

## **Program and Budget Committee**

**Thirtieth Session**  
**Geneva, July 8 to 12, 2019**

### **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, 2018; and
  - (ii) Report of the External Auditor for the financial year 2018 to the 59<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 audit work undertaken during the year 2018/19.
2. Responses from the Secretariat of WIPO to the recommendations of the External Auditor will appear in WO/PBC/30/4 Add.
3. The following decision paragraph is proposed.
  4. *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/30/4).*

[Report by the External Auditor follows]



## **INDEPENDENT AUDITOR'S REPORT TO THE WORLD INTELLECTUAL PROPERTY ORGANIZATION GENERAL ASSEMBLY**

### **Opinion on financial statements**

I have audited the financial statements of the World Intellectual Property Organization for the year ended 31 December 2018, which comprise the Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets, Statement of Cash Flow, Statement of Comparison of Budget and Actual Amounts – revenue, Statement of Comparison of Budget and Actual Amounts – expenses for the year then ended, and the related notes.

In my opinion, the accompanying financial statements present fairly, in all material respects the financial position of the World Intellectual Property Organization as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

### **Opinion on regularity**

In my opinion, in all material respects, the revenue and expenses have been applied to the purposes intended by the General Assembly and the financial transactions conform to the Organization's Financial Rules and Regulations.

### **Basis for opinion(s)**

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the World Intellectual Property Organization in accordance with the ethical requirements that are relevant to my audit of the financial statements in the United Kingdom. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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

The Director General is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Organization'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 the Organization or to cease operations, or has no realistic alternative but to do so.

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

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

My responsibilities are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 the Organization's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Organization 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.

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

#### **Other Information**

Management is responsible for the other information. The other information comprises the Annual Financial Report and the Annexes. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

I have also issued a Long Form Audit Report in connection with my audit.

(signed) **Sir Amyas C E Morse**  
Comptroller and Auditor General  
National Audit Office  
London, United Kingdom.

30 May 2019

MAY 2019

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**World Intellectual Property Organization**

**External Auditor's Report on the 2018 WIPO  
Financial Statements**

The aim of the audit is to provide independent assurance to member states; to add value to the WIPO's financial management and governance; and to support your objectives through the external audit process.

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The Comptroller and Auditor General is the head of the National Audit Office (NAO), the United Kingdom's Supreme Audit Institution. The Comptroller and Auditor General and the NAO are independent of the United Kingdom Government and ensure the proper and efficient spending of public funds and accountability to the United Kingdom's Parliament. The NAO provides external audit services to a number of international organizations, working independently of its role as the Supreme Audit Institution of the United Kingdom.

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# Introduction

1 The World Intellectual Property Organization (WIPO) was established in 1970 by the 1967 WIPO Convention. The history of WIPO can be traced as far back as the 1883 Paris Convention for the Protection of Industrial Property. The purpose of WIPO is to lead the development of a balanced and effective international intellectual property system. As of May 2019, the Organization comprised 192 Member States and is financed primarily through fees charged for its services through its treaty unions, particularly the Patent Cooperation Treaty, Madrid and Hague Unions. WIPO also receives assessed and voluntary contributions.

2 The Comptroller and Auditor General of the United Kingdom (C&AG) was appointed as the external auditor of WIPO for a six-year mandate commencing 1 January 2018. The C&AG has audited the financial statements of WIPO for the financial year ended 31 December 2018, in accordance with Chapter 8 of the Financial Regulations and Rules of WIPO. The audit was conducted in conformity with International Standards on Auditing. Those standards require that the C&AG and his staff comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3 In addition to our opinions on WIPO's financial statements, this report presents the key findings and recommendations arising from our work, including our observations on financial management and governance. These areas were considered important to cover in the first year of our audit mandate. We have also followed up the progress made implementing our predecessor's recommendations (appendix one).

## Key observations

### Overall audit results

4 Our audit comprised the examination of the 2018 financial statements and the associated transactions and events for that year. It was conducted in accordance with International Standards on Auditing and the Financial Regulations. We provided an unqualified audit opinion, without modification, on the financial statements.

5 The quality of the financial statements presented for audit was high and, on key accounting judgements, management has been able to demonstrate its considerations of key issues and how they related to compliance with IPSAS requirements. For example, management undertook a detailed review of the various assumptions used by the actuary in determining the after-service health insurance liabilities and concluded that the assumptions used were appropriate for WIPO.



6 In our discussion with management we believe that there is scope to streamline the financial statements and to consider the format of the financial commentary. At present it is heavily detailed, and we believe that it would benefit from being more concise, focusing on the key material aspects relating to financial performance and financial health.

7 Our audit identified a small number of adjustments, indicating the quality of the close-down process. During our audit we have identified some areas for improvement by management and we will work with them to improve and enhance the audit process after our first year. The main area for improvement we observed was the need for a more comprehensive and systematic review of open items of working capital and a greater consideration of aged balances reported in the Statement of Financial Position.

### **Financial performance**

8 Overall WIPO returned a surplus for the financial period of CHF 42.5 million, which together with other movements resulted in an overall increase of net assets of some CHF 58.7 million. The surplus resulted from improvements in revenues from the Patent Cooperation Treaty and Madrid systems, together with savings on personnel costs. Although WIPO made a CHF 12.2 million loss on its investment activities during the period we confirmed these losses were consistent with wider market movements, and that these had been confirmed by the Advisory Committee on Investments. We identified some scope for more detailed reporting on investment performance to the Program and Budget Committee as a means of providing greater assurance, especially given the significant changes in the way investments are held to manage the risks of negative interest rates in Switzerland.

9 Overall WIPO enjoys a strong financial position and strong cashflows, supported by a steady pipeline of future revenue streams. It also has a clear plan to resource its future liabilities such as after-service health insurance, which is a prudent approach given the Organization cannot rely on Assessed Contributions from Member States to fund. Some CHF 125.8 million of the CHF 303.1 million liability is backed by earmarked resources.

### **Governance and assurance**

10 Member States need to rely on sound systems of governance to provide them with the comprehensive assurances they need to discharge their oversight responsibilities and be satisfied that the resources of the organisation are appropriately safeguarded. In the first year of a mandate we consider it essential to review these arrangements. Overall, we found that WIPO has taken a positive and proactive approach to developing sound governance mechanisms. In many respects WIPO is at the forefront of governance developments with the UN system. We look forward to reviewing the operational effectiveness of these arrangements as they mature in future years.

11 WIPO's Statement on Internal Control is a public accountability document that describes the effectiveness of its internal controls. WIPO has been proactive in looking at ways to better support the assertions which underpin the Statement. In our view, this is a positive and valuable exercise which improves the rigour and assurance that can be taken from it. While there are further planned improvements, the identification and evaluation of controls and their effectiveness are important areas to focus attention. These improved processes provide the Director General with greater assurance over the proper operation of controls. Management have incorporated our suggestions to give greater prominence to the Statement on Internal Control and to focus on an overall evaluation of the effectiveness of the controls operated in year. We believe that the evolving process is one which provides greater transparency and assurance to Member States.

12 WIPO's environment is one which requires careful management of operational risks, particularly in respect of its commercial activities and the risks to data and information security. As such WIPO needs effective and systematic risk processes. An effective process will enhance confidence in the level of assurance available to the Director General and Member States that risks are being appropriately managed and mitigated, giving greater visibility to these processes. From our initial review, we found that these issues are taken seriously by the Director General and staff at WIPO and we plan to return to this area more substantively later in our mandate.

13 Fraud is a key risk within the UN system, and one which creates significant reputational damage alongside the risk of financial loss. We have reviewed WIPO's approach to fraud detection and prevention and noted positive features, often lacking in the wider system. WIPO has recognised the need to undertake a comprehensive and systematic review of fraud risks, to identify areas of vulnerability and is in the process of ensuring controls are appropriately aligned to these risks. The proactive approach further demonstrates a mature understanding of the contribution robust internal controls make to the effectiveness of the Organization.

## **Results based management and Human Resources**

14 Results based management (RBM) is a key accountability mechanism used to demonstrate an Organization's goals and expected results, its achievements in practice and use of resources. As a key part of WIPO's accountability framework, we considered it appropriate to review the way this framework operated and was reported to Member States. We focused on one particular WIPO program, relating to Human Resources (Program 23), given the importance of Human Resources to service delivery and their significance as a cost significance to the Organization. We found that WIPO had a well-developed RBM framework which was comprehensive, and the Organisation reports its RBM outcomes in detail to Member States. It also undertakes validation work through the Internal Oversight Division to validate the reported performance, all of which represent good practice. While there are many positive attributes, our review has highlighted a number of areas where RBM could be further strengthened, and where there is scope to develop the underlying performance indicators.

15 We found that more could be done to ensure that indicators identified to measure WIPO program performance were supported by practical and relevant data systems, and that these should be tested prior to their adoption. In the biennium for 2016-17 some indicators were not reported as data collation was deemed problematic. As a result, a number of useful measures were dropped when creating indicators for the period 2018-19, and we consider that as a result the indicators used in this period were not as broad or as comprehensive. In some areas this has led, in our view, to indicators which fail to provide a strong evidence base for the expected result. Furthermore, we believe there is scope to review the criteria for defining the full achievement of an objective, in many instances this level is set at 80 per cent, which might be seen to present an overly positive view to Member States.

16 In reviewing the HR Program element of RBM we looked at the HR Strategy and considered the priorities of the strategy and how this was reflected in the RBM framework and indicators. The RBM framework and the important data used on the HR Balanced Scorecard, are not currently aligned. RBM indicators do not comprehensively measure progress in delivering all the key elements of the HR strategy. There is scope to align this reporting, and to track RBM results more closely through the year. In our view, if targets are of sufficient importance to report to Member States, they should be more regularly monitored as part of routine management oversight.

17 We have highlighted the value of current good practice in undertaking regular, annual or biannual, staff surveys as a means of assessing work place trends, staff morale and the quality of the delivery of HR support. In our experience such surveys provide useful data to inform HR policy and to evaluate performance, enabling trends and changes to be tracked over time. These surveys provide a strong evidence base to provide real data from users and staff to evaluate performance.

## Part One

### Financial Management

#### Overall audit results

1.1 The External Auditor has audited the financial statements of WIPO for the year ended 31 December 2018 which comprise the Statement of Financial Position, Statement of Financial Performance, Statement of Cash Flow, Statement of Changes in Net Assets, Statement of Comparison of Budgets and Actual Amounts and the related notes.

1.2 These financial statements have been presented in accordance with the International Public Sector Accounting Standards (IPSAS). In our opinion, the audited financial statements fairly present the financial position of WIPO as at

31 December 2018 and its financial performance and its cash flows for the year then ended under International Public Sector Accounting Standards (IPSAS).

1.3 The annual financial report prepared by WIPO and the commentary and analysis presented with the financial statements provides a comprehensive overview of the financial position. The quality of this analysis and the financial statements presented for audit was high. On key accounting judgements, management has been able to demonstrate its considerations of key issues and how they related to compliance with IPSAS requirements. For example, management undertook a detailed review of the various assumptions used by the actuary in determining the after-service health insurance liabilities and concluded that the assumptions used were appropriate.

1.4 Without detracting from the quality of the financial statements, we believe that there is scope to streamlining and to further consider the format of the financial commentary. At present it is heavily detailed, and we believe that it would benefit from being more concise, focusing on the key material aspects relating to financial performance and health. This would help readers better navigate and focus on the key elements of financial performance and improve engagement with the financial statements. We will work with management to explore how this presentation might be developed.

1.5 During our audit we have identified areas for improvement by management. The main area we observed was the need for a more comprehensive and systematic review of open items of working capital and a greater consideration of aged balances reported in the Statement of Financial Position.

**WIPO should:**

**R1. Review the current composition of the financial commentary and consider the scope to make more concise disclosures within the financial statements, while maintaining compliance with the financial reporting standards.**

**R2. Develop a more systematic approach to reviewing balance sheet control accounts to ensure that receivables and payables are regularly analysed, and corrective action taken where necessary for aged and/or irrecoverable items.**

**Financial position**

1.3 In 2018, WIPO recorded a surplus for the year of CHF 42.5 million (2017: CHF 18.6 million), in addition actuarial gains reduced the post-employment benefit liabilities by CHF 16.3 million. The combined effect was to increase net assets to CHF 261.4 million at December 2018 (2017: CHF 202.7 million).

1.4 Revenue in 2018 of CHF 430.6 million represents an increase of 5.2 per cent from the previous year (2017: CHF 409.1 million). The main reasons for this increase were increased fees from applications through the Patent Cooperation Treaty and Madrid systems of 8.4 per cent and 6.2 per cent respectively. WIPO's expenditure reduced by 4.8 per cent from CHF 394.8 million to CHF 375.8 million. Personnel expenditure was 8.0 million Swiss francs lower than in 2017, due to a combination of factors including

reduced expenditure on posts and temporary positions and lower expense in 2018 on the WIPO Rewards and Recognition Program. The increased revenues and reduced expenses contributed to the improvement of WIPO's overall financial position.

1.5 WIPO's investments have yielded a net investment loss of CHF 12.42 million, compared with a gain of CHF 4.3 million in the previous year. This is consistent with our understanding of the relevant markets during the period and was highlighted in the December 2018 meetings of the Advisory Committee on Investments. The Committee noted that while the investment performance was negative, it was consistent with the overall performance benchmarks and the negative returns were mostly attributed to rising interest rates, particularly in the United States and their impact on the fixed income and real estate asset classes of investments held by WIPO. Financial Regulations require that the Director General inform the Program and Budget Committee regularly on the investments made by the Organization.

1.6 WIPO informed us that at its 26<sup>th</sup> Session, the PBC agreed that the IAOC would review the monthly investment reports received from WIPO's external investment advisors and from the custodian. Two members of the IAOC review the monthly reports then report back to the IAOC at their quarterly meetings, confirming that there have been no breaches and that investments are being held/made in accordance with the Policy on Investments. At each of IAOC sessions, the committee meets with Member States to report on their session and includes investments in their reporting. At its 26<sup>th</sup> Session, the PBC's also agreed that a report on investments would be included in the biennial WIPO Performance Report. In our view there remains scope for more regular formal reporting of the investment activity by the Director General to inform the Program and Budget Committee, alongside the assurances provided by the IAOC.

1.7 Total assets increased from CHF 1,021.5 million to CHF 1,085.2 million. This is primarily due to an increase in WIPO's total cash and investments by 13.3 per cent from CHF 543.8 million to CHF 616.3 million. This was due to the combination of the surplus for the period, the sale of the investment property for CHF 7.0 million (as set out in Note 9 to the financial statements) and the increases in advanced receipts and current accounts held on behalf of third parties. The decision to divest of the investment property was driven by an assessment of the overall portfolio and that property was not core to the overall investment strategy. We were satisfied that there were no regularity issues associated with this decision. The composition of WIPO's assets has also significantly changed during this period, primarily through the decision to place funds that are not immediately required into both short-term and longer-term investments based on cash-flow requirement as set out in its policy on investments. WIPO's liabilities have increased slightly from CHF 818.8 million to CHF 823.8 million.

1.8 We use ratio analysis of an organisation's financial health on all our international audits to show how financial positions change over time (Figure 1). They express the relationship of one item of account against another. For example, there are CHF 0.6 of current assets for every CHF 1 of current liabilities. This might normally be a cause for concern, but this low level is mitigated by the significant pipeline of future work evidenced by the high value of advance receipts (CHF 300.0 million). This means it

would be unlikely for WIPO to require the liquidation of longer-term held investments. Should the need arise, longer-term investments could be liquidated, without penalty for cash-flow purposes.

Figure 1: WIPO Key financial ratio 2015-2018

Ratio	2018	2017	2016 <sup>4</sup>	2015
<b>Current ratio</b>				
Current assets:	0.60	0.68	1.29	1.19
Current liabilities				
<b>Total assets:</b>				
<b>Total liabilities</b>	1.32	1.25	1.17	1.40
Assets: Liabilities				
<b>Cash ratio</b>				
Cash and cash equivalents:	0.44	0.53	1.13	1.07
Current liabilities				

<sup>1</sup> A high current ratio indicates an entity's ability to pay off its short-term liabilities.

<sup>2</sup> A high asset to liability ratio is a good indicator of solvency.

<sup>3</sup> The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash and cash equivalents there are in current assets to cover current liabilities.

<sup>4</sup> Liabilities were restated in 2016 due to the adoption of IPSAS 39.

Source: Audited Financial Statements of WIPO

1.9 Overall, and as set out by the Director General in the Foreword to the 2018/19 Program Budget, WIPO is fortunate to enjoy a sound financial situation. The Organization has healthy reserves which are significantly backed by cash and investments. It has earmarked funds of some CHF125.8 million for its accumulated liabilities to provide after-service health insurance to former staff members which total CHF303.1 million. This is prudent given that WIPO cannot rely on the assurance of a regular flow of resources from Assessed Contributions to fund these future liabilities. WIPO also has a relatively modern and well-maintained estate and has set out a ten-year Capital Master Plan to foresee and to meet potential future capital liabilities of the Organization. We will look in more detail at projects under the Capital Master Plan later in our mandate.

## Part Two

### Governance and Assurance

2.1 Effective governance and internal control are an integral part of providing Member States with assurance over the use of resources. They are the mechanisms that Member States have established to discharge their oversight responsibilities. In the first year of our mandate we wanted to initially assess the effectiveness of these mechanisms and, where appropriate, we will return to them more substantively during our tenure. Our work has looked at:

- internal control and the statement on internal control
- risk management;
- fraud detection and prevention;
- Internal Oversight Division; and the
- Independent Advisory Oversight Committee.

#### **Internal control**

2.2 Under financial regulations the Director General is responsible for maintaining ‘*an internal financial control which shall provide for an effective current examination and/or review of financial transactions in order to ensure: (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 the 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*’. Consequently, the Director General has established systems of internal control and delegation which provide a framework of assurance for Member States to rely upon. In our financial audit we have identified some areas for improvement to these controls but overall, we found no significant control weaknesses which impacted on our audit opinion.

2.3 We have been pleased to note the active engagement of management in reviewing and considering the quality of the internal control framework. In our experience the work which WIPO is undertaking is at the forefront of the UN’s drive to enhance internal control, it also provides clear evidence to support the assertions within the Statement on Internal Control. Although some of these review processes are being established and further changes are anticipated to introduce more rigour to the assessments. Management has begun to detail the identification of its entity and

process level controls. These are the underlying processes used by management to both effect transactions and to monitor them.

2.4 Management has performed a maturity assessment of its 39 entity controls within a scale of one to five. Management have assessed the majority of these controls as achieving a level three – deployed and reliable. Process level controls operate within individual business processes. For the financial year ended 31 December 2018, WIPO assessed 333 business level controls across many departments and found 290 controls to be at a maturity level three or above. Future plans are to introduce greater validation checks and tests around the assessments undertaken, but our review of the support for a sample of these assessments found good levels of documentation to support the conclusions. We will continue to track these developments as the process evolves.

2.5 During 2018, WIPO engaged an external consultant to identify how the Organization may leverage data analytics opportunities offered by its ERP system, in particular through the automation of controls and through data analysis. Our own analytics over the purchase-to-pay process demonstrated that the controls generally operate as expected and, in our view, this is an area where WIPO could develop some powerful tools to continually monitor key business processes and identify unexpected results. We will further review developments and how WIPO integrates analytics into its control environment during future audits. It is however, a positive step in addressing the need to enhance oversight of the control environment.

**WIPO should:**

**R3: Develop a strategy to leverage the power of analytic tools to enhance and automate the monitoring of core business processes, integrating these into the control environment as evidence to support the Statement on Internal Control.**

## **The Statement on Internal Control**

2.6 The Statement on Internal Control is used to provide a transparent and accountable report of the control environment and risks faced by organisations. It should be a by-product of day-to-day processes and be informed by the essential components and interactions within a well-functioning governance and internal control framework. The effectiveness of internal controls described in the statement should be kept under constant review, informed by inputs from assurance providers and the results of management's compliance checks. The Statement is the one place where the results of these assurances are synthesised and used to form a view on the operation of control processes.

2.7 Within the United Nations System, Statements on Internal Control are beginning to be more widely adopted, and practices are variable. WIPO was an earlier adopter of a Statement on Internal Control, introducing its first in 2011. From our experience it is



one of the more mature Statements within the system. In our review we found positive features, for example:

- the statement is not just descriptive, it provides the reader with information on current initiatives to enhance the control environment, such as the fraud risk exercise undertaken in 2018; and
- the statement is underpinned by a detailed analysis of entity and process level controls, culminating in the management representation letters from WIPO Program Managers and certain alternates to the Director General.

2.8 There is scope to further enhance the statement and the underlying pyramid of assurance it is based on. Disclosure of the work of IOD and the assurance provided by them could be enhanced; we found limited reference to IOD observations and recommendations within the relevant representation letters. To address this in future years, IOD could provide a snapshot on the status of recommendations for each program. We also found the section on risk management could be enhanced to provide more information on WIPO's key organizational risks and the measures adopted to mitigate them. Developments in data analytics will provide an important source of evidence to assess the extent of control compliance and to inform the quality of the framework.

2.9 The Statement provides an important vehicle for communicating assurances over the control environment to Member States. It is the main vehicle for the Director General to articulate how he has controlled the resources of the Organization and satisfied himself on the operation of the controls over which he has responsibility. We have made a number of observations for improvement, these have included that the Statement as whole concludes on the effectiveness of the internal control environment, rather than as an attestation to the External Auditor that no material weaknesses exist that would prevent an unqualified opinion being formed on the financial statements. We believe that to focus the Statement on this outcome detracts from the valuable assurance it should provide directly to the Member States.

2.10 Given the importance of the Statement and its value as an accountability document, we considered that it should be included within the overall Report of the Director General, which accompanies the financial statements. We are pleased to note that management adopted our recommendation and have incorporated the SIC into the Annual Financial Report. This change has the additional benefit of then being incorporated in the assurance we provide in respect of other information in our audit opinion.

## **Risk management**

2.11 The purpose of a risk management process is to systematically identify, consider and mitigate risks that could adversely affect the organisation and the achievement of its objectives. A systematic process provides confidence in the management of risk, and a clear route for escalating those risks which need to be brought to the attention. A sound process can also drive more efficiency in the management of risk; aid the

appropriate allocation of resource to mitigate risk; and provide clear accountability and considered review.

2.12 The key features of risk management are that it should be systematic, built up through the organisation and be subject to regular challenge and scrutiny. Risk management should be a key focus for senior management attention and to support decision making and resource allocation. Internal controls should be appropriately aligned to mitigate risk. The management of risk is critical in WIPO's operations given the dependency on revenues generated from patent applications and the inherent risks in dealing with applications securely.

2.13 WIPO uses an off the shelf Enterprise Risk Management system to record risks that is integrated with the ERP Business Intelligence system. Each Program area has a sector risk coordinator who maintains the risk register containing the granular risks to that Program. Alongside the risk and its description are recorded the actions, or controls in place to mitigate it, the last time the risk was reviewed and the next review date. Where a control is identified, this corresponds to an appropriate process level control. Program risks are used to inform the Organization risk register which together with the risk description clearly articulates the impact, likelihood and severity of the risk.

2.14 At the time of our review of the organizational risks, there were 16 active risks spread across eight senior officials responsible for owning them. Risks related to IT security were considered as potentially having the most catastrophic impact on the Organization. During our review of the register, we noted the status of the various actions to mitigate the occurrence of these risks and we have seen detailed documented minutes of meetings which explored the quality of the mitigations. This demonstrated a quality consideration of risk mitigation, which is where the value of the risk management process becomes most evident.

### **WIPO's Accountability Framework**

2.15 We note that WIPO presented an update on its Accountability Framework to the 29<sup>th</sup> Program and Budget Committee at the time we were finalising this report in May 2019. WIPO's Framework brings together the various accountability elements under seven broad areas:

- Results Based Planning;
- Performance and Risk Management;
- Monitoring, Oversight, Complaints and Response Mechanisms;
- Control Activities;
- Information and Communication;
- Ethical Standards and Integrity; and
- Control Environment

2.16 Our report this year covers a number of these areas and we will revisit aspects of the accountability framework, taking account of the Decisions of the PBC as appropriate, throughout our mandate.

## **Fraud detection and prevention**

2.17 Member States and donors expect high standards of propriety from the international organisations they govern and fund. A strong commitment to fraud prevention and a zero tolerance of fraudulent activity are becoming important considerations when making partnering decisions. However, within international organisations fraud measures can be weak and instances of reported fraud are low. The UN Panel of External Auditors recently wrote to the UN Secretary General in his capacity of the Chair of the Chief Executive Board on the need to enhance fraud prevention and detection measures across the system.

2.18 In accordance with the International Standards on Auditing (ISA 240), our external audit of the financial statements is planned so that it has a reasonable expectation of identifying material misstatements and irregularity, including those resulting from fraud. The audit should not, however, be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

2.19 During the audit, we made enquiries of management and those charged with governance regarding oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to those risks, including any specific risks that management has identified or that have been brought to its attention. We also enquired whether management had knowledge of any actual, suspected or alleged fraud.

2.20 WIPO has established clear responsibilities and reporting lines in respect of investigations and there is a clear governance structure in place to ensure that fraud and other allegations are investigated appropriately. IOD also provides information to the Controller's office on investigation cases involving fraud and financial loss to support the preparation of the annual financial statements.

2.21 WIPO's Internal Oversight Division (IOD) reported that they had opened five new investigations during 2018 and closed six cases, including five from earlier years. Of the five new cases, two concerned abuse of work time and one related to procurement irregularities which may have financial consequences for the Organization (estimated at CHF18,000). This is a low level of reported fraud, consistent with the findings from other organisations audited by the UN Panel. However, we are pleased to note that WIPO is beginning a process to actively consider fraud risks, which may help to improve detection of fraud and give greater confidence in the levels reported.

2.22 Fraud detection and prevention needs to be informed by a clear understanding of fraud risks and where an organisation might be most vulnerable. This then enables management to design appropriate controls and monitoring to mitigate any identified

risks. In 2014, Internal Audit and Oversight Division (IAOD), with the assistance of a consulting firm, analysed and evaluated the fraud risks facing WIPO and developed a preliminary fraud risk register. However, this was not operationalised. In March 2018, a new anti-fraud roadmap was approved which outlined the ad hoc and developing maturity of the anti-fraud procedures at WIPO and identified the pathway the formalising and enhancing the maturity of the environment. Over the past year various initiatives have been actioned by management including performing a new fraud risk assessment, a revised anti-fraud policy and providing staff with guidance and training on fraud awareness, preventing fraud, bribery and corruption.

2.23 Given the recent developments in the anti-fraud area, we will perform a more detailed review of the fraud risk assessment and WIPO's responses to such risks at a later point in our mandate. We will also consider how WIPO evaluates the impact of its fraud awareness campaign and training. However, the approach towards fraud prevention and detection is encouraging and further demonstrates a mature and proactive approach to establishing robust internal control.

2.24 Another key finding of the UN Panel of External Auditors has been that the UN consistently fails to make good on its assertion of zero tolerance on fraud, by failing to make examples of perpetrators through the disciplinary route. A strong and unequivocal response to proven fraud is essential in reinforcing ethical values and sending a clear message to staff and external parties that such behaviour will not be tolerated. Sanctions should not be limited to internal disciplinary procedures but should also extend to using all available legal remedies to prosecute offenders and seek recovery of funds. Each year, the Director General reports on disciplinary measures applied through an Information Circular. We considered the disciplinary measures applied in WIPO during 2018 and found that two staff members were dismissed for abuse of work time and one of these staff members also submitted false claims for overtime. Taking such clear steps is a positive demonstration of the Organisation's low tolerance of impropriety, and the communication of this to staff reinforces these messages.

### **Internal Oversight Division**

2.25 Internal Oversight Division (IOD) has an important role in providing assurance over the operation and effectiveness of an organisation's internal controls. The Director General should obtain assurance from their reports and findings and the results can also help to direct our own audit work towards risk areas. IOD has appropriate independence and the Director of IOD, has a direct reporting line under its Charter to the WIPO General Assembly, through the Program and Budget Committee.

2.26 During our 2018 audit, we have met with IOD on a number of occasions and have reviewed all of their reports. IOD's oversight plan covers the calendar year, whereas its annual report to the Program and Budget Committee covers the period 1 July to 30 June each year and therefore while it provides an overview of the significant

issues and high priority recommendations made over the past 12 months, it does not provide for an overall opinion on whether cost-effective controls are in place; or compliance with WIPO's Financial Regulations and Rules, Staff Regulations and Rules, relevant General Assembly decisions, the applicable accounting standards, the Standards of Conduct for the International Civil Service, as well as good practice in line with its objectives under the IOD Charter. There may be scope to align the planning and reporting periods and for this to then provide an overall assurance which could further strengthen the assurances contained within the Statement on Internal Control.

2.27 In response IOD explained that providing an overall annual opinion on the elements stated above, would require a more extensive coverage of programs, which in turn would require significant increase in resources. Given WIPO's focus on its overall accountability framework, we consider there is scope to further explore the benefits of an annual assurance opinion from IOD.

**WIPO should:**

**R4: Consider aligning the IOD Planning and Reporting cycle to the financial period, allowing the outputs to feed into the SIC assurances.**

### **WIPO Independent Advisory Oversight Committee**

2.28 In 2005, WIPO's General Assembly approved the creation of an Audit Committee. It exists to serve the Director and WIPO's Member States in an independent expert advisory capacity. Through the Program and Budget Committee, the Independent Advisory Oversight Committee (IAOC) should advise on the operation of the Organization's financial controls, reporting structures, risk management processes, and other audit-related controls.

2.29 From the perspective of your independent external auditor, we believe the IAOC is a valuable part of the assurance available to Member States. It can serve as a focus for supporting the Director General in assessing all the assurances available, providing observations on their outputs and the quality and sufficiency of their work. We consider that an important role for any oversight committee is to provide independent and objective assurance to the Director General and Member States on the quality of financial reporting. This complements responsibilities in reviewing the effectiveness of accounting policies and the oversight of financial controls. We have supported this work by providing ISA compliant audit planning and completion reports and attended their meetings.

# Part Three

## Results-based management and Human Resources

### Background

3.1 Results-based management (RBM) is defined by the Joint Investigation Unit<sup>1</sup> as the management strategy in individual organizations of the United Nations system to manage the achievement of organizational results by integration of results into all aspects of management and, most significantly, by integrating evidence and lessons learned from past performance into management decision-making. RBM seeks to develop budgets based on the relationship between available funding levels and the expected results from the use of those funds.

3.2 WIPO's results-based reporting framework is a key part of the accountability processes within the Organisation and focuses on reporting the outcomes from the use of the resources provided to it. As a key accountability document, we considered that it was important in our first year to review and understand this framework and the methodologies which underpin it.

3.3 In our audit work we have combined a high-level assessment of WIPO's approach with more detailed consideration of results reporting for one program area, the HR Management and Development Program, one of the 31 Programs reported under the RBM framework. Our decision to focus on the HR Program reflects the crucial role and significance of Human Resources, since staff are the most important resource available to the Organisation and its most significant cost at some CHF 220.6 million, or 59 per cent of WIPO expenses.

### **A well-developed framework**

3.4 WIPO has a well-established results-based management framework in place, one that has developed over several biennia. The Medium-Term Strategic Plan (2016-21) describes nine strategic goals for the Organization. Strategic goals are set in the context of a two-year Program and Budget, with the current Program and Budget covering the 2018-19 biennium. Management are currently formulating the 2020-21 Program and Budget. Progress in developing and implementing the Program and Budget is overseen by the Organization's Program and Budget Committee. Through dialogue with Member States, changes in individual program resources and

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<sup>1</sup> JIU/NOTE/2017/1

targets do occur indicating the role of the Program and Budget in supporting accountability.

3.5 The Program and Budget lists the expected results against each strategic goal with key performance indicators intended to measure progress and achievement for each program. Programs also record planned activity and associated personnel and non-personnel budgets. Each program is made up of annual workplans. Individual staff performance objectives are generally aligned with workplans. The Director General reviews workplans and undertakes a mid-year review of their implementation status. Annual reporting to Member States is in the consolidated performance report.

3.6 WIPO's Internal Oversight Division (IOD) validates a sample of 31 key performance indicators – one from each program – to assess the adequacy of data systems underpinning these indicators. Internal assurance on the results of RBM is often lacking in RBM processes, so this validation process is a useful way to provide confidence in the results reported. In its 2018 review of the 2016-17 Program and Budget, IOD concluded that most performance indicators were:

- supported by relevant performance data (90 per cent of cases);
- were efficiently collected and accessible (84 per cent of cases); and
- were accurate and verifiable (81 per cent of cases).

#### **Scope for further improvement**

3.7 The Organization recognises that there remains scope to improve how it uses performance information to measure its progress in achieving expected results. In the HR program (Program 23), four out of 12 indicators in WIPO's most recent Performance Report, published July 2018, were not assessed because data systems were not in place or targets not specified, reducing accountability. Consequently, targets were removed from the 2018-19 program budget, such as staff satisfaction with HR services and the measure of timely, accurate, and efficient HR operations. Such "customer" orientated targets are important, and we return to this later in the report.

3.8 WIPO uses five criteria to rate the achievement against performance:

- Fully achieved is applied when achievement of the target is greater than or equal to 80 per cent;
- Partially achieved is applied when achievement of the target is between 50 per cent and 79 per cent;
- Not achieved is applied when achievement of the target is less than 50 per cent;
- Not assessable is applied when assessment of the performance is not feasible due to a target not having been adequately defined; when a baseline is not available; or when the performance data is insufficient to determine the PIE, and;

- Discontinued is applied when a performance indicator is no longer used to measure the performance of the Program.

The measure for 'fully achieved' used by WIPO to report its performance to Member States classifies performance of 80 per cent of a target value as "fully achieved". While this approach is set out in reporting methodology, it nevertheless risks presenting an overly positive assessment of performance to Member States.

3.9 While WIPO's RBM framework supports formal accountability to Member States for the use of resources, there is scope to use the results of the framework to inform management decision making. We found that the indicators used as part of the formal Program and Budget and WIPO's internal reporting through the HR balanced scorecard were not aligned. For example, indicators measuring recruitment and efficiency of internal justice processing reported in the Program and Budget were not reported in the HR balanced scorecard. Data on sickness absence is reported in the HR balanced scorecard but is not reported in the Program and Budget. To the extent that the Program and Budget and its workplans are intended to direct HR activity, a closer alignment with internal monitoring and reporting tools like the HR balanced scorecard would be beneficial. In our view, if targets are of sufficient importance to report to Member States, they should be regularly monitored as part of routine management oversight.

3.10 Furthermore, a 2018 survey of key staff by Internal Oversight Division found that a third of respondents did not believe that RBM monitoring systems and tools were regularly used for management purposes.

**WIPO should:**

**R5: Review the scope to align the RBM and internal reporting framework, to ensure that internal reporting incorporates those indicators used for the RBM process. Align internal monitoring with the performance priorities and indicators identified in the Program and Budget and systematically record progress in implementing the work plans.**

**R6: Ensure that the key performance indicators for each program contain an appropriate balance of measures to align activities to the strategic goals.**

**R7: Consider the practicalities of the data systems which will be used to evidence performance at the design stage of indicators, to ensure that they will be capable of robustly collating and measuring key performance indicators at the outset of the 2020-21 Program and Budget.**

**R8: Reserve the category of "fully achieved" for future reporting of performance to Member States where achievement is, at least, 100 per cent of target values.**



## Reporting and using performance information in HR management

3.11 As part of our methodology for reviewing the operation of RBM we considered the performance information used by Human Resources in both reporting on the expected results as set out in the 2018-19 Program and Budget and delivering on the priority themes in WIPO's HR Strategy. The expected results that HR contribute to, and the associated HR performance indicators, are set out in Figure 2.

**Figure 2: Program 23: expected results and performance indicators**

Expected result	Performance indicator	Baseline	Targets
IX.1 Effective, efficient, quality and customer-oriented support services both to internal clients and to external stakeholders	Collective medical insurance protection rate	87.8% (2016)	Maintain
	Enhanced and new automated processes in the HR operations service.	8 out of 18 (44%) (cumulative end of 2016)	18 (cumulative)
IX.2 An agile and smooth functioning Secretariat with a well-managed and appropriately skilled workforce which is delivering results.	Geographical diversity: % of staff per region	Africa: 11.3% Asia & the Pacific: 17.3% Latin America & the Caribbean: 8.0% Middle East: 1.3% North America: 8.4% Western Europe: 45.9% (as at December 2016)	Agreement among Member States on WIPO's policy on geographical distribution.
	Gender balance: % of women from P4 to D2 levels	P4 – 45.6% P5 – 35.6% D1 – 30.0% D2 – 16.7%	P4 – 48% P5 – 40% D1 – 35% D2 – 20%
	Recruitment lead time	18.81 weeks (15 competitions from 2016 still ongoing as at March 2017)	19 weeks
	Enhanced maturity of HR Planning	Stage 2 (end 2015)	Stage 3.5
	Increase in applications from unrepresented Member States and countries in under-represented regions	TBD	TBD

Expected result	Performance indicator	Baseline	Targets
	% of staff whose performance is evaluated against their individual objectives and competencies	2016: 92.7% (as at April 30 in every following year)	95%
	% of (a) current staff and (b) new staff who have completed the mandatory training programs	(a) 68% (b) 54% (end 2016)	(a) 80% (b) 80% (biennium)
	No. of days to: (i) notify staff of decisions on grievances (ii) notify staff of decisions on rebuttals (iii) provide responses to requests for advice	(i) 60days from receipt of response to grievance (ii) 30 days from receipt of response to rebuttal (iii) out of 450 requests for advice received in 2016, a response was provided within 1day in 89.3% of cases, within 2 to 4 days in 9.3% of cases and within 5 working days or more in 1.3% of the cases. (2016)	(i) 60days from receipt of response to grievance (ii) 30 days from receipt of response to rebuttal (iii) 5 working days from receipt of request for advice

Source: WIPO Program Budget 2018/19 (program 23: Human Resources Management and Development)

3.12 While important to measure the various indicators set out in the program budget for HR, they do not correlate fully to the expected results. For example, against expected result IX.1 the medical insurance protection rate indicator is not an appropriate measure of *Effective, efficient, quality and customer-oriented support services*. Similarly, the other measure used, of automated processes, does not provide a clear measure of the delivery of effective and efficient processes. The indicator which measured 'customer' satisfaction included in the previous program budget was omitted from the 2018-19 measures, as data systems were not in place to regularly measure it. In our view an annual staff survey could have measured and provided a more meaningful and comprehensive evidence base.

3.13 We also considered expected result IX.2, *An agile and smooth functioning Secretariat with a well-managed and appropriately skilled workforce*. While the measures highlighted are important, we believe there is scope to broaden the range of indicators to provide a more rounded assessment against the expected result. We understand the adequacy of the indicators in addressing the expected results will feature in future IOD work programs.

3.14 As a result of these observations we reviewed the priority themes from WIPO's HR Strategy, the reporting against these themes and the data systems in place to measure performance against the Strategy. We believe this Strategy should inform the formal reporting of expected results to Member States.

3.15 WIPO's HR Strategy (2017-2021) has four priorities to:

- Support a sustainable future for WIPO in a fast-changing environment.
- Achieve a diverse and inclusive workforce.
- Be an employer of choice through best talent management practices.
- Provide customer-orientated processes and communication.

#### **Priority 1 - Supporting a sustainable future**

3.16 The HR strategy describes an objective to review talent needs and to address skills gaps in the workforce. While proposals for a system of strategic workforce planning were being considered, an inventory of workforce skills had yet to be fully developed. The Organization's HR strategy includes within this priority a specific objective to align linguistic skills with geographical patterns of demand for Intellectual Property (IP) systems. Our discussions with HR officials also describe the challenge of Artificial Intelligence (AI) and the need to acquire skills capable of commissioning and implementing these technologies.

3.17 The 2018-19 Program and Budget states that 42 per cent of patent filings were in Chinese, Japanese and Korean in 2016 whereas management information indicated that just 14 per cent of translators in the Patents and Technology Sector had capability in these languages in 2018. Despite its strategic significance, there was no specific performance indicator recording progress in diversifying language skills across the WIPO workforce in the HR program, nor within the PCT program. Similarly, there were no indicators monitoring progress in acquiring the skills capable of commissioning and maintaining emerging technologies such as AI within HR or Information and Communication Technology. WIPO has recognised the gaps in relation to language and skills requirements in its pilot workforce planning process. HRMD informed us that it is working with an external consultant to develop an HR analytics framework that will enable descriptive, predictive and prescriptive data analysis; which should facilitate strategic workforce planning.

3.18 Effective recruitment practices are an essential part of workforce planning. The HR program monitors the time it takes to recruit personnel. **A 'recruitment lead time' target of 19 weeks is specified but it was not immediately clear how this was defined. Our review of past Program and Budgets indicates that this target time had not changed for at least the last three biennia despite actual performance of less than 19 weeks in recent years. WIPO has recently** reduced the target to 18 weeks and the calculation will be measured from the time of advertisement to appointment decisions being finalised. This revised methodology will be introduced when the 2018 WPR is finalised.

3.19 There is scope to consider whether repeatedly achieved targets are sufficiently challenging or relevant as a measure. More generally, recruitment processing is a

measure of efficiency which says little about whether the HR function is securing the right skills in the right business areas. HR are currently reviewing the reporting options in the recruitment system introduced in 2016 to assess the efficiency of the current recruitment process and what could be improved. WIPO informed us that this, together with the HR analytics framework, will enable improved workforce planning to secure the necessary skills in the business areas which need them.

**WIPO should review its HR Program for the 2020-21 Program and Budget to:**

**R9: Assess the extent to which existing performance indicators adequately measure progress in addressing the four priorities set out in the 2017-21 HR Strategy, with a view to developing new or replacement indicators where significant gaps or a disproportionate emphasis exist.**

**R10: Ensure that (a) the portfolio of performance indicators in the Program and Budget are capable of ‘stand-alone’ interpretation by Member States; and (b) that baselines and targets provide real indications of progress between biennia.**

**Priority 2 - Achieving a diverse and inclusive workforce**

3.20 The Organization’s HR strategy aims to address gender inequality in the workforce. This follows an earlier commitment and plan, referred to in WIPO’s 2013 HR Annual Report, to achieve gender parity in all grade levels by 2020. To that end, the 2018-19 Program and Budget includes a performance indicator on gender balance at more senior grades. The 2018 HR Annual Report also benchmarks WIPO’s performance against other UN organisations, using UN-sponsored gender equality frameworks.

3.21 Some 40 per cent of posts at grade P4 to D2 were occupied by women in 2018, most (60 per cent) in P4 positions. Notwithstanding a strong measurement regime and despite a 10 per cent increase in the total number of posts at these grades between 2015 and 2018, actual progress in implementing gender parity in senior positions over this period was slow. We understand that an updated Gender Parity Action Plan was approved by the Director General at the end of 2018 following agreement of updated gender targets by Member States in October 2017.

3.22 The Organization’s HR Strategy also refers to ongoing work to improve geographical balance in the workforce. The 2018-19 Program and Budget intends to measure the volume of job applications from unrepresented Member States and under-represented regions. However, no target performance is specified because Member States have not reached a consensus on what the geographical balance should be. WIPO workforce data from 2018 shows that nearly 45 per cent of staff in post are from Western Europe compared with 19 per cent from Asia and the Pacific. A reported recent increase in applications from unrepresented states has not yet resulted in a more geographically diverse workforce: the number of *unrepresented* states *increased* slightly from 69 to 74 between 2014 and 2018. There is a risk that a lack of firm direction by Member States weakens the resolve of management to address these geographical imbalances.

**WIPO should:**

**R11: Monitor implementation of actions from its 2018 Gender Parity Action Plan and reports on their progress (and early indications of impact) in future HR Reports.**

**R12: Work with Member States to resolve the lack of clarity around geographical representation of the workforce.**

### **Priority 3 - Effective talent management**

3.23 Another of HR's Strategic Priorities is promoting learning and development which meets business needs in areas such as IT, business data and analysis, communication and quality assurance. **There is overlap with this goal with the first priority (supporting a sustainable future for the organization).** The 2018-19 Program and Budget has two performance indicators which measure WIPO's progress on this objective, albeit we consider that the measures don't fully address the objective:

- **Percentage of staff completing mandatory training (security, induction, ethics and conflict resolution):** A key performance indicator measuring mandatory training take-up does not adequately capture progress in addressing WIPO's talent management objectives and training needs. The baseline performance and the target for this indicator is well below 100 per cent despite the mandatory requirement for this training and is an example of how the success measure of 80 per cent may fail to reflect the real expectation. WIPO noted that this **target will be increased to 100 per cent during the submission of the 2020/21 Program and Budget.**
- **Percentage of staff whose performance is evaluated against individual objectives and competences:** Despite strong compliance with the requirement to receive a written annual appraisal of performance (98 per cent completion) and guidance to support line managers, it is not clear that current arrangements give a consistent basis for either identifying the very best performers or managing underperformance. WIPO's data shows that for 2017, 21 per cent of personnel achieved the highest 'outstanding' ratings (an increase from 14 per cent in 2012). Just two people received either an 'improvement in performance needed' or 'unsatisfactory performance' score. A performance system which utilises the full range of performance assessment gradings will provide greater support to management, enabling the identification of staff who can be further developed to meet more challenging or changed roles and to support more focused development training.

3.24 More generally, the annual HR report to the Coordination Committee shows the average number of training days received by staff and the broad categories of training provided. In its 2018 report, WIPO recorded a fall in training days from 5.2 to 4.8

between 2016 and 2017. WIPO informed us that this related to a tightening of the eligibility criteria for some provision and a reduction in training courses on WIPO's registration systems, as users had become more proficient in their use. Spending on training in 2018 was seven per cent lower in cash terms than in 2015.

3.25 A recent evaluation report found that WIPO's structure and resources for career development were insufficient to meet future organizational needs. Implementation of a new enterprise learning management ERP module in late 2018 and investment in other workforce analytic tools should improve information on training needs and consumption. In addition, **the** learning and development policy is currently being revised. However, there is scope for a more general review of learning and development across the Organization and for performance indicators to measure the progress and impact of changes implemented following that review. WIPO consider that the impact of these changes would best be measured through a regular staff engagement survey.

3.26 A further component of talent management policies are interventions targeting staff wellbeing. Program 23 in the 2018-19 Program and Budget does not directly measure this aspect of talent management. WIPO's annual HR report records resignation trends (and other separations) and includes a measure of staff productivity both of which provide partial insights on wellbeing. There were just four resignations in 2017 and WIPO's productivity measures indicate an improving picture over time. Other measures of staff wellbeing appear less positive:

- while the overall participation rate was low, of those responding to a WIPO Health and Performance Survey (2018) some 48 per cent reported being at risk of psychological distress. Qualitative feedback from the same source referred to "frequent reference to a culture of fear, discrimination and inequality.". The Organization has said it is developing a response which includes developing a global well-being strategy. The well-being strategy will include a return to work policy and a case management policy for long-term sick leave.
- Evaluation findings from 2018 refer to recurring feedback on the need for improved transparency and accessibility around career development support.
- while again the overall participation rate was low, the WIPO respondents to a 2018 UN-sponsored survey indicated an above average proportion of staff who felt they had experienced or witnessed behaviour that might qualify as sexual harassment in the workplace while working in the UN system. The Director General responded to the survey results by reminding staff of the Organization's zero tolerance of sexual or other forms of harassment. WIPO also responded by initiating an organization-wide campaign on a "Respectful and Harmonious Workplace" to raise the awareness of all WIPO personnel on appropriate behaviour and to ensure that everyone is aware of advice and assistance should any cases of inappropriate behaviour arise.
- As part of the training and awareness-raising component of the campaign, a new mandatory online training on "Working together harmoniously" was launched in

May 2019 and in-person training sessions will also be held. In parallel, the Organization's legal and policy framework will be reviewed to make the necessary adjustments. WIPO's HR balanced scorecard reports staff taking an average of 16.9 days a year in sickness absence in 2018. While this contradicted business intelligence statistics which indicated the average was 10.2 days, in both cases the number of sickness days taken across the Organization was approaching 13,000 for 2018. In our experience, these are high rates of sickness absence. We are aware that management sought early in 2019 to develop arrangements to govern and manage sick absences, but that these have been withdrawn pending further consultation.

**WIPO should:**

**R13: Consider reviewing the effectiveness of its training offer, to ensure it meets current business needs and the talent management strategic priorities;**

**R14: Ensure it utilises the full range of performance assessment markings, as a means of targeting training and identifying underperformance; and**

**R15: Consider ways in which the level of average staff absence can be reduced, and to introduce good practice techniques which require greater accountability for taking sickness absence, including consideration of return to work interviews.**

**Priority 4 - Efficient customer-orientated processes and communication**

3.27 We commented earlier on the potential to further develop the RBM measures in this area. Program 23 of WIPO's 2018-19 Program and Budget records three performance indicators which address this more transactional objective: medical insurance take-up, internal justice processing and further automation of HR transactions. WIPO does not conduct a regular and general survey of its personnel which would allow for a robust assessment of the HR Management Department's support to WIPO teams. These annual surveys are regarded in many public and private sector entities as providing valuable data to inform decision making. A survey of this kind would provide further insights into underlying staff wellbeing concerns. A regular survey would provide a clear baseline against which future performance could be assessed and provide valuable data on staff morale.

**WIPO should:**

**R16: Undertake an annual staff survey to ascertain the baseline for measuring staff perceptions around the wide range of HR issues which underpin the strategic aims and to measure the effectiveness of HR policy and implementation. The survey could assess themes such as motivation, development, well-being, workplace harassment, management and transparency and to measure the staff perceptions of the support provided by enabling functions like HR.**

## Part Four

### Other matters for the Governing Bodies

4.1 The Director General reported that no ex-gratia payments were made during 2018.

4.2 During the year WIPO paid all qualifying staff members an “Organizational Performance Reward” grant of CHF 2,000 under the Rewards and Recognition program. The total awards accrued in the 2017 financial statements were circa CHF2.5 million which was within the limits recommended by the International Civil Service Commission. While the category of an Organizational Performance Reward was not explicit in the extant office instruction in 2017, it has been introduced in the revisions made to the office instruction on the WIPO Rewards and Recognition program in April 2018. WIPO’s legal office confirmed that the Director General had the authority to make such an award, and this is consistent with our understanding of the ICSC guidelines.

4.3 In part two of this report, we comment on the investigations that we were informed of during our work. We identified no other instances of fraud in our audit, and no cases have come to our attention through our testing.

### Prior Year Recommendations

4.4 As at 30 April 2019, of the 19 recommendations outstanding for 2017 and previous years, we consider that 12 recommendations were implemented during the year, and 7 recommendations remained under implementation. Many of those recommendations classified as not implemented were not yet due to be completed. As such we are satisfied that management are making appropriate progress in respect of the implementation of prior year recommendations. **Appendix One** contains a detailed commentary on the status of previous recommendations.



## Acknowledgments

4.5 We would like to thank the Director General and his staff for their co-operation in facilitating our audit engagement and to thank Member States for their confidence in us by appointing us to the role of External Auditor. We would also like to thank our predecessors, the Office of the Comptroller and Auditor General of India for their co-operation in facilitating a handover in accordance with the UN Panel of External Auditors protocol and that expected under International Standards on Auditing.

**Sir Amyas Morse**

**Comptroller and Auditor General, United Kingdom - External Auditor**

**30 May 2019**

# Appendix One

## Follow-up of prior year recommendations

Previous reference	Summary of recommendation	Administration's comments on status: April 2019	External Auditor's view	Status
2014	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	WIPO continues to monitor the IPSASB project on heritage assets. The IPSASB reopened discussions on the project during its meeting in Washington from March 12-15, 2019. The IPSASB considered the background to the project and the issues that had been raised by respondents to the 2017 Consultation Paper, Financial Reporting for Heritage. The project will focus on recognition, with measurement issues being considered in the complementary project on measurement. The expected approach will be to develop application guidance on the recognition of heritage assets, to be included in IPSAS 17, Property, Plant and Equipment. Discussions on the project will continue during the next IPSASB meeting in June 2019.	In the absence of specific IPSAS guidance on heritage assets, WIPO should consider disclosing the nature, type and quantity of heritage assets owned to enhance the information available to members on such assets,	Under implementation.
2015	Consider formulating and implementing an appropriate treasury and Cash Management policy including borrowings to	In the ACI meeting held on October 11, 2018, the ACI recommended the OLC to review the Counterparty Risk Management and External Borrowing Policy prior to implementation. OLC's review has been completed and the feedback provided are incorporated to the policies.	We note the response and will consider the appropriateness of policies where	Closed.

Previous reference	Summary of recommendation	Administration's comments on status: April 2019	External Auditor's view	Status
	improve the financial management	The full suite of treasury policies are effective as at December 1, 2018. This recommendation is now considered as fully implemented.	appropriate during future audits.	
2015	The useful lives of assets need to be reassessed to reflect fair presentation and to achieve a reasonable estimate of useful lives of assets.	Changes to useful lives of equipment have been implemented in AIMS during Q1 2019, with an effective date from the start of the year.	We note the response and will review the impact of these changes during our 2019 audit.	Closed.
2017 (WO/PBC/28/4) R#1	The sale of the Madrid Union Building be placed before the General Assembly in the next series of meetings	<p>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 28th Session of the Program and Budget Committee, which will make appropriate recommendations to the Assemblies of Member States of WIPO, including the General Assembly.</p> <p>WIPO Management notes that there remains a difference between the interpretation of the Financial Regulations and Rules by the External Audit Team (Office of the Comptroller and Auditor General of India) and by WIPO</p>	We note the detailed response by the Administration and content that the sale of the property has been fairly reflected in the financial statements, is in accordance with the financial rules, and has been reported to Member States.	Closed.

Previous reference	Summary of recommendation	Administration's comments on status: April 2019	External Auditor's view	Status
		<p>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.</p> <p>As an investment property, management of the Madrid Union Building is governed by</p> <p>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.</p>		
2017 (WO/PBC/28/4) R#2	WIPO expedite the closures of the Geneva Lake Water, AB buildings replacement and Safety and Fire Protection	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	These projects have been closed and the residual balances	Closed.

Previous reference	Summary of recommendation	Administration's comments on status: April 2019	External Auditor's view	Status
	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.	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.	transferred to accumulated reserves as set out in Note 23 to the financial statements.	
2017 (WO/PBC/28/4) R#3	Formulate a targeted strategy for accession of countries based on regional focus.	WIPO Management accepted the recommendation. Strategy reflected in Madrid Strategic Plan.	We note the response and consider the recommendation implemented.	Closed.
2017 (WO/PBC/28/4) R#4	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.	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. The Madrid Strategic Plan foresees new pendency targets for all transactions by 2020.	We note the reduced backlog. We will return to review the operation of Madrid later in our mandate.	Closed.
2017 (WO/PBC/28/4) R#5	In addition to translating the Classification Guidelines in other languages, analyse the reasons for the errors in	WIPO Management stated that it has initiated a detailed analysis of irregularities, which are being analysed per classes and per Contracting Parties, yielding important information for further actions.	Action ongoing by management.	Under implementation.

Previous reference	Summary of recommendation	Administration's comments on status: April 2019	External Auditor's view	Status
	the applications and take mitigation measures.			
2017 (WO/PBC/28/4) R#6	<p>i) 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.</p> <p>ii) Undertake regular Customer Surveys, as mentioned in CSC, for feedback to improve their services.</p>	<p>WIPO Management stated that:</p> <p>i) Madrid Registry Customer Service Policy and Standards will be developed by the third quarter of 2018.</p> <p>ii) The planning established within the WIPO Customer Feedback Steering Committee foresees that the next survey would be conducted during the second half of 2019</p>	Action ongoing by management.	Under implementation.
2017 (WO/PBC/28/4) R#7	<p>i) Use IT Tool to carry out QC/QA processes effectively and conduct the QC process at the stipulated periodicity.</p> <p>ii) Adopt a policy for periodic review of Accepted Quality Levels.</p>	<p>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&amp;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&amp;T Section and revised on a yearly basis. To be planned as part of the new Madrid IT Platform.</p>	We will further review when the new Madrid IT Platform is deployed.	Under implementation.
2017 (WO/PBC/28/4) R#8	Formulate a long-term strategy for human resource for the Madrid System in consultation	WIPO Management accepted the recommendation. First draft to be finished in June 2019.	We note management's response.	Under implementation.

Previous reference	Summary of recommendation	Administration's comments on status: April 2019	External Auditor's view	Status
	with a view to working out an appropriate balance between permanent and flexible personnel resources.			
2017 (WO/PBC/28/4) R#9	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.	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. Part of the Road Map for the Madrid Working Group.	We note management's response.	Under implementation.
2017 (WO/PBC/28/4) R#10	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.	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	We note management's response and will review the new Madrid IT Platform when it is deployed.	Closed.

Previous reference	Summary of recommendation	Administration's comments on status: April 2019	External Auditor's view	Status
		<p>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.</p> <p>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.</p> <p>Lessons learnt are incorporated in planning for new Madrid IT Platform</p>		
2017 (WO/PBC/28/4) R#11	Complete the clean-up of AIMS database to ensure that they represent the actual details of the assets.	<p>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</p>	We note the work completed by management and the detailed response.	Closed.



Previous reference	Summary of recommendation	Administration's comments on status: April 2019	External Auditor's view	Status
		<p>systems", rather than a problem of "incorrect database entries").</p> <p>The action plan included: (i) an extensive review of entries which seemed to contain anomalies, one-by-one, in a manual manner (no automation was possible), (ii) a physical verification with one responsible person in the main units concerned, and (iii) the involvement as from end 2018 of the Property Management Focal Points (PMFP) designated for each program unit.</p> <p>The work relating to the situation as at December 2017 (time reference for the 2018 LFR) has been completed at about 97% reliability, the maximum that can be reasonably expected without incurring out-of-proportion cost of resources.</p> <p>It is noted that there is a never-ending and rolling from year to year small percentage of items for which the risk of anomalies in data entry cannot be excluded, in view of the mere nature of the matter and the extent of various manual data entry and other interventions.</p> <p>Finally, the anomalies discovered in the process of downloading from AIMS into Excel have been corrected in Q1 2019.</p>		
2017 (WO/PBC/28/4) R#12	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.	<p>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.</p> <p>The action plan included: (i) an extensive review of entries which did not show a bar code number, (ii) a</p>	We note management's response.	Closed.

Previous reference	Summary of recommendation	Administration's comments on status: April 2019	External Auditor's view	Status
		<p>physical verification item by item in a manual manner (no automation was possible) with one responsible person in the main units concerned, and (iii) the involvement as from end 2018 of the Property Management Focal Points (PMFP) designated for each program unit.</p> <p>The work relating to the situation as at December 2017 (time reference for the 2018 LFR) has been completed at about 97% reliability, the maximum that can be reasonably expected without incurring out-of-proportion cost of resources.</p> <p>It is noted that there is a never-ending and rolling from year to year small percentage of items for which the risk of some delay (estimated at more than one month) in affixing bar code labels cannot be excluded, in view of the mere nature of the matter and the various separate interventions at various stages.</p>		
2017 (WO/PBC/28/4) R#13	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.	<p>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.</p> <p>ACTION PLAN only for three items for which qualification as works of art requires further analysis: Wait for conclusions to be reached in the context of the IPSASB so as to benefit from the shared views in respect of categories of heritage assets with certain characteristics</p>	We note the progress made and refer management to our comments related to heritage assets above.	Closed.

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		(e.g., due to the fact that they are affixed to the building infrastructure).		
2017 (WO/PBC/28/4) R#14	<p>i) 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.</p> <p>ii) Carry out risk assessment and review the existing measures to assess whether additional security/protection measures are needed for works of art.</p>	<p>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.</p> <p>WIPO Management accepted point (ii) and informed us that it is under implementation already, and appropriate measures will be taken as per the review once complete. The review is expected to be completed before the end of the year.</p>	We note management's response.	Closed.
2017 (WO/PBC/28/4) R#15	<p>i) locate the missing items</p> <p>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.</p>	<p>WIPO Management accepted the recommendation.</p> <p>The action plan includes: (i) continue the search for the missing items on the occasion of each verification (periodical at the end of each year, or on an ad hoc basis), (ii) for items which are not works of art, after at least two consecutive years when the item was not found, propose a disposal action to the Property Survey Board so as to be allowed to remove the item from the list of "items in service" and no longer be required to search for it. It is noted that there is a never-ending and rolling from year to year small percentage of items which may be unfound at some point or another, in view of the</p>	We note management's response and an appropriate action plan has been established.	Closed.

Previous reference	Summary of recommendation	Administration's comments on status: April 2019	External Auditor's view	Status
		<p>mere nature of the matter and the extent of various manual data entry and other interventions.</p> <p>In addition, the action plan includes: (i) on the occasion of each verification (periodical at the end of each year, or on an ad hoc basis), the descriptions, custodians and locations are checked and completed or corrected, as needed, and photos for high value items are included in AIMS, (ii) the bar code labels are affixed in a reachable position on the item, and, if not possible, a photo of the item is included in AIMS, (iii) new (better quality) bar codes are affixed in the cases where the old bar codes were erased or no longer readable. It is noted that there is a never-ending and rolling from year to year small percentage of items for which some of the actions may be taken with a delay of more than one month, which should be considered as reasonable and acceptable in view of the nature of the exercise and the extent of resources to assign to it.</p>		
2017 (WO/PBC/28/4) R#16	Formulate an appropriate plan for implementation of the remaining recommendations of the 2012 expert report for improved physical access to WIPO campus.	<p>WIPO Management accepted the recommendation.</p> <p>The action plan includes: (i) by end of Q2 2019, award of a specific mandate to the specialized architect who has been contracted by WIPO at end 2018 following a tender process in 2018, (ii) by end of Q3 2019, proposed implementation mechanism by this architect in respect of the 2012 expert report remaining recommendations, (iii) by the end of Q4 2019, review by WIPO of the proposed implementation mechanism and, if considered appropriate, acceptance of implementation actions according to priority, estimated cost and timeframe.</p>	We note management's response and a plan has been established.	Under implementation.