complexity)	5 (1 high, 2 medium and 2 low level of complexity)	1 (low level of complexity)
PCT Building	15	4 (low level of complexity)	8 (5 medium and 3 low level of complexity)	3 (low level of complexity)
New Building	18	5 (low level of complexity)	9 (4 medium and 5 low level of complexity)	4 (low level of complexity)
Delegates parking	1	1 (high level of complexity)	0	0
<b>Total recommendations</b>	<b>72</b>	<b>20 (2 high,6 medium and 12 low level of complexity)</b>	<b>43 (5 high, 26 medium and 12 low level of complexity)</b>	<b>9 ( low level of complexity)</b>

140. We observed that the five-year plan for implementation of audit recommendations for improved physical access to the WIPO campus was not ensured. While some enhancements like additional ramps for wheelchair access in NB building, lowering badge readers to be at level of wheel chair access in AB, PCT, GBI, GBII and NB buildings, installation of guard

rails in AB, GBI, GBII Buildings, larger width of certain doors in AB and GBI Buildings, were made during 2015 to 2017, certain other measures like lowering of the remaining two out of four badge readers in GBI and GBII buildings were yet to be completed.

141. WIPO stated that a number of enhancements (about 15 or 20 *per cent*) are no longer relevant, while 18 enhancements (25 *per cent*) had been implemented in one form or another by the end of 2017. For about 40 (55 *per cent*) enhancements remaining out of the 72 recommended enhancements, WIPO stated that they would be reflected in the long-term plan.

### **Recommendation 16**

**We recommend that the WIPO formulate an appropriate plan for implementation of the remaining recommendations of the 2012 expert report for improved physical access to WIPO campus.**

142. The Management accepted the recommendation.

### **Review of Management Action on Past Recommendations**

143. The status of implementation of the External Audit Recommendations (Financial Audit) by WIPO is enclosed as an Annexure 1 to this Report.

### **Disclosures by Management - Write-off of Losses of Cash, Receivables and Property**

144. The Management informed that in accordance with Financial Regulation 6.4 and Financial Rule 106.8(a), the following losses have been recorded by the Organization during the year ended December 31, 2017:

- i. Accounts receivable totaling 1558.80 Swiss francs were written off during 2017. This concerned nine unpaid invoices dating from 2016, relating to Trademarks, Industrial Designs and Publication activities;
- ii. USA taxes reimbursable totaling 81,665 US dollars (79,868.37 Swiss francs) were written –off;
- iii. Other small losses incurred throughout the year, principally on payments against accounts receivable, totaled CHF 31,481.27.

145. In accordance with Financial Regulation 6.4 and Financial Rule 106.9(a), the following losses have been recorded by the Organization during the year ended December 31, 2017:

- i. 28 items of furniture and furnishings with a total net book value of CHF11,379.33 were removed from the category equipment;
- ii. Buildings components with a total net book value of CHF 1,434,697 were demolished during 2017 as part of improvement works in the AB and GB1 buildings;
- iii. Building work in progress with a net book value of CHF 87,781 was written off;
- iv. 370 items with a total of CHF 8,317.02 were removed from the inventory of the information center (the items could not be located).

146. The Management informed that in accordance with Financial Regulation 6.4, Financial Rule 106.8, the following losses have been recorded by the Organization during the year ended 31 December 2016:

- Accounts receivable totaling 741 Swiss francs were written off during 2016. This concerned four unpaid invoices dating from 2015, relating to Trademarks activities; and
- Other small losses incurred throughout the year, principally on payments against accounts receivable, totaled 19,584.20 Swiss francs.



**(Rajiv Mehrishi)**  
**Comptroller and Auditor General of India**  
**External Auditor**  
**New Delhi, India**  
**5<sup>th</sup> July 2018**

**Annexure- 1**  
**Status of implementation of the External Audit Recommendations by WIPO**

Financial Audit	Recommendation	Management Response	Status
2014	WIPO may disclose details of heritage assets including works of art in the Notes to the Financial Statements and may take steps for strengthening the security systems to prevent further loss of such assets.	In December 2017, the IPSASB reviewed responses to its Consultation Paper (CP) on heritage assets. There was good support for many of the IPSASB's preliminary views, including that heritage asset should be included in the financial statements if they meet the recognition criteria in the Conceptual Framework. However, many of the responses raised issues with respect to heritage measurement. The next steps are for the IPSASB Public Sector Measurement project to develop over-arching principles for measurement. In the second half of 2018 the heritage assets project will use those principles to consider what application guidance for heritage measurement is needed.	In progress
2015	The Management may consider formulating and implementing an appropriate treasury and Cash Management policy including borrowings to improve the financial management.	A treasury policy comprising a suite of policies including investments but not cash management was produced by treasury consultants in spring 2014. Within days of its delivery, the relationship between WIPO and the Federal Finance Administration changed, effectively rendering the investment policy obsolete. Efforts then began to introduce a new investment policy, culminating in the approval of such a policy by Member States in autumn 2015. The counterparty risk policy contained within the treasury 'suite' was also in need of updating as a result of this change in relationship. In addition, Finance wished to review other parts of the 'suite' and accepted the need to prepare a policy on cash management in order to complete the policy set. This work was awaiting the recruitment of a treasurer. Following the arrival of such a person in June 2016, work began on the counterparty risk policy. The treasury policy suite has now been prepared in draft and is being reviewed internally. The implementation date has been revised to August 2018.	In progress
2015	The useful lives of assets need to be reassessed to reflect fair	Significant work has been performed during 2017 to update the status of the Organization's equipment. The gross carrying amount of equipment has been reduced by approximately	In progress

	presentation and to achieve a reasonable estimate of useful lives of assets.	CHF 5.8 million compared to 2016. During 2018 work will be performed to review the useful lives applied to equipment, in line with the implementation date of 31 December 2018.	
2016	WIPO may classify strategic cash as restricted cash and cash equivalents.	WIPO has retained its classification of strategic cash as a separate element of cash and investments. WIPO has implemented the revised investment policy, and separation of strategic cash in the notes presentation provides a clearer and more understandable presentation of this.	Disclosed as per WIPO's Investment Policy. (Refer Note 4: Investments) The recommendation may be treated as closed.
2016	We recommend that WIPO may take suitable action to adjust/recover the outstanding Staff advances for education grant within the scheduled time.	WIPO accepted the recommendation and stated that a final deadline of 30 June 2017 has been set. Non-compliance by the staff would result in recovery of the respective education grant advance as recommended. WIPO replied that these issues were pending because HRMD was waiting for information from the staff concerned. Upon receipt of information, the amount would be recovered by deduction from the staff member's salary. All pending cases have been addressed.	The pending cases have been addressed as accepted by WIPO. The recommendation may be treated as closed.
2016	We recommend that all the assets below the threshold limit of 5,000 Swiss francs, which appear in the Asset Register, may be depreciated fully in line with the Accounting Policy and IPSAS requirements.	WIPO agreed to analyse these assets as part of the 2017 equipment and furniture review. WIPO stated that the prospective application of the new threshold commencing on 1 January 2011 was in line with IPSAS 3 requirements. Furthermore, the benefits of the required change are not justified by its costs. WIPO agreed to analyse these assets as part of the 2017 equipment and furniture review. All assets below the threshold limit of CHF 5,000 have now been derecognized as capitalized equipment in the interim financial statements as at 30 September 2017. We consider this recommendation as closed.	All assets below CHF 5,000 have now been derecognised as capitalised equipment. The recommendation may be treated as closed.
2016	WIPO to review all assets of old items and missing items to be completed and adjusted in books	Actions (1), (2), (4) and (5) completed. Action (6) to be closed at this stage since any future disposal requests (for future batches of old items and/or missing items in future) will be presented to the PSB, as required, on an ongoing open-ended basis. Action (3) on physical disposal of	Implemented

	<p>by end 2017. Process of updating the module for providing all the details and reliable query system also to be completed by end 2017.</p>	<p>assets by PID or ICTD was reflected for information purposes, as it is not an action required in order to implement the recommendation (it is however noted that Action (3) is in the very final stages of completion). In conclusion, the recommendation is implemented and it may be closed.</p>	
2016	<p>We recommend that in view of the material impact on the financial statements of the unrecognized liability which is on increasing trend, a suitable policy on implementation of IPSAS 39 may be defined and implemented early.</p>	<p>WIPO has implemented IPSAS 39 in 2017. IPSAS 39 compliant numbers and disclosures have been included in the WIPO financial statements for the year to December 31, 2017.</p>	<p>IPSAS 39 has been implemented from 1 January 2017 and the impact has been indicated in the Financial Statements. The recommendation may be treated as closed.</p>



### Glossary

Applicant	An individual or a legal entity that files an application. There may be more than one applicant in an application.
Application	The formal request for the protection of a trademark at a national or regional IP office, which usually examines the application and decides whether to grant or refuse protection in the jurisdiction concerned.
Basic mark	The national or regional application (basic application) or the registration (basic registration) on which an international application is based.
Cancellation	A procedure to cancel the effects of an international registration for all or some goods and services in respect of all the Madrid members designated in a given international registration.
Contracting Party (Madrid member)	A state or intergovernmental organization e.g., the European Union (EU) that is party to the Madrid Agreement and/or the Madrid Protocol.
Designation	The request, in an international registration, for protection in a Madrid member's jurisdiction
Intellectual property (IP)	Refers to creations of the mind: inventions, literary and artistic works, and symbols, names, images and designs used in commerce
International application	An application for international registration under the Madrid System, which is a request for protection of a trademark in one or more of the Madrid members. An international application must be based on a basic mark.
International Bureau (IB)	The International Bureau of WIPO administers the Madrid System. It is responsible for procedural tasks related to international applications, as well as the subsequent management of international registrations.
International Register	A register maintained by the IB, in which international applications that conform to the applicable requirements are recorded as international registrations. Changes made to these registrations are also recorded in the International Register
International registration	An application for international registration of a mark leads to its recording in the International Register, and the publication of the international registration in the WIPO Gazette of International Marks. If the international registration is not refused protection by a designated Madrid member, it will have the same effect as a national or regional trademark registration made under the law applicable in that Madrid member's jurisdiction.
International registrations in	International registrations currently enjoying a 10-year period of protection To remain in force, registrations must be renewed. In most jurisdictions, a

force	mark can be maintained indefinitely and is renewed on a 10-year basis.
Madrid member (Contracting Party)	A state or intergovernmental organization—e.g., the European Union (EU) or the African Intellectual Property Organization (OAPI)—that is party to the Madrid Agreement and/or the Madrid Protocol
Nice Classification (NCL)	The abbreviated form of the International Classification of Goods and Services for the Purposes of Registering Marks, an international classification established under the Nice Agreement. The Nice Classification consists of 45 classes, which are divided into 34 classes for goods and 11 for services
Origin	The country/territory of residence, nationality or establishment of the applicant filing a trademark application. The country of the applicant's address is used to determine the origin of the application. In the Madrid System, the office of origin is the IP office of the Madrid member in which the applicant is entitled to file an international application
Paris route	An alternative to the Madrid route, the Paris route (also called the “direct route”) enables individual IP applications to be filed directly with an IP office that is a signatory of the Paris Convention

## **MANAGEMENT'S RESPONSES TO THE RECOMMENDATIONS MADE BY THE EXTERNAL AUDITOR**

### **Recommendation no.1**

We recommend that the sale of the Madrid Union Building be placed before the General Assembly in the next series of meetings.

### **Response**

In respect of the recommendation by the External Auditors for placing the sale before the General Assembly, as explained to the External Auditors, WIPO Management confirms that the information on the sale is an integral part of the audited Financial Statements.

In compliance with Financial Regulation 4.11 and Financial Rule 104.11 (which states that "investments shall be recorded in a ledger which shall show all the relevant details for each investment, including, for example...proceeds of sale....") and applicable standards, disclosure of the sale of the Madrid Union Building has been provided in Notes 9, 29 and 30 of the audited financial statements. The audited financial statements and the report of the External Auditor will be duly considered by the 28<sup>th</sup> Session of the Program and Budget Committee, which will make appropriate recommendations to the Assemblies of Member States of WIPO, including the General Assembly.

WIPO Management notes that there remains a difference between the interpretation of the Financial Regulations and Rules by the External Audit Team and by WIPO Management, as advised by the Office of the Legal Counsel. This difference relates to the Regulations and Rules that are applicable to the sale transaction of the Madrid Union Building, which has been consistently classified and reported as Investment Property in the audited Financial Statements since the implementation of IPSAS in 2010. WIPO Management further highlights that, consistent with this classification, explanations were provided to, and accepted by, the External Auditors in 2014. Furthermore, the Madrid Union Building was acquired by the Organization in 1974 and according to paragraph 14 of document MM/CDIR (Extr.)/III/2 (Madrid Union Assembly and Committee of Directors 29 November 1972), the purpose of the acquisition of the Madrid Union Building was to invest part of the Madrid Union Reserve funds into the property market. This was viewed as the option that would generate the highest return amongst the generally limited investment possibilities available to inter-governmental organizations at the time.

As an investment property, management of the Madrid Union Building is governed by Financial Regulation 4.11, which in turn refers to the Organization's investment policy, as approved at the Fifty-Seventh Series of Meetings by the Assemblies of Member States of WIPO in October 2017.

### **Recommendation no.2**

We recommend that WIPO expedite the closures of the Geneva Lake Water, AB buildings replacement and Safety and Fire Protection projects, assess their status and the expenditure and transfer the remaining balances to the Reserves. It is also recommended that WIPO lay down clear guidelines for project closure, with timelines, for project closure to be effectively monitored.

### **Response**

WIPO Management accepted the recommendation. WIPO Management noted that the official closure of a project financed from the reserves, in addition to ascertaining unspent balances, includes an assessment of project performance, assessment of delivery of scope versus timeline, identification of lessons learned and follow-up actions if any. Once the assessment has been completed by a project manager, the report would need to be approved by the relevant Program Manager, the Program Performance and Budget Division and the Finance Division. The closure process is therefore both a qualitative and a financial process, which requires sufficient time in order to ensure a quality output.

WIPO Management clarified that all three projects referred to in the paragraphs preceding the recommendation were officially closed in May 2018.

### **Recommendation no. 3**

The Management should formulate a targeted strategy for accession of countries based on regional focus.

### **Response**

WIPO Management accepted the recommendation.

### **Recommendation no. 4**

We recommend that the Management adheres to the time limit defined in the Program & Budget document of 2018/19 for examination and processing of regular applications and further strengthen its efforts to reduce backlogs.

### **Response**

WIPO Management stated that with extra resources in place in the Madrid Operations Division in 2018, the volume of pending applications has decreased and four out of six transactions are within levels defined by the approved Program and Budget.

### **Recommendation no. 5**

We recommend that the Management, in addition to translating the Classification Guidelines in other languages, analyze the reasons for the errors in the applications and take mitigation measures.

### **Response**

WIPO Management stated that it has initiated a detailed analysis of irregularities, which are being analyzed per classes and per Contracting Parties, yielding important information for further actions.

### **Recommendation no. 6**

- (i) We recommend that the Management establish a well-defined Customer Service Strategy, Standards and best practices supported by an effective e-based quality feedback system, to cater to the needs of customers efficiently.
- (ii) We also recommend that the Management undertake regular Customer Surveys, as mentioned in CSC, for feedback to improve their services.

### **Response**

WIPO Management stated that Madrid Registry Customer Service Policy and Standards will be developed by the third quarter of 2018.

### **Recommendation no. 7**

- (i) We recommend that the Management use IT Tool to carry out QC/QA processes effectively and conduct the QC process at the stipulated periodicity.
- (ii) We also recommend that the Management adopt a policy for periodic review of Accepted Quality Levels.

### **Response**

WIPO Management stated that the project for the development of a computer program to support QC started in 2018. A business analyst was assigned to work on this project in close cooperation with Q&T. It is planned to make the relevant enhancements to the current IT system (MIRIS). Management also pointed out that the Quality Management Framework is maintained to achieve the defined quality objectives. Accepted Quality Levels are defined by the Director of the Registry in close cooperation with the Head of Q&T Section and revised on a yearly basis.

### **Recommendation no. 8**

We recommend that the Management formulate a long term strategy for human resource for the Madrid System in consultation with a view to working out an appropriate balance between permanent and flexible personnel resources.

### **Response**

WIPO Management accepted the recommendation.

### **Recommendation no. 9**

We recommend that the Management review the existing fees structure with a view to making the Madrid Union self-sustaining, after carefully weighing its impact on the accession of new members and on the usage of Madrid System.

### **Response**

WIPO Management accepted the Recommendation and stated that the review of the fee structure of the Madrid System is a topic for work in the mid-term as per the revised Road Map for the Working Group on the Legal Developments of the Madrid Union.

### **Recommendation no. 10**

We recommend that the Management perform a detailed analysis of the performance of MIRIS, including any possible failures in accountability, for the lessons learned, and also inform the General Assembly.

## **Response**

WIPO Management stated that a technical review of the existing MIRIS system, which is currently supporting all Madrid Registry operations, is planned as part of the upcoming Madrid Platform Project.

In its comments to the draft Audit Report of April 16, 2018, Management pointed out that, though the production issues occurring immediately after the roll-out of MIRIS—not unusual for the deployment stage of an IT project of that dimension—did have well-documented effects on the backlog of transactions, the system was stable and supported operational requirements before the end of 2016 and production is since at or above defined target levels. This view is corroborated by the fact that the MIRIS IT system is the current IT backend system for the Madrid Registry, which, in 2017, produced absolute record figures in terms of new applications and related transactions. Therefore, while the initial roll out of the MIRIS system resulted in temporary operational delays and a temporary increase in the backlog for transactions, MIRIS was stabilized by the end of 2016 and stocks of pending transactions were back to pre-MIRIS levels by November 2017.

A final report for the IT Modernization project was prepared on July 7, 2015 and presented as document MM/A/49/1 to the Member States as part of the 49th session of the Madrid Union Assembly held from 5 to 14 October, 2015. This document includes information on the outcome of the project as well as recommendations for future improvements, and was provided to the auditors. The Madrid Union Assembly formally took note of that final report, as recorded in document MM/A/49/5, paragraph 9. A closure report for the subsequent MIRIS Testing and Deployment project, which includes further lessons learnt during this separate project, has been finalized.

## **Recommendation no. 11**

While acknowledging the steps taken by the Management so far, we recommend that the WIPO complete the clean-up of AIMS database to ensure that they represent the actual details of the assets.

## **Response**

WIPO Management accepted the recommendation, while noting that: (i) a large number of anomalies and incorrect utilization of certain fields in the AIMS database related to historical data, as entered or downloaded in bulk several years ago, and (ii) that significant efforts had been made during 2016-17 biennium to clean up data in a phased manner and reconcile the relevant details. Management had indicated to the External Auditor during the audit period that the matter would remain work in progress until end 2018. In addition, it is noted that the correct fields were utilized in the database, and it was rather the process of downloading into Excel spreadsheets that produced some incorrect shifts in field names (therefore a problem of “conversion between systems”, rather than a problem of “incorrect database entries”).

## **Recommendation no. 12**

We recommend that the WIPO complete the tagging of the taggable assets that should be tagged as per Office Instruction, but not tagged so far, in a time bound manner.

## **Response**

WIPO Management accepted the recommendation, while noting that, for historical data, the inconsistencies and anomalies have been the subject of verification and correction over the last two years for a number of assets. The matter remained work in progress.

### **Recommendation no. 13**

We recommend the WIPO management complete, in a time-bound manner, the updating of the information in the database in respect of the remaining items qualifying as works of art.

#### **Response**

WIPO Management accepted the recommendation, while noting that the remaining number of items concerned was, at the time of the audit, 29 out of an overall total of over 500. As of the date of the present document, Management wishes to confirm that 26 of those 29 items – qualified as work of art – have since been fully updated in the database and that further analysis is required to determine whether, and if so, how, the remaining three items may be recorded in the database.

### **Recommendation no. 14**

(i) We recommend the WIPO management locate the missing work of art and update its database; if the missing work of art cannot be located, then an appropriate report may be made to the General Assembly.

#### **Response**

WIPO Management wishes to indicate that the work of art concerned was properly recorded in the database, with an updated status introduced in December 2017, to the effect that it had not been found during the physical verification carried out in October 2017. Management continues to “search” for any items declared “not found” (it is recalled that, as in past cases, an item may have been misplaced temporarily). Such matters are reported accordingly through the annual financial closure exercises.

### **Recommendation no. 14**

(ii) We also recommend that the Management carry out risk assessment and review the existing measures to assess whether additional security/protection measures are needed for works of art.

#### **Response**

WIPO Management accepted point (ii) of Recommendation 14.

### **Recommendation no. 15**

We recommend the WIPO Management:

(i) locate the missing items; and

(ii) review the recommendations of the physical verification report of the external agency and complete any pertinent follow-up action in a time-bound manner.

#### **Response**

WIPO Management accepted the recommendation.

**Recommendation no. 16**

We recommend that the WIPO formulate an appropriate plan for implementation of the remaining recommendations of the 2012 expert report for improved physical access to WIPO campus.

**Response**

WIPO Management accepted the recommendation.



## **Statement on Internal Control for 2017**

### **Scope of Responsibility**

As Director General of the World Intellectual Property Organization (WIPO), I am accountable, in accordance with the responsibility assigned to me, in particular, by Regulation 5.8 (d) of the Financial Regulations and Rules (FRRs), for maintaining a system of internal financial control that ensures:

- (i) the regularity of the receipt, custody and disposal of all funds and other financial resources of the Organization;
- (ii) the conformity of obligations and expenditures with appropriations or other financial provisions approved by the General Assembly or with the purposes and rules relating to specific trust funds;
- (iii) the effective, efficient and economic use of the resources of the Organization.

### **Purpose of the system of internal control**

The system of internal control is designed to reduce and manage rather than eliminate the risk of failure to achieve the Organization's aims, objectives and related policies. Therefore, it can only provide reasonable and not absolute assurance of effectiveness. It is based on an ongoing process designed to identify the principal risks, to evaluate the nature and extent of those risks, and to manage them efficiently, effectively and economically.

Internal control is a process, effected by the Governing Bodies, the Director General, senior management and other personnel, and designed to provide reasonable assurance on the achievement of the following internal control objectives:

- Effectiveness and efficiency of operations and safeguarding of assets;
- Reliability of financial reporting; and
- Compliance with applicable rules and regulations.

Thus, on an operational level, WIPO's internal control system is not solely a policy or procedure that is performed at certain points in time, but rather continually operated at all levels within the Organization through internal control processes to ensure the above objectives.

My current statement on WIPO's internal control processes, as described above, applies for the year ended December 31, 2017, and up to the date of the approval of the Organization's 2017 financial statements.

### **Risk management and control framework**

Risk management has been fully integrated into biennial as well as annual work planning, and the Organization's risk and internal controls management framework is fully embedded in its regulatory framework. Risks are clearly identified and articulated in the Program and Budget for every Program, and the biennial WIPO Performance Report presented to Member States includes a review of the evolution and impact of these risks on the delivery of Expected Results for every Program. Regular reporting is done with respect to critical program/organizational risks, the Organization's overall risk portfolio, as well as the global risk environment to WIPO's Risk Management Group (RMG), which is chaired by me.

Within the overall risk management framework of the Organization, WIPO also proactively manages its information security related risks through the successful maintenance of the ISO/IEC 27001 information security certification verified by independent certification bodies. The ISO 27001 certification currently covers all Global IP Systems, AMC, Hire-to-Retire and Procure-to-Pay Processes. Additionally, in order to manage risks posed by external service providers processing WIPO information, a Service Provider Security Policy has been implemented, where information risks from external service providers are continually assessed and managed from procurement through to termination of the service. WIPO also assesses information risks and controls of systems before they are moved to a production state, and manages residual risks when identified.

The RMG is responsible for keeping under review the effectiveness of the Organization's internal financial controls and internal controls, and for reviewing and approving the content of the present Statement concerning internal controls and risk management. As in the previous reporting period, a self-assessment and internal validation has been performed on the entity level controls. A self-assessment has also been performed on key process level controls identified on the basis of the requirements of the Financial as well as the Staff Regulations and Rules (FRRs and SRRs respectively). These processes contribute to underpinning and strengthening the assurance provided by key WIPO officers in signing their respective Management Representation Letters.

Ongoing review and appropriate follow-up to ensure that the regulatory framework of the Organization is fully up to date and addresses the needs of the Organization has resulted in revisions to the Organization's FRRs and SRRs as appropriate. A comprehensive review of WIPO's procurement policy and procedures was undertaken in 2017, which resulted in a strengthened delegation model for procurement authority as well as additional controls and reporting with regards to alternatives to the competitive process. Confidentiality of the vendor selection process has been strengthened; a Vendor Sanction policy was put in place, and the procurement process has been streamlined. Financial reporting has also been streamlined to minimize duplications and overlaps and enhance coherence, clarity and transparency without any loss or reduction of information or disclosure.

WIPO has in place organization-wide anti-fraud controls, in accordance with good practices and applicable international standards, based on risk assessments that also include fraud risks. Appropriate fraud prevention, detection, response and data collection procedures and processes exist in the Organization, reflecting WIPO's comprehensive anti-fraud governance framework. The reporting of alleged fraud is further facilitated by the Policy to Protect Against Retaliation for Reporting Misconduct and for Cooperating with Duly Authorized Audits of Investigations (latest version, September 2017). Under this Policy, staff and others who signal and/or report misconduct are protected against retaliation for doing so.

WIPO's new Policy on Financial Disclosure and Declaration of Interests was issued in November 2017, aimed at: (i) promoting transparency and accountability; (ii) enhancing internal and external public trust in the integrity of the Organization; and (iii) assisting the Organization to manage the risk of actual and perceived conflicts of interest through disclosure, mitigation and prevention.

Implementation of the new Policy on Investments, as approved by the Assemblies in 2015, began in 2016 and remains underway, although the majority of investments had been made by the end of 2017. This work has been reviewed and supervised by the Advisory Committee on Investments (ACI) during the year. Independent investment advisors have been appointed and assist the ACI with its work. WIPO's cash position remained sound throughout 2017.

## Review of effectiveness

My review of effectiveness of the system of internal controls is mainly informed by:

- My senior managers, in particular Deputy Directors General and Assistant Directors General who play important roles, and who are accountable for expected results, performance, their Division's activities and the resources entrusted to them. The information channels mainly rely on periodic meetings held by the Senior Management Team;
- The Management Representation Letters signed by key WIPO officers, from which I derive assurance. These letters recognize their responsibility for having and maintaining, in the programs, well-functioning systems and a mechanism for internal control aimed at presenting and/or detecting instances of fraud and major errors;
- The RMG, whose purpose is to promote a culture of responsible and effective financial and risk management in WIPO and approve its risk management strategy. The RMG reviews and monitors WIPO's financial situation and the key risks to the achievement of the Organization's expected results.
- The Chief Ethics Officer, who provides confidential advice and counsel to the Organization and its staff on ethics and standards of conduct or conflicts of interest, and promotes overall ethical awareness and responsible behavior. The Chief Ethics Officer is also responsible for the implementation of the policies on financial disclosure and declaration of interests, and on protection against retaliation for reporting misconduct and for cooperating with duly authorized audits of investigations;
- The Internal Oversight Division (IOD), on whose assurance and advisory services I rely, through reports of internal audit and evaluation as well as management implication reports resulting from investigations, which are also available to the Independent Advisory Oversight Committee (IAOC) and the External Auditor. These reports include independent and objective information on the efficiency and effectiveness of the Organization's system of internal controls and risk management processes, as well as program performance, and other related activities of oversight;
- The IAOC, which oversees audit performance by monitoring of timely, effective and appropriate responses from management with regard to audit recommendations and implementation of the same. As a result of such oversight the IAOC elucidates to Member States the implications of audit recommendations and observations, if any, and also highlights, where it considers necessary, particular matters. Finally, the IAOC keeps Member States informed of its work on a regular basis and reports annually to the Program and Budget Committee (PBC) and to the General Assembly;
- The Joint Inspection Unit (JIU) of the United Nations System;
- The External Auditor, whose Report, containing his/her opinion, observation and comments, is submitted to the PBC and the Assemblies; and
- The Governing Bodies' observations.

## Conclusion

Effective internal control, no matter how well designed, has inherent limitations – including the possibility of circumvention – and therefore can provide only reasonable assurance.

Furthermore, because of changes of conditions, the effectiveness of internal control may vary over time.

As Director General, I ensure that the “tone at the top” is a clear message that rigorous internal control is critical to the Organization and I am committed to addressing any weaknesses in internal controls noted during the year and to ensure that continuous improvement of the system of internal controls is in place.

Based on the above, I conclude that, to the best of my knowledge and information, there are no material weaknesses that would prevent the External Auditor from providing an unqualified opinion on the Organization’s financial statements, nor are there significant matters arising which would need to be raised in the present document for the year ending December 31, 2017.



Francis Gurry  
Director General

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