

Council**C/55/6****Fifty-Fifth Ordinary Session
Geneva, October 29, 2021****Original:** English
Date: August 16, 2021

REPORT OF THE EXTERNAL AUDITOR*Document prepared by the Office of the Union**Disclaimer: this document does not represent UPOV policies or guidance*

1. The Financial Statements of the International Union for the Protection of New Varieties of Plants (UPOV) for the year ended December 31, 2020, together with the audit report of the External Auditor, are transmitted to the Council in accordance with Regulation 6.5 of the Financial Regulations and Rules of UPOV (document UPOV/INF/4/6), which requires that the Council examine and approve the financial statements. The Financial Statements for 2020 are presented in document C/55/5. The Annex to this document contains the audit report of the External Auditor.

2. *The Council is invited to take note of the present document.*

[Annex follows]

C/55/6

ANNEX



National Audit Office

JULY 2021

International Union for the Protection of New Varieties of Plants

External Auditor's Report on the 2020 UPOV Financial Statements

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

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

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Introduction

The International Union for the Protection of New Varieties of Plants (UPOV) was established in 1961 by the International Convention for the Protection of New Varieties of Plants to provide and promote an effective system of plant variety protection. The Union has some 77 members who support the activities of UPOV through direct contributions and extra-budgetary funds-in-trust for specific projects.

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

In addition to our opinions on UPOV's financial statements, this report presents the key findings and recommendations arising from our work. We have also followed up the progress made implementing recommendations raised in previous financial periods (appendix one).

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

Overall audit results

Our audit comprised the examination of the 2020 financial statements and the associated transactions and events for that year. We provided an unqualified audit opinion, without modification, on the financial statements.

As a consequence of COVID-19, the 2020 audit was completed remotely. While it was not without challenge and resulted in additional effort by colleagues at UPOV, WIPO's Finance Division and the NAO team, we have been able to obtain sufficient appropriate evidence to support our audit opinion. We recognise the hard work and effort in difficult circumstances to build upon the practical issues identified with remote working during the previous year's audit.

Financial management

Overall audit results

1 The External Auditor has audited the financial statements of UPOV for the year ended 31 December 2020 which comprise the Statement of Financial Position, Statement of Financial Performance, Statement of Cash Flows, Statement of Changes in Net Assets, Statement of Comparison of Budgets and Actual Amounts and the related notes.

2 These financial statements have been presented in accordance with the International Public Sector Accounting Standards (IPSAS). In our opinion, the audited financial statements fairly present the financial position of UPOV as at 31 December 2020 and its financial performance and its cash flows for the year then ended under International Public Sector Accounting Standards (IPSAS).

Financial performance and position

3 UPOV achieved a surplus for the year of CHF 249,000 (2019: deficit CHF 133,000). This surplus arose primarily due to significant reductions in travel, training and grants expenses which in 2020 totalled CHF 37,000 (2019: CHF 338,000). This reduction arose as a consequence of the impact of the COVID-19 pandemic which reduced certain activities of the Union such as travel, fellowships and internships. Personnel costs, which are UPOV's most dominant expense have remained consistent with the prior year at CHF 2.3 million. These represent 63.7 per cent of the Union's total expenditures during the year (2019: 60.9 per cent). Overall, expenditure decreased by 4.3 per cent from CHF 3.8 million in 2019 to CHF 3.6 million. The reduction was partially offset by increased contractual services expense on its Funds in Trust projects.

4 Total revenue in 2020 of CHF 3.9 million represented an increase of 5.9 per cent on the previous year (CHF 3.7 million). This increase was due to additional contributions as a result of the increases in contribution units from China, Egypt's contribution as a new member and settlement of previously impaired contributions totalling CHF 166,000. Revenue on Funds in trust (extra-budgetary contributions) also increased from CHF 231,000 in 2019 to CHF 279,000 in 2020. This was as a result of increased work performed on technical cooperation projects such as the East Asia Plant Variety Protection Forum (EAPVP).

5 Assets controlled by UPOV increased by 8.2 per cent from CHF 4.9 million to CHF 5.3 million. The majority of the Union's assets are held in the form of cash and cash equivalents, which were CHF 5.1 million (2019: CHF 4.8 million). The growth in UPOV's retained cash resulted from the reduction in expenses, coupled with the increase in advance receipts paid by Members. During the same period UPOV's liabilities increased by some 22 per cent to CHF 4.9 million (2019: CHF 4.0 million). This was primarily due to an increase of CHF 1.0 million in the employee benefits liability for the After-Service Health Insurance. This element of the liability now totals CHF 3.0 million (2019: CHF 2.0 million).

6 The combined impact of the results in 2020 has been to significantly decrease the overall net assets position of UPOV to CHF 368,000 (2019: CHF 897,000). This is a 41.0 per cent reduction in the net assets.

7 We use ratio analysis of an organization's financial health on all our international audits to show how financial positions change over time (Figure 1). They express the relationship of one item of account against another. For example, there are CHF 3.09 of current assets for every CHF 1 of current liabilities. The significant difference between the current and asset ratios are due to 68.5 per cent of UPOV's liabilities being employee benefit liabilities that are due after 12 months or more.

Figure 1: UPOV Key financial ratios 2017-2020

Ratio	2020	2019	2018	2017
Current ratio				
Current assets:	3.09	2.55	3.07	3.19
Current liabilities				
Asset ratio				
Assets: Liabilities	1.07	1.22	1.18	1.18
Cash ratio				
Cash and cash equivalents: Current liabilities	2.98	2.48	2.97	3.13
Notes				
1. A high current ratio indicates an entity's ability to pay off its short-term liabilities.				
2. A high assets to liability ratio is a good indicator of solvency.				
3. The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash and cash equivalents there are in current assets to cover current liabilities.				
Source: Audited Financial Statements of UPOV				

8 Overall, UPOV has sufficient working capital to deal with short- and medium-term liabilities. The vast majority of the Union's assets remain in cash and cash equivalents and therefore there is currently a low risk to liquidity. However, the level of reserves available to fund its longer-term liabilities has been steadily eroding. UPOV has earmarked funds of some CHF 943,000 for its accumulated liabilities to provide after-service health insurance to former staff members, further resources may need to be earmarked to meet the overall level of this liability of CHF 3.0 million. We have reported on the impact of the post-employment benefit liabilities on the financial position later in this report.

Program and Budget performance

9 The UPOV Program and Budget is prepared on a modified accrual basis each biennium. Statement V to the financial statements presents a comparison of budgeted income and expenditure for 2020, the first year of the current biennium, to the actual amounts presented on a budget basis. The differences between the budget surplus of

CHF 332,000 and the financial reporting surplus of CHF 249,000 are detailed in Note 11 to the financial statements.

10 The original biennium 2020-2021 budget was approved by the UPOV Council and included allocations for revenue and expenditure of CHF 7.3 million. This was allocated approximately 50:50 between 2020 and 2021. No further amendments were made to this allocation. The overall results for the year are shown in Figure 2 below.

Figure 2: 2020 budgetary performance of UPOV (CHF 000s)

	2020-2021 Budget	2020 allocation	Outturn	(Deficit)/ Surplus
Income	7,347	3,674	3,598	(76)
Personnel Expenditure	(4,939)	(2,470)	(2,186)	284
Non-personnel expenditure	<u>(2,408)</u>	<u>(1,204)</u>	<u>(1,080)</u>	<u>124</u>
Net result	Nil	Nil	332	332

Source: Audited Financial Statements of UPOV

11 The income budget deficit arises from lower than forecast applications through UPOV PRISMA and lower than forecast program support costs from its Funds in Trust. The 2020 UPOV PRISMA budget was based on a projection that 450 submissions would be received in 2020 whereas 224 were actually received in year. For 2021, UPOV had forecasted 1,750 submissions and as at the end of June, it had received 1,277 and therefore on track to achieve its target..

12 Personnel expenditure was lower than budgeted as a result of certain general service staff posts being occupied at 80 per cent and a position being vacant for a part of the year. In addition, there was a delay in the recruitment of temporary staff. The variance on non-personnel expenditure was primarily due to cost reductions arising from the COVID-19 pandemic. More detail is provided in the 2020 UPOV Performance Report.

Internal control

13 UPOV's staff have predominantly been working remotely since early 2020. Back office support is provided by the World Intellectual Property Organization and WIPO's Information Management System (AIMS) provides many of its core administrative systems, including finance, accounting, procurement, HR and payroll. Workflows within AIMS ensure that transactions and other activities are properly processed, authorised and reviewed. As External Auditor, we have appropriate read-only remote access to finance, accounting and procurement functions in AIMS to facilitate our work and have been able to ensure that the transactions we examined have been properly recorded.

14 Overall, the results of our audit have not identified any significant control weaknesses or evidenced any noticeable deterioration in the control environment. No issues of this nature have been reported to us by management or identified within the Statement on Internal Control.

Employee benefits

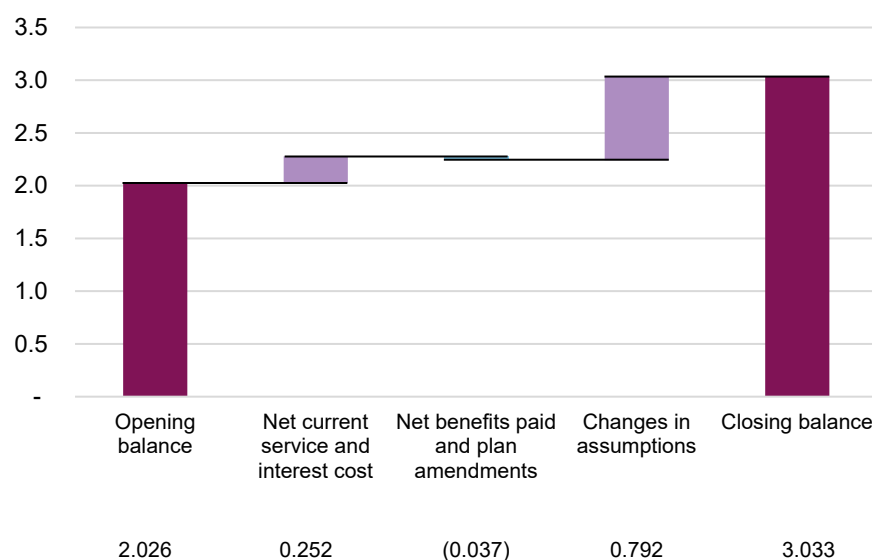
15 The agreement between the World Intellectual Property Organization and the International Union for the Protection of New Varieties of Plants, known as the WIPO/UPOV agreement, establishes the administrative relationship between the two organisations. Within this, UPOV applies *mutatis mutandis* the provisions of the Staff Regulations and Staff Rules of WIPO. These regulations and rules set out the conditions of service and the basic rights, duties and obligations of UPOV staff. This provides UPOV staff members the salaries and related allowances and the social security benefits, including access to the UN Joint Staff Pensions Fund and After-Service Health Insurance as established under the United Nations Common System.

Post-employment benefits

16 UPOV's most dominant liabilities are its employee benefits. As set out in note 5 to the financial statements, these comprise most significantly the staff members' after-service health insurance, their repatriation entitlements and accumulated leave liabilities. During 2020, the overall liability for these staff benefits has increased from CHF 2.4 million to CHF 3.4 million. In line with decisions of the Council of UPOV at its thirty-third extraordinary session, UPOV holds strategic cash of CHF 943,000 (2019: CHF 870,000) which is earmarked to partially fund certain of these liabilities, leaving an unfunded liability of CHF 2.4 million (2019: 1.5 million).

17 The after-service health insurance liabilities totalling CHF 3.0 million are calculated by an independent actuary based on underlying data and assumptions. They reflect the value of the current contractual obligations to staff at 31 December 2020, they do not recognise the fact that the ongoing nature of the scheme will result in further additional liabilities which will be accrued in future years, nor do they reflect that the active and new staff in future may offset the higher costs for retirees. The increases reported in 2020 relate predominantly to the after-service health insurance liability and arise from changes in the actuarial assumptions including those related to age. The impacts of actuarial factors are designed to provide the best estimate of the current obligations to meet future related costs in today's money and have resulted in an overall increase of CHF 1.0 million.

Figure 3: Changes to the After-Service Health Insurance liability between 2019 and 2020 (CHF millions)



1. **Net current service:** the increase in the liability arising from additional rights earned by the Organization's employees through the service provided during the year;
2. **Interest cost:** the additional cost to recognise the present value of rights already earned;
3. **Net benefits paid:** payments that UPOV have made to beneficiaries of the benefits;
4. **Plan amendments:** changes as a result of increases in permitted annual leave during 2020; and
5. **Changes in assumptions:** changes as a result of other factors which are used in the valuation.

Source: Audited Financial Statements of UPOV

18 The most significant factors that have impacted the valuation of the liability are the component elements related to actuarial assumptions, which total CHF 792,000 (Figure 4). These comprised:

- CHF 711,000 of **demographic assumption** changes. These cover updates to assumptions such as turnover, mortality and disability, retirement and age-related adjustments to medical cost claims.
- CHF 62,000 of **financial assumption** changes. These cover updates to assumptions such as discount rates, inflation and medical trends.
- CHF 19,000 of **experience** changes. These cover adjustments required due to the difference between assumptions made and actual results.

19 The increase in the liability in 2020 was mainly due to change in assumed future age-related medical costs as set out in Note 5 to the financial statements. Age-grading rates on insurance premiums were used to reflect the expected future post-employment medical costs of current staff members, existing retirees and their dependents. This approach is consistent with the prior year. UPOV's 2020 calculation of the age-grading

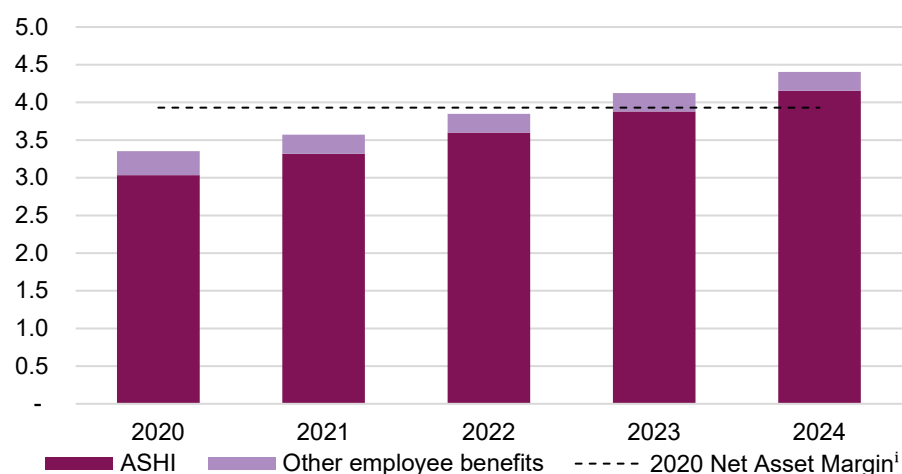
rates is based on an analysis of claims data over a four-year period which has shown a significant increase in claims costs for retirees. No adjustment was made for any impact arising from the pandemic as the actuary considered that there was currently insufficient trend information available to make any such adjustment at the time of their report. We worked with UPOV to enhance disclosure in this key area of estimation uncertainty, to ensure the reasons for this significant change were clearly visible.

Future impact of the liabilities

20 The value of the Union's liabilities evolves over time, based on changes in both demographic and other economic factors. As part of the annual valuation performed by the Union's expert, UPOV receives a projection for the value of liabilities over the following four years, assuming current assumptions remain consistent (Figure 4). The forecast highlights that the impact of current assumptions on the liability will result in a projected increase to CHF 4.4 million at 31 December 2024 – an increase of 31.3 per cent.

21 This forecast presents useful information to members of UPOV, as it provides insight into the future liabilities arising from the current terms and conditions approved by the UPOV Council. To inform Council of the future impacts on the medium-term financial position, we would encourage the inclusion of this commentary within the financial analysis accompanying the annual financial statements.

Figure 4: Projection of liabilities (CHF millions)



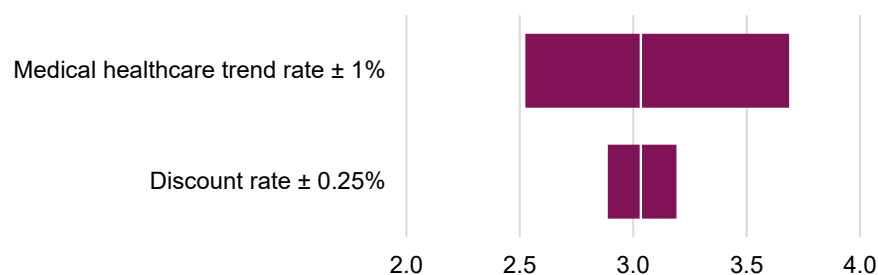
Note: ⁱThe 2020 Net Asset Margin (NAM) represents the total of the Union's net assets plus the value of employee benefits at 31 December 2020. This line is used to demonstrate how the projected value of the Union's liabilities would impact net assets, assuming break-even.

Source: UPOV actuarial report prepared by management's expert

22 On the basis of UPOV achieving a break-even result, the Union's employee benefit liabilities are projected to erode its net assets by 2023. This would mean the total of the Union's liabilities would exceed the value of its assets.

23 In addition to changes in the valuation of liabilities based on the timing of payments and accrual of benefits, the valuation of the liability is impacted by changes in underlying assumptions, for example the discount rate and medical healthcare trends. The impact of these have been presented in note 5 of the financial statements and can be seen in Figure 5 below. The sensitivity of assumptions on the overall liability is high, and higher than expected trends in medical costs and in discount rates could impact significantly on the Union. If medical cost trends increase from 2.9 percent to 3.9 per cent, this would increase the liability by CHF 654,000, or 21.5 per cent. Conversely, if medical cost trends decreased to 1.9 per cent, this would reduce the liability by CHF 509,000 or 16.8 per cent.

Figure 5: Sensitivity of ASHI liability for changes in significant assumptions (CHF millions)



Note: The value of the ASHI liability at 31 December 2020 is CHF 3.0 million (white line)

Source: Audited financial statements of UPOV

24 UPOV provides its staff members, qualifying former staff members and their beneficiaries' health protection under a commercial medical insurance scheme. The monthly premiums paid are on a sliding scale for active staff members, with the most junior staff paying 25 per cent of the premium and UPOV paying 75 per cent. The most senior staff's monthly premium cost is shared 50:50 with the Union. For retirees, the Organization meets 65 per cent of the monthly contributions which are CHF 596 for adults and CHF 265 for beneficiary children. Given management's prediction of the trends in ASHI it is important for Members to consider how future costs might be controlled.

R1: We recommend that UPOV considers enhancing its financial reporting accompanying the financial statements to include trend information and commentary on future expected costs, particularly the after-service health insurance.

R2: We recommend that UPOV regularly consult with its Members on the costs and benefits of continued alignment with the full provisions of the Staff Regulations and Staff Rules of WIPO and the associated UN common system entitlements to ensure that it provides best value for the Union.

UN Joint Staff Pension Fund

25 Staff members of UPOV participate in the United Nations Joint Staff Pension Fund (UNJSPF). However, as the pension scheme cannot accurately determine a reliable estimate of the corresponding risk borne by each participating organization, no actuarial liabilities for the pension scheme appear in UPOV's financial statements.

26 The characteristics of the UN pension scheme are outlined in Note 5 to the financial statements and this disclosure is consistent across many participating organizations. At the latest actuarial date, 31 December 2019, UNJSPF has concluded that there was no requirement for deficiency payments to be made under Article 26 of the Fund's Regulations. Should this situation change in the future, deficiency payments would be required from UPOV. This situation represents a potential future financial risk to the Union which needs to continue to be tracked.

Other matters for the Council

27 The Secretary-General reported no frauds, or ex-gratia payments during 2020. We identified no instances of fraud in our audit, and no cases have come to our attention through our testing.

Prior year recommendations

28 At the date of our previous report in August 2020, three previous recommendations to UPOV were in progress. As at May 2021, we consider that one recommendation was implemented and two remain under implementation, with proposals expected at the 98th session of the Consultative Committee and we will consider these as part of next year's audit. **Appendix One** contains a detailed commentary on the status of the previous recommendations.

Acknowledgments

29 We would like to thank the Secretary-General and his staff for their co-operation in facilitating our audit engagement, especially during such a significantly challenging period.

Original as signed

Gareth Davies

Comptroller and Auditor General, United Kingdom - External Auditor

29 July 2021

Appendix One

Follow-up of prior year recommendations

Previous reference	Summary of recommendation	Administration's comments on status: May 2021	External Auditor's view	Status
2018 (C/53/6) R#1	Consider reviewing the current content of the SIC and the scope to draw upon the emerging practices used to support WIPO's own SIC and the underlying assurance evidence.	A revised Statement on Internal Control has been developed. The signing of the UPOV Statement on Internal Control follows the completion of the "UPOV Assurance Summary", a document that summarizes assessments of WIPO's internal controls that relate to systems and processes that UPOV uses.	We note the revised statement and the assurance summary underpinning it.	Closed
2019 (C/54/6) R#1	To enhance transparency and to inform future decision making, consider separate reporting on the costs and revenues relating to UPOV PRISMA, and to reflect the most realistic and prudent assumptions around costs and revenues.	Proposals will be submitted to the ninety-eighth session of the Consultative Committee. A first draft of the proposals, for consideration by correspondence, will be presented to the Consultative Committee by the middle of June.	We note the proposal to be presented to the Consultative Committee and will revisit this area later in our mandate.	In progress

Previous reference	Summary of recommendation	Administration's comments on status: May 2021	External Auditor's view	Status
2019 (C/54/6) R#2	Ensure clarity over the funding source for any deficit in the operation of UPOV PRISMA, and where necessary agree appropriate transfers or identify where costs are seen as providing wider benefits to be funded from regular budgets.	Proposals will be submitted to the ninety-eighth session of the Consultative Committee. A first draft of the proposals, for consideration by correspondence, will be presented to the Consultative Committee by the middle of June.	We note the proposal to be presented to the Consultative Committee and will revisit this area later in our mandate.	In progress

INDEPENDENT AUDITOR'S REPORT TO THE COUNCIL OF THE INTERNATIONAL UNION FOR THE PROTECTION OF NEW VARIETIES OF PLANTS

Opinion on financial statements

I have audited the financial statements of the International Union for the Protection of New Varieties of Plants for the year ended 31 December 2020, which comprise the statement of financial position, the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and the related notes, including the significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the International Union for the Protection of New Varieties of Plants as at 31 December 2020 and of its surplus and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Opinion on regularity

In my opinion, in all material respects, the revenue and expenses have been applied to the purposes intended by the Council of the International Union for the Protection of New Varieties of Plants and the financial transactions conform to the Union's Financial Regulations.

Basis for opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs) and the Union's Financial Regulations. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report.

The ISAs require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I am independent of the International Union for the Protection of New Varieties of Plants in accordance with the ethical requirements that are relevant to my audit of the financial statements. 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.

Other Information

Management is responsible for the other information. The other information comprises information included in the Introduction, Financial results for the year ended December 31, 2020 and Statement on Internal Control. 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.

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

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

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

Those charged with governance are responsible for overseeing the International Union for the Protection of New Varieties of Plants' financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate 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 International Union for the Protection of New Varieties of Plants' 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 the International Union for the Protection of New Varieties of Plants' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the International Union for the Protection of New Varieties of Plants' ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my 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 report. However, future events or conditions may cause the International Union for the Protection of New Varieties of Plants to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that revenue and expenses reported in the financial statements have been applied to the purposes intended by the Council and the financial transactions confirm to the Financial Regulations which govern them.

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

Report

I have also issued a long-form audit report on the results of my audit.

Original as signed

Gareth Davies
Comptroller and Auditor General
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Date: 29 July 2021

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