

Assemblies of the Member States of WIPO

Sixty-first Series of Meetings
Geneva, September 21 to 29, 2020

REPORT BY THE EXTERNAL AUDITOR

prepared by the Secretariat

1. The present document contains the “Report by the External Auditor” (document WO/PBC/31/3), submitted to the WIPO Program and Budget Committee (PBC) at its thirty-first session (September 7 to 11, 2020).
2. Any decision of the PBC in respect of those documents will appear in the “List of Decisions Adopted by the Program and Budget Committee” (document A/61/6).

[Document WO/PBC/31/3 follows]

Program and Budget Committee

Thirty-First Session
Geneva, September 7 to 11, 2020

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, 2019; and
 - (ii) Report of the External Auditor for the financial year 2019 to the 61st 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 2019/20.
2. The following decision paragraph is proposed.

3. The Program and Budget Committee recommended to the General Assembly and other Assemblies of the Member States of WIPO, to take note of the "Report by the External Auditor" (document WO/PBC/31/3).

[Report by the External Auditor follows]

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

Opinion on financial statements

I have audited the financial statements of the World Intellectual Property Organization for the year ended 31 December 2019, which comprise the statement of financial position, the statement of financial performance, statement of changes in net assets, statement of cash flow, the statement of comparison of budget and actual amounts – revenue for the year then ended, the statement of comparison of budget and actual amounts – expenses for the year then ended, the statement of comparison of budget and actual amounts – revenue for the biennium then ended, the statement of comparison of budget and actual amounts – expenses for the biennium 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 World Intellectual Property Organization as at 31 December 2019 and of 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 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. 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

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 World Intellectual Property Organization 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 World Intellectual Property Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the World Intellectual Property 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 World Intellectual Property 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 World Intellectual Property Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the World Intellectual Property Organization's 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 information included in the Annual Financial Report, the Statement on Internal Control and 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.

(signed) **Gareth Davies**
Comptroller and Auditor General

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Date: 29 June 2020

JUNE 2020

World Intellectual Property Organization

**External Auditor's Report on the 2019 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.

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 2020, the organisation comprised some 193 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. We have audited the financial statements of WIPO for the financial year ended 31 December 2019, 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. We have also looked at the Organization's arrangements to determine its External Office Network, given the importance and time that Member States have dedicated to its consideration. We have also followed up the progress made implementing recommendations raised in previous financial periods (appendix one).
4. The original drafting language of this report is English. The English version is the authoritative text.

Key observations

5. As a consequence of COVID-19, the final stages of the 2019 audit were completed remotely. While it was not without challenge and resulted in additional effort by both Finance Division and the NAO team, we have been able to obtain sufficient appropriate evidence to support our audit opinion. Given the practical issues that remote working has presented, this is a significant achievement and reflects hard work and effort by the Secretariat in difficult circumstances. Some of our ambitions for the performance audit were curtailed by these circumstances. We will return to planned topics in our audit of 2020.

Audit opinion on Financial Statements

6. Our audit comprised the examination of the 2019 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. The financial statements remain of high quality, supported by sound systems of internal controls and reporting.

7. In 2019, WIPO undertook a review of its Annual Financial Report and Financial Statements to streamlined content, focusing on the significant aspects of financial performance and financial health. We worked with management to help secure changes which have been achieved this within the reporting requirements of IPSAS. We encourage further consideration as part of the ongoing process of improvement.

Financial performance

8. WIPO enjoyed another successful financial period in 2019, with a retained surplus of CHF97.7 million, doubling the level of surplus achieved in the previous year. Together with other movements within the financial statements net assets increased to CHF 364.2 million. Revenues increased to CHF 457.0 million driven by higher demand for publications through the Patent Cooperation Treaty and Madrid systems. Unrealised gains on investments saw a significant increase of CHF42.1 million. Expenditures increased to CHF 401.5 million, driven largely by increases to staff costs resulting from the outcome of International Labour Organization Administrative Tribunals and changes to the basis of estimation for employee benefits.

9. The end of 2019 also marked the close to the biennium budget period with WIPO delivering a budget surplus some CHF 196.9 million over the period. This represented a variation of CHF93.2 million on the Original Biennium Budget and 60.6 on the revised forecast. The variation was primarily due to the increases in investment income.

10. Over the last five years the net assets of WIPO have increased by some 78.1 per cent, largely driven by increased use of the patent systems. WIPO continues to enjoy a strong financial position and positive cashflows, supported by a steady pipeline of future revenue streams. During the year the Programme and Budget Committee established a target to fund 50 per cent of the Organization's long-term employee benefit liabilities, which represents a clear plan to meet these commitments and reduce the risk that they would need to be resourced by contributions from Member States. The prudence of this position is brought into sharp focus when considering the economic volatility which has driven financial markets during the Covid-19 pandemic.

11. Despite the pandemic, we have continued to see a strong pipeline of applications in early 2020 and management expect this to continue. Together with the healthy reserve position and relatively high levels of cash resources which could be liquidated at short notice, we concluded that management's assertion around the going concern of WIPO remained appropriate. The Organization is well placed to weather the current uncertainty.

Governance and internal control

12. Governance and internal control are essential mechanisms which provide the Director General and Member States with the assurances to enable them to discharge their oversight responsibilities and safeguard resources. We have continued to note the strength of WIPO's internal controls and further positive developments have taken place within 2019. These have included exploring the use of analytical techniques to confirm compliance with internal controls at the entity and process level. This work to assure the internal controls is overseen by a specific team reporting to the Controller. The outcomes from this work demonstrate the continuing effectiveness of the framework and management's commitment to enhancement.

13. We continue to support the further use of business intelligence tools to analyse transactions as a means of providing comprehensive and systematic assurance. WIPO has engaged consultants to further develop analytic tools and has identified 20 areas where it expects to deploy analytics to support internal controls during 2020. Management considers that its control environment has continued to function normally during the lockdown period within the virtual operating environment which it has deployed. We will consider the operation of the control environment during lockdown as part of next year's audit.

14. WIPO's Statement on Internal Control continues to be a strong source of assurance for Member States. It benefits from the comprehensive processes established to assure the effective operation of controls. These processes continue to be enhanced and embedded and during 2019 it was strengthened by the adoption of the Accountability Framework. In our view, WIPO can further develop the Statement by providing greater prominence on areas to be enhanced and by looking to future risks. The process for compiling the Statement is underpinned by an increasing evidence base to support the written representations supplied by senior management. The results of the control self-assessment process indicate continued improvement with 89 per cent of process controls considered deployed and operational. The alignment of Internal Oversight Division's reporting cycle in 2020, in line with our previous recommendation, will further enhance the assurance in future years.

15. During 2019 WIPO has made further advances in the area of fraud prevention and detection, delivering 15 of the 17 objectives in its Anti-Fraud Roadmap. Work is planned to link fraud risks to existing controls in order to identify gaps in the control framework. Fraud risks have been included within the Enterprise Risk Management System, giving them visibility will ensure greater focus on mitigation measures. Some 89 per cent of staff have now undertaken mandatory fraud awareness training. Overall, WIPO continues to be proactive in its approach to fraud prevention.

External Offices

16. Noting the interest which Member States have taken in respect of the External Office network. Member States plan to commission an external review of the network and in support we have reviewed the current approach to its development, performance reporting and monitoring within the results based framework.

17. In 2019, the network consisted of six offices, with a further office opening in January 2020. Activities of each office vary and overall budgeted spend for 2019 was CHF 8.5 million. The full cost is understated, however, as the contributions and support from the host countries is not valued and reported in the financial statements.

18. Our review identified the absence of a clear strategy to underpin the development of the network. We would expect such a strategy to focus on the priority and value attached to a location in achieving WIPO's overall strategic objectives> This should incorporate flexibility to expand or contract the network as necessary, as objectives are met and evolve. There is also an absence of clear weighted criteria to inform the decision-making process. The role of the Secretariat is limited to the provision of a basic 'factual report', without recommendations. Proposals from Members States are not submitted in a consistent format and consequently there is no basis for an objective comparison. In our view, this has contributed to protracted discussions on the development of the network. We have recommended that a clear strategy is developed to support decision making. This should be focused on cost effective delivery against the primary objectives of the Organization. A more active role for the Secretariat should also be considered.

19. WIPO has a process in place to manage the external office network to avoid duplication, maximise value and to ensure appropriate and proportionate oversight from Geneva. We have identified the importance of ensuring the whole network is integrated with Regional Bureaux and the Offices, sharing work plans and exchanging information working in partnership with headquarters. We see scope for further enhancement to internal reporting and for a greater focus on measuring performance against programme and budget workplans, other key metrics and outcomes. There would also be value in the validation of the outcomes and performance of the external offices.

20. Accountability of the network can be enhanced by considering a more focused emphasis on individual external office workplans and associated indications of impact. Alongside the more common measures applied across all offices, we see benefit in a more tailored framework to reflect local priorities. We have also recommended that indicators are developed to measure the satisfaction of key stakeholders in the locality as an extension to the wider WIPO Perception Survey. Better data will inform Member States on whether offices are achieving their objectives.

21. The Program and Budget Committee has committed to an evaluation of the network of external offices in 2021. We understand that the terms of reference for this evaluation will be agreed during 2020. Our report details some areas where we feel the evaluation could focus to enhance the data available to better inform the decisions of the Member States on the evolution of the network.

Financial management

Overall audit results

1.1 The External Auditor has audited WIPO's financial statements for the year ended 31 December 2019 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 Budget and Actual Amounts and the related notes. The audit opinion confirms that the financial statements present fairly, in all material respects, the financial position of the Organization as at 31 December 2019 and of its financial performance and cash flows for the year then ended. It also confirms their preparation in accordance with International Public Sector Accounting Standards and that, in all material respects, the transactions underlying the financial statements have been made in accordance with the Financial Regulations and applied to the purposes intended by Member States.

1.2 Building on the track record of good quality financial statements and improvements in prior years, management has continued to produce high quality financial statements this year. The inclusion of the Director-General's report at the front of the financial statements continues to draw attention to the key balances and transactions in the financial statements to allow for scrutiny and consideration by Member States.

1.3 In the circumstances of the Covid-19 Pandemic, the attainment of an unqualified audit opinion in time for the governing body sessions is a particular achievement. It represents hard work in ensuring the availability and access to information to enable the audit to progress successfully.

Financial performance

1.4 In 2019 WIPO recorded an overall surplus for the year of CHF 97.7 million (2018: CHF 42.5 million) which, together with CHF 3.9 million of revaluation gains on post-employment benefit liabilities, increased net assets to CHF 364.2 million at December 2019 (2018: CHF 261.4 million). Revenue in 2019 of CHF 457.0 million (2018: CHF 433.6 million) represents an increase of 5.4 per cent from the previous year. The main reasons for the increase were the higher demand for publications through the Patent Cooperation Treaty and Madrid systems of 5.2 per cent and 3.4 per cent respectively.

1.5 WIPO also benefitted in 2019 from a strong recovery in the financial markets. In 2018, the poor performance of investments in Swiss Franc bonds led to net investment losses of CHF 15.3 million. In 2019, due to a recovery in the markets, WIPO reported net investment gains of CHF 42.1 million. We comment further on WIPO's financial health below.

1.6 During the same period, WIPO's expenditure increased by 6.8 per cent from CHF 375.8 million to CHF 401.5 million. This was mainly because of an increase in personnel expenditure of CHF 21.9 million due to increases in the liabilities for WIPO's employee benefits and impact of the outcome from a judgement by the International Labour Organization's Administrative Tribunal (ILOAT) on post adjustment.

1.7 WIPO's employee benefits are valued each year by an independent actuary. To more accurately reflect the reality of the transactions and to harmonize with other United Nations organizations, WIPO have reviewed and refined some of the assumptions and methodologies applied for the valuation of the after-service health insurance (ASHI), the accrued annual leave and the repatriation grant accrual. The two most significant changes related to the valuation of the accumulated annual leave accrual and the use of a blended discount rate instead of one solely based on Swiss Francs for ASHI. The changes to the annual leave accrual resulted in an additional liability of CHF7.1 million on the basis that staff members retain leave each year during their service to build up the ability to take a maximum lump sum pay-out of accrued leave when they separate. The liability is now a fairer reflection of the actual future cost to the organisation of these liabilities. These changes are explained further in Note 10 to the financial statements.

1.8 International staff recruited in Professional and higher grades receive post-adjustment in addition to base salary. The International Civil Service Commission (ICSC) established post-adjustment is to harmonise the purchasing power of all staff at the same grade across all duty stations, factoring in exchange rates and differences in prices between locations. During 2019, the ILOAT decided that changes in the Post-Adjustment Multipliers (PAMs) previously applied were not appropriate and therefore should be set aside. As a consequence, WIPO retrospectively paid increased post-adjustments, which totalled approximately CHF 5 million, for applicable staff from March 2018.

Financial position

1.9 The improved performance of investments and the operational surplus have contributed to gross assets increasing by 13.0 per cent to CHF 1,225.9 million at 31 December 2019 (2018: CHF 1,084.9 million). This significant increase in value arises predominantly from the surplus reported above. During 2019 gross liabilities increased by 4.6 per cent to CHF 861.6 million (2018: CHF 823.5 million). This was mainly due to an increase in WIPO's employee benefit liabilities of CHF 22.1 million and additional PCT deferred revenues of CHF 16.9m. In addition, there were actuarial gains from its post-employment benefit liabilities of CHF 3.9 million.

1.10 The combined effect was to increase net assets to CHF 364.2 million at December 2019 (2018: CHF 261.4 million). Over the previous five years WIPO's net assets have increased by 78.1 per cent, representing a sustained period of financial growth for the Organization.

Financial health

1.11 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 0.56 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 313.8 million). This means it would be unlikely for WIPO to require the liquidation of longer-term investment holdings. Should the need arise, these longer-term investments could be liquidated, without penalty for cash-flow purposes.

Figure 1: WIPO Key financial ratios 2015-2019

| Ratio | 2019 | 2018 | 2017 | 2016 ⁴ | 2015 |
|-----------------------------------|-------------|-------------|-------------|-------------------|-------------|
| Current ratio | | | | | |
| Current assets: | 0.56 | 0.60 | 0.68 | 1.29 | 1.19 |
| Current liabilities | | | | | |
| Total assets: Total liabilities | 1.42 | 1.32 | 1.25 | 1.17 | 1.40 |
| Assets: Liabilities | | | | | |
| Cash ratio | | | | | |
| Cash and cash equivalents: | 0.38 | 0.44 | 0.53 | 1.13 | 1.07 |
| Current liabilities | | | | | |

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.
4. Liabilities were restated in 2016 due to the adoption of IPSAS 39.

Source: Audited Financial Statements of WIPO

1.12 While the financial position at 31 December 2019 was sound, there has been some significant uncertainty in the financial markets as a consequence of the worldwide Covid-19 pandemic after the end of the financial period. We have considered events after the reporting date and have reviewed WIPO's disclosures set out in Note 22 to the financial statements. We are content that these are a fair reflection of the situation facing WIPO. We have seen a strong pipeline of applications in the first few months of 2020 and management expect this to continue. Together with the strong reserve position, we concluded that management's assertion that it was appropriate to prepare the financial statements on a going concern basis remained appropriate, this is set out in Note 2.

1.13 Overall, and as set out by the Director General in the Foreword to the 2018/19 Program Budget, WIPO enjoys a sound financial situation. The Organization has healthy reserves which are significantly backed by cash and investments. It has earmarked funds (Strategic Cash and Investments) of some CHF 190.2 million for its accumulated liabilities to provide after-service health insurance to former staff members which currently total CHF 313.7 million. In the 29th session of the Program and Budget Committee¹, it was decided that the additional funds would be earmarked to ensure coverage equivalent to 50 per cent of long-term employee benefit liabilities. Although WIPO has been enjoying a period of growth in its revenues it is prudent to fund a high proportion of these liabilities given that WIPO relies on a continuation of its current business model, which is not guaranteed. Funding these minimises long-term risks to Member States in having to make good these liabilities through assessed contributions if revenues fall.

2018-2019 Program and Budget performance

1.14 The Program and Budget for WIPO is prepared each biennium on a modified accrual basis. Statement V of the financial statements presents a comparison of the budget and actual amounts for both 2019 and for the 2018-2019 biennium. A reconciliation of the budget performance to the revenue and expenditure figures reported in the performance statement (Statement II) is presented in Note 18 to the financial statements.

1.15 The original budget for the biennium 2018-2019 was approved by the General Assembly with allocations for revenue and expenditure of CHF 829.6 million and CHF 725.9 million respectively. This provided a budgeted surplus of CHF 103.7 million. Budget revisions led to a final forecast budget surplus of CHF 136.3 million. Final budget outturn increased the forecast surplus by some CHF 60.6 million, a combination of increased revenues and expenditure savings.

Figure 2: 2018-2019 Budgetary performance of WIPO (CHF Millions)

| | Original Budget | Revised Budget | Outturn | (Excess)/ Surplus |
|--------------------|-----------------|----------------|---------|-------------------|
| Income | 829.6 | 862.2 | 903.3 | 41.1 |
| Expenditure | (725.9) | (725.9) | (706.4) | 19.5 |
| Net result | 103.7 | 136.3 | 196.9 | 60.6 |

Source: Audited Financial Statements of WIPO

1.16 or the biennium 2018-2019, WIPO achieved revenue of CHF 903.3 million and incurred expenditure of CHF 706.4 million on a budget basis, resulting in a surplus of CHF 196.9 million. This budgeting surplus compares with a surplus presented on an

¹ WO/PBC/29/7

IPSAS basis of CHF 140.2 million. A reconciliation between the IPSAS and budget surplus is presented in note 18 of the financial statements. WIPO present explanations for both changes between the original and final budget after transfers, and material variances between the budget and actual amounts within the 2018-19 WIPO Performance Report.

Changes to accounting policies and presentation

1.17 WIPO, in responding to our previous recommendation on enhancing the usability of the financial commentary and the disclosures within the financial statements, has undertaken a detailed review of the existing format and presentation and has aggregated less significant areas and refocused its disclosures to enhance the focus on more significant areas. During 2019, WIPO shared its proposed changes and we concurred that they were sensible and made the financial statements more accessible to the user. In March 2020, WIPO presented high quality financial statements in advance of the agreed deadline. In our view, the revised Financial Report and Financial Statements have enhanced their quality, while remaining compliant with the requirements of IPSAS. We believe there is scope to further review the content of the Financial Report and focus it more on the current year performance and with less commentary on historical activity.

1.18 The IPSAS Board, which sets the accounting standards is encouraging users to seek to streamline disclosures, to help reduce complexity and ensure focus on the more important elements of the statements. In our view, WIPO should review the content of the annual report and financial statements for continued relevance and importance each year and discuss any proposed changes with the external auditor and the IAOC.

1.19 During 2018, the IPSAS Board issued a new financial reporting standard on financial instruments (IPSAS 41). The standard is required to be implemented by all users of the IPSAS framework for financial periods starting from 1 January 2022. This new standard establishes new requirements for classifying, recognising and measuring financial instruments which are defined as any contract giving rise to both a financial asset of one entity and a financial liability of another entity. For WIPO alongside its investments, financial instruments also include working capital balances, such as receivables, payables and current accounts. The standard aligns IPSAS reporting with the more commercially focused International Financial Reporting Standards.

1.20 WIPO continues to be proactive with the adoption of new standards and during 2019 reviewed the impact of adopting IPSAS 41. It concluded that the impact was not significant and therefore took the decision to adopt the standard early as of 1 January 2019. For WIPO, the changes did not impact the values reported in the Statement of Financial Position, nor in the comparative figures. WIPO has reviewed all its financial instruments and assigned them to the relevant classification under the new standard and the impact of this can be seen in Note 2 to the financial statements. We have confirmed the revised classification is appropriate.

1.21 For some organisations potentially more significant is the requirement to estimate future “Expected Credit Losses” for all financial assets whereas the previous requirement was to consider existing impairment indicators. The Credit Losses are the difference between the cash flows from the contractual terms and the expected cash flows based on what the entity expects to receive. Given the nature of WIPO’s business model we are content that the existing impairment policy does not create any significant differences to an Expected Credit Loss model.

R1: WIPO should annually review the content of the Financial Report and Financial Statements and discuss proposed changes at the relevant meeting of the IAOC in advance of preparing the annual financial statements.

Governance and internal control

1.22 Last year, in the first year of our mandate we outlined our summary of the key elements of internal control and governance within WIPO. We identified some good practice and highlighted that this would be an area we would return to given its importance to Member States in their oversight responsibilities. Due to restrictions resulting from the Covid-19 pandemic we have not been able to take forward all discussions in the way we had intended, but we have summarised the key areas of development we have identified during our audit. We intend to examine these areas in more detail during our 2020 audit, alongside a substantive review of the Organization’s procurement activities and control. This will take account of the way in which the Organization has embedded its new policies around the prevention of conflicts of interest.

Internal control

1.23 During the course of our audit we have continued to note the strength of the internal controls which the Organization has established and the commitment to developing and enhancing them. Key elements of this work are underpinned by the further development during 2019 of analytical techniques and the use of data analysis which WIPO are exploring to strengthen and demonstrate the compliance with the internal control framework. WIPO has also strengthened the way in which it operates the second line of defence, in particular the review of the entity and process level controls which takes place to ensure that they operate effectively. This is overseen by a specific team reporting to the Controller. We have reviewed the conclusions of this work, which remains a very proactive evaluation of the control environment and we noted some important features and developments during the year. While we had initially planned to undertake more detailed testing to enable us to comment on the robustness of the checks performed, Covid restrictions have led us to defer this work until next year.

1.24 To aid proactive oversight of the control environment and to boost the second line of defence, management is developing its use of Business Intelligence tools to support the operation of its internal controls. In our view data

analytics are an effective and cost-efficient tool to monitor activity across entire populations of transactions and controls. In doing so they provide a more complete and systematic level of assurance.

1.25 With support from an external consultant in 2019, WIPO has identified 20 areas in which data analytics can support the effective operation of internal control. These covered areas such as personnel information, role monitoring, procurement and duplicate records. While development on these tools is expected during 2020-21, a proof of concept for five of these controls has been developed covering payment approvals, related requisitions, supplier registration and health check and budgetary control on spending. We are encouraged that WIPO intends to share its experience using data analytics among other United Nations organizations. Management intend to scope the remaining 15 controls during 2020 and we shall report on their implementation and operation in our audit of the 2020 financial statements. In support of this work, we have provided management with details of some of the analytic tests we consider useful within the HR/payroll and procure-to-pay business processes.

1.26 Overall, we would continue to highlight the strength of WIPO's commitment to reviewing and improving the control environment. The approach to internal control and the proactive monitoring of compliance through the use of data analytics is particularly important at times when controls might be weakened or circumvented. The unique situation of lockdown will require an assessment of how these controls have continued to operate effectively, and we will review evidence for this in our audit next year.

The Statement on Internal Control

1.27 The Statement on Internal Control provides a critical discipline in bringing together the suite of assurances to demonstrate the fulfilment of the Director-General's responsibilities in respect of internal control. The prominence of the Statement has increased through its publication alongside the financial statements, which now ensures that the veracity of what is disclosed is encompassed by the external auditor's opinion on the consistency of other reported information. The processes which underpin the Statement have also continued to be enhanced and embedded.

1.28 In 2019 the format of the Statement changed, reflecting the linkage between the Statement and the development of WIPOs Accountability Framework. This is an important development as it provides a linkage between the accountability framework and financial reporting. As we previously recommended, we believe the Statement can be further developed by both reporting on areas which need to be improved and in looking ahead at future risks, for example the greater use of analytics and anti-fraud measures. Following our recommendations last year, work is underway to align the reporting year of IOD so that in future years their work an annual opinion more closely links to the financial reporting year. WIPO informed us that its control environment has continued to operate as normal during the Covid-19 pandemic. Directive, preventive and detective controls continued to operate through

technological means. With the Organization transitioning to a temporary virtual environment, WIPO deployed forward looking administrative controls, with developments such as digital signatures and electronic approvals. As part of our 2020 audit, we will review the effectiveness of changes to the control environment.

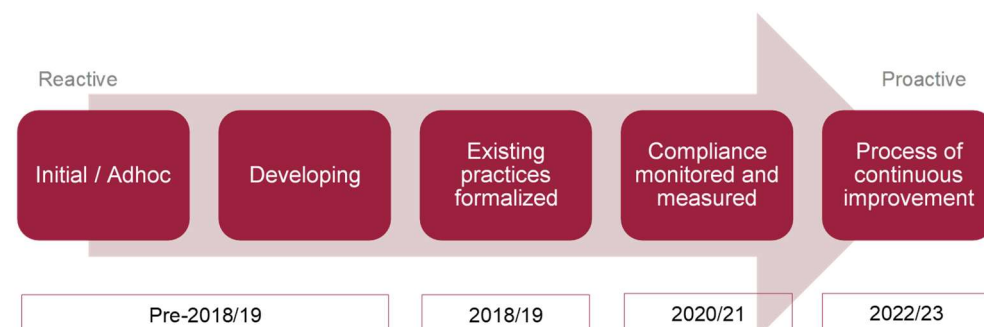
1.29 WIPO has established sound mechanisms to provide assurance to the Director-General in making his assertions to Member States. Senior management within WIPO are required to sign Management Representation letters to the Director-General as part of a pyramid of assurance. A key source of assurance is the process to self-assess the Entity Level Controls (ELCs) controls which operate throughout WIPO and Process Level Controls (PLCs) which apply at the level of the business process. During 2020 WIPO's analysis of these controls has demonstrated improvement, with 98 per cent of ELCs achieving level 3 or above (deployed and reliable). The majority of controls are directive in for the form of regulations and procedures. In 2019, Information Security controls were enhanced and the controls around internal justice were codified for inclusion within the assessment process. It is important that WIPO continues its drive to initiate detective controls to supplement the assurance that policies and procedures are being followed. This is achieved through WIPO's third line of defence, IOD's risk-based plans and oversight from IAOC.

1.30 Central to the assurance underpinning the Statement is the assurance around the Process Level Controls, and the results of the self-assessment has shown that 89 per cent of these controls are deemed at least deployed and reliable. In 2019, a greater proportion of those self-assessments were supported by a substantive evidence base and linked to a risk assessment. We note that a number of the controls are being further enhanced through the use of analytics and that there is a trend to enhance the proportion of detective controls, supplementing the existing preventative controls. This reflects the impetus for use of analytics to bolster the second line of defence, which we regard as a positive development within WIPO, which should provide Member States with greater confidence in the operation of the control environment.

Fraud detection and prevention

1.31 Member States and donors continue to expect high standards of propriety from the international organisations they govern and fund. The risk of fraud and the UN system response to this were again major elements of the discussions held amongst auditors of the UN system in the UN Panel of External Auditors in 2019. As we previously reported, WIPO has a strong commitment to fraud prevention and detection. The Director General approved a fraud risk roadmap in March 2018, building on work done by the organization since 2012 and lasting through to the 2022-2023 biennium. Actions under this road map include preventative, detective and response measures for the organization to implement.

Figure 3: Timeline of the WIPO Anti-Fraud Roadmap



Source: WIPO Anti-Fraud Roadmap

1.32 At the end of the 2018/19 biennium, WIPO had achieved 15 of its 17 objectives within its Roadmap. While actions relating to the regular communication of frauds to staff to raise awareness and establishment of its case management system for recording incidents are yet to be completed, other areas on the Road Map have been brought forward. This includes work on linking internal controls to fraud risks and undertaking entity level fraud risk assessments. In our discussions with WIPO there is a clear commitment to being leaders in this area, and it is important that this commitment is sustained during the current period of economic uncertainty.

1.33 WIPO engaged an external consultant to work with staff during 2018 to complete a fraud risk assessment. This was translated into 30 new fraud risks that were entered into the Enterprise Risk Management system to be managed by the organization. As an organisation with a centralised system of controls, the review focused on processes at WIPO's headquarters in Geneva. It is important that the risk assessment and approach to fraud prevention is embedded within the external office network as well. While our audit has not identified specific issues within the network, it is important that the Offices are fully included within the risk assessment process.

1.34 One area where the system often fails to invest is training staff on fraud prevention and detection. WIPO has sought to arise awareness of fraud matters amongst its staff through intranet resources, posters in WIPO's offices and mandatory fraud awareness training. This training was launched in May 2019 to be completed by the end of 2019. At 31 December 2019, 70 per cent of staff had completed the training and passed the quiz. WIPO informs us that by April 2020 this had risen to 89 per cent and they continue to follow up with those staff who have not taken and passed the training.

1.35 During the year we met with the Ethics Officer to gain a better understanding of the role of the WIPO Ethics Office. As part of our audit we reviewed

the results of the circularisation of key management personnel to identify related party disclosures for the financial statements. There were no conflicts which would materially impact the financial statements. We will review the work of the Ethics Office later in our mandate.

Internal Oversight Division

1.36 We regularly liaise with the Internal Oversight Division and review their reports to ensure that our work is complementary and to minimise any duplication of audit effort. We make detailed enquiries of IOD where their work identifies internal control weakness and consider the impact of this on our own risk assessment. We also discuss the risk of fraud and the results of internal audit and investigation work that have identified suspected fraud, or irregularities. The work of IOD is important for us in assessing the quality and completeness of the assurances which form part of the Statement on Internal Control.

1.37 Fraud at WIPO is reported quarterly by IOD to the Risk Management Group, with the specifics of cases provided in summary or redacted form. Instances of reported fraud are rare and generally result in misconduct cases. IOD reports annually to the Program and Budget Committee on the results of its investigation work.

WIPO Independent Advisory Oversight Committee

1.38 During the year we continued to attend and meet with the Independent Advisory and Oversight Committee, sharing our audit plans and the details of our financial audit observations. To ensure transparency and to support our “no surprises” philosophy, we encouraged the Committee to invite the Secretariat to the sessions where we present our plans and findings. We believe this has helped to develop the quality of the discussions and provides an opportunity for the Secretariat to engage directly in the issues that we identify.

1.39 In line with best practice, the Committee also holds private sessions with us providing an opportunity for them to question us more openly on our work. Our regular attendance at the Committee provided them with reports to help facilitate their work in assessing our audit coverage and enable them to form a view on the quality of the assurance we provide, and our commitment to international auditing standards.

Part Two

External Offices

Background

2.1 We have monitored the considerations of the Program and Budget Committee and noted the interest of Member States in the creation of the WIPO external offices. In the previous year we looked at Human Resources and how the department was positioned in the context of WIPO's Results Based Framework. Given the Member State interest, we have undertaken a review of WIPO's strategy for its external offices and we have also considered how these fit within the results framework. Our report is aimed at supporting the Programme and Budget Committee in its development of a future terms of reference for the review of the network.

2.2 WIPO defines an external office as any office outside its Geneva headquarters and its UN liaison office in New York. At the end of 2019, WIPO had six external offices operating in Algeria, Brazil, China, Japan, the Russian Federation and Singapore. A Nigerian office opened in January 2020. The Singapore Office serves the 10 states that make-up the Association of South East Asian Countries (ASEAN) whereas all other offices are country focused.

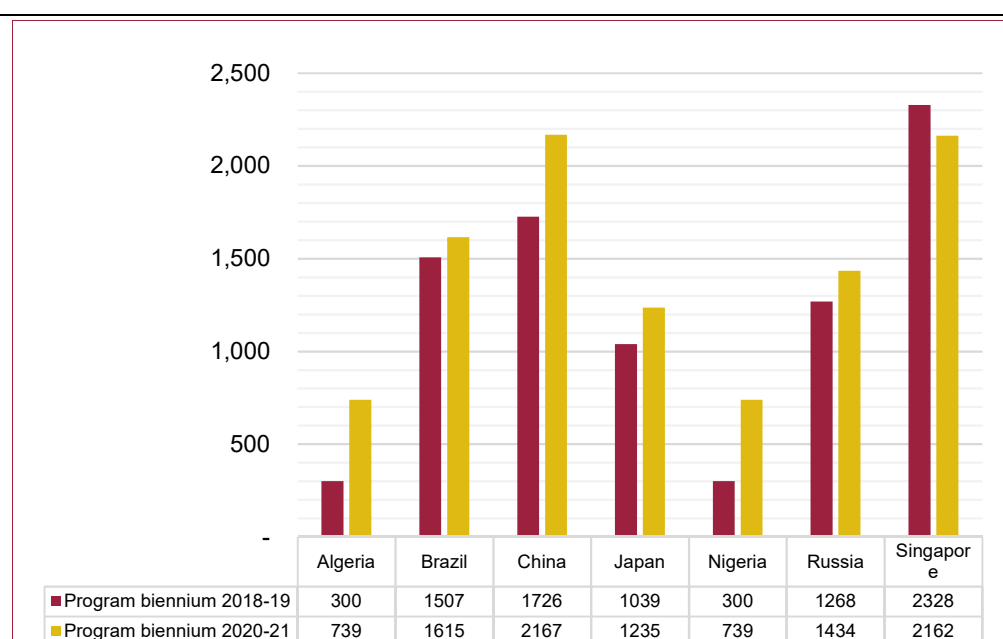
2.3 WIPO's Medium-Term Strategic Plan (2016-21) aimed to establish 'up to three' new external offices in each of the 2016-17 and 2018-19 biennia, subject to the approval of Member States. In the event, two offices, Algeria and Nigeria, were approved. The Strategic Plan reiterates that WIPO's network of external offices should add clear value and efficiency and effectiveness to programme delivery, based on the 2015 'guiding principles' set by Member States.

2.4 Decision-making in relation to the expansion or contraction of external offices is led by Member States through the Program and Budget Committee. Since 2013, the Secretariat has adopted a more cautious approach to exercising its strategic role in relation to the external offices' portfolio, with the view that this is a Member State-driven process.

2.5 WIPO's external office program is incorporated into its overall results framework. For the 2018-19 biennium, WIPO budgeted to spend CHF 8.5 million on external offices as part of Program 20 (External Relations, Partnerships and External Offices) in the Program and Budget (CHF 10.1 million in 2020-21) and CHF 0.4 million on their co-ordination by headquarters personnel (Program 21). Spending on external offices, while expected to grow, represents a small proportion of total WIPO expenditure (1.2 per cent of total proposed expenditure in 2018-19). WIPO's external office costs

are substantially subsidized by host governments and this serves to lower the threshold at which their benefits outweigh costs. WIPO does not have comparable information on the full costs of these offices. Costs of the different offices vary significantly, and there have been changes over two biennia (Figure 4).

Figure 4: Budgeted spend on external offices, 2018-19 and 2020-21 (CHF 000s)



Notes

- 1 Host governments provide office accommodation at zero cost in Algeria, China, Japan (Japan Funds-in-Trust), Nigeria, Russian Federation and Singapore.
- 2 Algeria Office opened in February 2019 and the Nigeria office opened in January 2020.
- 3 Staffing of external offices as set out in the Program and Budget 20-21 is as follows: Algeria, 1; Brazil, 4; China, 5; Japan, 2; Nigeria, 1; Russian Federation, 4; and Singapore, 4. Includes temporary positions.
- 4 Excludes budgeted Headquarters co-ordination costs, part of WIPO Program 21 (Executive Management). For 2018-19, these were CHF 427 thousand (of which CHF377 thousand was for personnel). The budgeted number of posts in Office of Director General's External Offices Coordination Unit was 1.75 FTE.
- 5 Approved budget, not actual spending.

Source: NAO analysis of WIPO Secretariat information.

External office strategy

2.6 An external offices strategy should provide a clear plan of action to achieve defined goals and focus resources. It should be logically derived from the priorities set out in WIPO's strategic plan. We would expect a strategy to combine a focus on the existing portfolio, including a measure of its priority and value to achieving WIPO's overall strategic objectives and to establish criteria used to inform decisions on the expansion or contraction of offices. The strategy might include consideration on their fit with programmatic objectives and priorities; affordability, deliverability, workforce,

technological, property, security and legal considerations; and alignment with customers, partners and other stakeholders.

2.7 Program 20 of WIPO's Program and Budget 20-21 describes cross-cutting implementation strategies for all the external offices and subsequently for each individually. WIPO's focus for the portfolio as a whole is on:

- Ensuring that the network provides “a seamless extension of the Organization”, contributing to WIPO's results framework.
- Facilitating any additional new external offices in accordance with Member State decisions.
- Directing activity to those areas where external offices are thought to have comparative advantage through their geographical proximity, relationships with stakeholders and understanding of local needs, requirements and languages – across as many as 19 of 29 WIPO programs.²
- Supporting the future evaluation of the external office network by Member States through the Program and Budget Committee.

2.8 The strategy for the expansion or contraction of the network is set out in the guiding principles agreed by Member States. These principles include:

- *Outlining the objectives for external offices:* that they should be sustainable, provide an adequately sized network, add value and offer complementarity.
- *The process for Member States wishing to propose an external office:* inviting them to provide a rationale and mandate and to outline what the office would do and how it would add value, considering local priorities.
- *The broad criteria Member States should use in making decisions on the location of new offices:* reflecting that “due consideration” should be given to the principle of a sustainable, equitable and efficient geographical network and for development purposes, to regions without an external office and to “locations where users of WIPO Premier Global IP services are located.”

² External offices do not have a role in relation to programs under Strategic Goals V (World reference source for IP information and analysis), VI (International cooperation on building respect for IP) and IX (Efficient administrative and financial support).

- *The Secretariat providing a “separate, technical, factual report”*: to identify consistency with the 2015 guiding principles, the budget implications and possible efficiency savings of each case.
- *Evaluation of the size and performance of the network*: to be undertaken by the Program and Budget Committee every five years.

2.9 The guiding principles do not establish an overall framework to support the Organization’s strategic approach to the development of the network. The focus is on the opening of individual offices with limited consideration of their strategic importance and how the network provides measurable added value to achieving overall strategic objectives. There has been little consideration of the circumstances in which the network may be subsequently reduced and the triggers for when an office may be closed because it has achieved its engagement objectives. While setting out the broad criteria to be considered in decisions about new offices, the principles do not provide a methodology for evaluating these criteria or relevant weighting that might applied.

2.10 The Program and Budget Committee has not specified a clear role for the Secretariat, requesting that they should provide a ‘factual report’ and, by implication, that it should avoid exercising any judgement. While it is entirely within the remit of Member States to reserve these matters to themselves, it should not follow that the Secretariat is limited in the substantive support it can provide in giving objective recommendations. The absence of this support may risk contributing to protracted discussion and decision-making. In 2016 and following receipt of 18 proposals from Member States, WIPO’s Member States agreed to open offices in Algeria and Nigeria³. The Algeria Office opened in early 2019. The Nigeria Office opened in January 2020 following delays finding suitable accommodation.

2.11 Despite agreeing principles in 2015, in our view, WIPO’s approach to external offices remains characterised by prolonged discussion over many years. The Secretariat’s role in supporting Member States’ recent discussions has been based on a view that they have limited authority to execute decisions in this area, and as such they have offered much less guidance than they would do for other developments within WIPO. It has limited its commentary on external office decision-making to providing a basic and factual technical report on proposals. For example, the Secretariat has not issued a standard template for Member States to use when submitting their external office proposals. This procedure would define specific information and evidence requirements, to enable consistent comparison of proposals.

2.12 On receipt of new office proposals and in preparing its report for member states, the Secretariat has elected not to provide commentary on technical and financial sustainability because proposals contained limited reliable data to enable comparisons.. It took the view that it was difficult for them to independently compare proposals using a set of objective indicators. As a result, Member States have no validated objective information to inform their decision making.

³ WO/PBC/25/22 p55

2.13 In our view, there are risks to WIPO's current approach to determining the optimum network of external offices:

- The methodology for balancing potentially competing decision-making criteria is not adequately prescribed. This may reflect an underdeveloped strategic case built on evidence.
- The technical skills of the Secretariat are currently under-utilised.
- There is a significant opportunity cost for the Organization related to protracted negotiations which may not be proportionate.

2.14 The recent decision by Member States to postpone further deliberations on external offices until after the results of an evaluation in 2021 would seem sensible.

R2: WIPO should consider the development of a clearer strategy for offices outside of Geneva taking full account of the business and operational priorities identified in its next strategic plan and establishing clearer criteria to support the decision-making process.

R3: Following a more clearly articulated strategy, WIPO should consider changes to the balance of responsibilities between Member States and the Secretariat in relation to external office decision-making.

2.15 In light of the existing 'Guiding Principles Regarding WIPO External Offices', the Secretariat believes that these two recommendations should be considered by the Member States.

External offices governance

2.16 A fundamental principle is that WIPO's external offices network should add value and should complement and not duplicate WIPO's headquarters-based activities. This requires effective governance and administrative arrangements. The Secretariat has taken steps to formalise its approach to managing the network:

- Establishing an External Office Coordination Unit in the Office of the Director General, headed by a Director, reporting to the Chief of Staff.
- Nominating senior managers to act as supervisors of individual external offices with overall co-ordination resting with the Chief of Staff.
- Deploying Global Office Architecture to improve IT connectivity and integration between external offices and headquarters.
- Videoconferencing between external offices and headquarters; with representatives from external offices participating in Secretariat Town Hall meetings and Director General-led management meetings.
- Promoting mobility of personnel between headquarters and external offices.

- Attendance at annual WIPO General Assemblies by Heads of external offices to improve how offices engage with the Secretariat and Member States and to receive training.
- Inviting external offices to submit bi-monthly reports summarising recent activities and plans with the Coordination Unit sharing these more widely.

2.17 Each external office produces an annual work plan in line with the expected results and implementation strategies set out in Program 20 of the biennial Program and Budget. The Secretariat's External Offices Coordination Unit reviews work plans with input from the Program Performance and Budget Division, prior to their approval by the Director General.

2.18 Our assessment is that the Secretariat has implemented a structured response to its governance of external offices. Nevertheless, a truly integrated approach requires ongoing communication across the Secretariat. For example, the sharing of activities between Regional Bureaux and external offices depends on negotiating areas of focus and ways of working, recognising the respective capabilities and resourcing of external offices and headquarters teams. The proposed evaluation of the external offices network in 2021 could explore whether such integration is achieved in practice.

2.19 We believe there is scope to better focus the reporting by external offices in their bi-monthly reporting. The Coordination Unit reviews, edits and consolidates reports but there is a lack of data validation to ensure that reporting is robust. We note that the Independent Oversight Division has not undertaken an audit of external offices in recent years and there may be value in some independent validation of data reported.

2.20 We also note that the reports of the external offices are narrative heavy and do not clearly focus on the activities or stakeholder interactions which would best demonstrate external offices' contribution to WIPO's overall Program and Budget. As a further example of the potential for improvement, these reports do not closely align with external office work plans agreed as part of the Program and Budget process, reducing their usefulness as an accountability document.

R4: WIPO should consider measures to enhance the activity reports and plans produced by external offices by:

- **ensuring these follow closely the activities agreed in Program and Budget work plans, enabling a clearer assessment of external office progress.**
- **adopting a 'plan on page' discipline to these reports recording key metrics, activities and engagements and key next steps in line with the agreed work plan.**
- **reviewing the frequency of the formal reporting of external office activities, if supplemented by other more regular communications.**

R5: WIPO's Independent Oversight Division should consider the value in undertaking an audit of external office operations and the flow of information between offices and the headquarters.

Measuring the performance of external offices

2.21 Effective performance measurement arrangements provide a further means of ensuring that external offices are contributing fully to WIPO's results framework. We note that the cross-cutting implementation strategies for the external office portfolio as a whole, described in Program 20 of the Program and Budget, are high-level and focus on ways of working rather than substantive interventions⁴.

2.22 Program 20 sets out an implementation strategy for each external office and the individual expected results to which each external office contribute together with relevant performance indicators. Each external office has separate baselines and target. Annual Program and Budget performance reporting provides data on individual external office performance.

2.23 While sharing some common characteristics such as their potential to provide local representation and engagement and to support a more responsive customer service, the priorities and activities of external offices will vary according to their operating context. The NAO acknowledges that it is appropriate for external offices to have some common measures, but their individual operating context implies that each should also have individually tailored results and indicators.

2.24 Accountability would be improved if each external office had tailored expected results and performance indicators, drawing on the wider pool of expected results and indicators used in the WIPO results framework. This more tailored approach should, in turn, underscore the development of individual external office work plans. We illustrate the value of a more segmented approach using one of several potential 'measures' of the different operating environment for external offices: patterns of IP treaty accession by external office host countries (Figure 5).

⁴ Reference to supporting the evaluation of the WIPO external office network to be conducted by the Program and Budget Committee in 2021 is an exception. See page 124 of the Program and Budget 2020-21.

Figure 5: Accession to treaties by external office host countries

| External Office location (countries in italics served by Singapore) | Intellectual Property Treaty | | | | | | | | | |
|--|------------------------------|-----------------------------|---|----------------|------------------|-----|------------------|-----------------|---------------------------|------------------|
| | Berne Convention | WIPO Copyright Treaty (WCT) | WIPO Performance & Phonograms Treaty (WPPT) | Beijing Treaty | Marrakesh Treaty | PCT | Singapore Treaty | Hague Agreement | Madrid Agreement/Protocol | Lisbon Agreement |
| Algeria | | | | | | | | | | |
| Brazil | | | | | | | | | | |
| China | | | | | | | | | | |
| Japan | | | | | | | | | | |
| Nigeria | | | | | | | | | | |
| Russian Federation | | | | | | | | | | |
| Singapore | | | | | | | | | | |
| Indonesia | | | | | | | | | | |
| Thailand | | | | | | | | | | |
| Malaysia | | | | | | | | | | |
| Philippines | | | | | | | | | | |
| Vietnam | | | | | | | | | | |
| Cambodia | | | | | | | | | | |
| Brunei | | | | | | | | | | |
| Myanmar | | | | | | | | | | |
| Laos | | | | | | | | | | |

Notes:

- 1 An uneven pattern of accession across host countries indicates the value of a more tailored performance measurement regime
- 2 A shaded cell indicates that the host country identified has acceded to the relevant treaties.
- 3 Position as at 31 January 2020. NAO understands that China is close to acceding to the Hague System.
- 4 The treaties listed are those currently referred to in Program 20 under Expected Results and Performance Indicators.

Source: NAO analysis of information supplied by WIPO Secretariat.

2.25 There are 14 indicators used to measure external office performance within Program 20. Four of these indicators measure the percentage of stakeholders reporting an “enhanced understanding” of IP systems following their engagement in external office activities (workshops etc.). While focused on outcomes – and the change caused by an external office – these measures do not provide any indication of the volume of stakeholders with an enhanced understanding. A more meaningful indicator might also refer to the number of stakeholders describing an enhanced understanding. In this way indicators would begin to provide greater detail of the contributions made following participation in external office activities. Expected results and performance indicators can be taken from WIPO’s existing results framework to maintain the principle of co-operation and synergy across programs

2.26 Given external offices potential for a significant role in facilitating better engagement with stakeholders, indicators should exist to measure the stakeholder assessment of the contribution made by the offices to an improved understanding and engagement. A more structured analysis of performance might incorporate a regular survey of external office stakeholders using a set of consistent questions over time. A survey could build on the existing organization-wide WIPO Perception Survey conducted in relation to Program 19 (communications), ensuring adequate tailoring of sampling and question themes.

2.27 Improvements to these indicators to measure this kind of data would help to provide more objective criteria for identifying the relative merits of the individual offices and the overall network. This would help inform decision making and the value which they bring to the organisation and provide useful data to inform and guide any further expansion of the network.

R6: Alongside existing indicators and measures, WIPO should consider establishing specific result areas and performance indicators relevant to each external office, reflecting the unique circumstances of their implementation priorities and the local context.

R7: WIPO should consider regular independent surveys of host country stakeholders to measure their views on the contributions from the external offices, to identify trends and movements and to ensure they remain relevant and focused on WIPO core objectives.

Evaluation and feedback

2.28 WIPO's results framework is a key part of its mechanisms to collect data to inform and manage business improvement. The data on performance is used to prioritise resource and effort in line with business objectives. Alongside this, evaluation is key to assess performance and the effectiveness of the resources dedicated to achieving objectives. Evaluations examine the implementation and impacts of programme interventions and their intended and unintended effects and costs. The results that flow from evaluation are an important source of information for accountability purposes and are a means to improve existing interventions and to better design those for the future.

2.29 WIPO's Program and Budget Committee has committed to an evaluation of the network of external offices in 2021. We understand that the terms of reference for this evaluation will be agreed by the PBC during 2020. While Members will have their own priorities in determining the scope of the review, those commissioned to conduct the evaluation will need to consider:

- How they might best assess the **additional** contribution or impact external offices make to the overall achievement of objectives;
- the extent of any *process* evaluation showing how external offices operate in practice and work with other stakeholders;
- the overall costs incurred in maintaining arrangements, and the relative cost benefits against other means of achieving similar outcomes; and
- an assessment of any business risks which flow from the maintenance or expansion of the network.

2.30 An evaluation of the impact of external offices will need to address measurement challenges linked to the varying operating contexts and focus of each office's work and the challenge of disaggregating the additional impact of external offices from WIPO's wider operation and the role of national IP offices. A process evaluation potentially adds insight into how external offices do their work, and if and how they complement the work of others and whether this is in line with expectations. A process evaluation can help to refine an intervention to improve its chances of success and could inform the criteria for strategic decision-making in relation to the network.

2.31 Given the scale of the related external office activity, WIPO should be mindful of the complexity of its evaluation and this should be proportionate to the level of resource dedicated to this programme. A sound review would provide critical information from which WIPO could develop a coherent strategy for the future of the external office network and a sound basis for future decision making. It is important that in creating this strategy it incorporates a framework against which the Secretariat can better support the Member States decision making and the assessment of any future cases. In our view this would then better mainstream the decision-making process and facilitate earlier conclusions.

Part Three

Other matters for the Governing Bodies

3.32 Under the Terms of reference for the External Audit, the Director General is required to report to us on any ex-gratia payments made or cases of proven fraud made or identified during 2019. There were no cases of ex-gratia payments reported to us. We identified no instances of fraud during the course of our audit testing, and no cases of fraud or writes-off related to fraudulent activity were reported to us by the Director General.

Prior Year Recommendations

3.33 In this section we summarise the Organization's progress in implementing past recommendations. Appendix One provides a more detailed review of progress for each prior years' recommendation based on data held in WIPO's TeamCentral as at 31 May 2020.

3.34 As at May 2020, of the 23 recommendations outstanding for 2018 and previous years, we considered that ten recommendations had been implemented and therefore closed, with 13 recommendations remaining in progress. Appendix One contains a more detailed commentary on the status of previous recommendations. It is important to note though that many of our previous recommendations have quite extended implementation dates, with little or no substantive activity in 2019. As a consequence, at this point in time many of our previous recommendations have not yet been actioned. We would encourage the Organization to review the potential for earlier action to secure the benefits of the improvement.

3.35 We are mindful of the recent challenging circumstances which will impact upon management's ability to implement recommendations. We believe there should be a more concerted effort to implement or reassess the applicability of previous recommendations which remain outstanding. The IAOC is a good forum through which to discuss any potential changes to these implementation plans.

Acknowledgments

3.36 We would like to thank the Director General and his staff for their co-operation in facilitating our audit engagement. The audit of 2019 was particularly challenging with the need for remote working, and the efforts of staff to support the audit have enabled us to ensure we can meet the timelines to support WIPO's Governing Bodies.

Original – as signed

Gareth Davies

Comptroller and Auditor General, United Kingdom - External Auditor

29 June 2020

Appendix One

Follow-up of prior year recommendations

(Source: WIPO TEAMCENTRAL REPORT as at 31 May 2020)

| Previous reference | Summary of recommendation | Administration's comments on status: May 2020 | 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 has developed a more detailed heritage assets disclosure which is included in the 2019 financial statements. This includes information on the number or assets held, a breakdown of assets by type, and an overview of the policies for managing and tracking heritage assets. | Note 7 to the financial statements provides additional information regarding heritage assets managed by WIPO. | 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 the applications and take mitigation measures. | Classification Guidelines (2018 Edition) has been translated into six UN official languages. The 2019 Edition is underway. It's a policy now. Analysis of the irregularity has been initiated by the Head of Operations Support Service. | We note the Secretariat's comments and consider this recommendation closed. | Closed |
| 2017 (WO/PBC/28/4) R#6 | i) Establish a well-defined Customer Service Strategy, Standards and best practices supported by an effective e-based quality feedback system, to cater to | A feedback questionnaire was introduced to measure customer's satisfaction on the Contact Madrid Service and collect suggestions for improvement. Several enhancements were made to the questionnaire which now allows for | We note the Secretariat's comments and consider this | Closed. |

| Previous reference | Summary of recommendation | Administration's comments on status: May 2020 | External Auditor's view | Status |
|--------------------|--|---|-------------------------------|--------|
| | <p>the needs of customers efficiently.</p> <p>ii) Undertake regular Customer Surveys, as mentioned in CSC, for feedback to improve their services.</p> | <p>automated reports. A policy and standards for response times have been developed and model replies have been created in English, French and Spanish: in 2018; 80% of emails to the MIU were processed within two business days; at least 80% of phone calls were replied the same day. In 2019 at least 90% of emails are distributed within 24hours; at least 80% of emails to MIU are answered within 48 hours and at least 90% of phone calls are replied the same day. Due to the departure of the Director of the Madrid Information and Promotion Division, work was delayed on further developments regarding the recommendation.</p> <p>This will be taken up when the new director is appointed. Madrid IPD is responsible for the Madrid component of the 2019 WIPO Customer Satisfaction coordinated by the Marketing and Customer Service Division. key areas to be measured in the survey were identified and the Madrid sampling was delivered. The next step is to review the draft questionnaire to be provided by the survey company. For this 2019 exercise, the survey will assess the customer</p> | <p>recommendation closed.</p> | |

| Previous reference | Summary of recommendation | Administration's comments on status: May 2020 | External Auditor's view | Status |
|------------------------------|---|--|---|--------------|
| | | satisfaction across various touch points with the Madrid Registry (and not only for filing applications as previously done). The WIPO Customer Satisfaction Survey should be launched before the end of 2019. | | |
| 2017 (WO/PBC/28/4) R#7 | i) Use IT Tool to carry out QC/QA processes effectively and conduct the QC process at the stipulated periodicity. ii) Adopt a policy for periodic review of Accepted Quality Levels. | The project in 2018 has been discontinued due to conflict of priorities. Instead, an IT process for sampling purposes that uses MIRIS production data to create excel files has been put into place. The process was put into production in Q3 of 2018. Accepted Quality Level are reviewed and revised on a yearly basis. | We note the Secretariat's comments and consider this recommendation closed. | Closed. |
| 2017 (WO/PBC/28/4) R#8 | Formulate a long-term strategy for human resource for the Madrid System in consultation with a view to working out an appropriate balance between permanent and flexible personnel resources. | In September 2019, HR Strategy of the Madrid Registry has been approved by the DG. The recommendation could be closed now.. | We note the Secretariat's comments and consider this recommendation closed. | Closed. |
| 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 | Taking into account experienced gained and progress made since the formulation of the recommendation, it is believed the recommendation needs to be broken | We note management's response and will | In progress. |

| Previous reference | Summary of recommendation | Administration's comments on status: May 2020 | External Auditor's view | Status |
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| | on the accession of new members and on the usage of Madrid System. | down in various components with a closure event for each of them. | revisit this area during the 2020 audit. | |
| 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>The action plan includes:</p> <p>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. This is now done</p> <p>By end of Q3 2019, proposed implementation mechanism by this architect in respect of the 2012 expert report remaining recommendations. Draft floorplans of all buildings and all levels reviewed with architect in October 2019; his consolidated report being finalized for end November 2019.</p> <p>By the then of Q4 2019, review by WIPO of the proposed implementation mechanism and, estimated cost and timeframe. Still on time for PID to make assessment by end Q4 2019.</p> | An action plan has been developed and is being put into practice. On this basis we have closed this recommendation. | Closed |
| 2018 (WO/PBC/30/4) R#1 | Review the current composition of the financial commentary and consider the scope to make more concise disclosures within | A session was held with the external auditor on 2 October 2019, during which the 2018 financial statements were analyzed to identify areas where disclosures could be more concise and | Management have reviewed the financial statements and have | Closed |

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| | the financial statements, while maintaining compliance with the financial reporting standards. | the document streamlined. An amended version of the 2018 financial statements was subsequently prepared during November 2019, which included proposed presentation changes, and was presented to the external auditor during the interim audit. The 2019 financial statements are based on this amended version. | produced a more streamlined report. | |
| 2018 (WO/PBC/30/4) R#2 | 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. | For the September 2019 closure, a list of balance sheet accounts was prepared to ensure the required analysis was in place and fully documented. This included preparing itemized breakdowns and aged analysis of balances where applicable. This exercise was repeated for the 2019 year-end closing and is incorporated into the Finance Division's financial closure schedule. | Management have developed and implemented the review of its control accounts. | Closed |
| 2018 (WO/PBC/30/4) R#3 | 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 | Management has accepted this recommendation. WIPO plans to develop a strategy by September 2020 focused on the objective 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 | We note WIPO's response and have had some further discussions on analytics during the 2019 audit. | In progress. WIPO's estimated implementation date: 30/09/2020 |

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| | Statement on Internal Control. | Internal Control. WIPO has worked with an external consultant to draft the inputs to the strategy and will consult internally to complete the strategy by September 2020 and also commence the work identified the strategy for 2020. | | |
| 2018 (WO/PBC/30/4) R#4 | Consider aligning the IOD Planning and Reporting cycle to the financial period, allowing the outputs to feed into the SIC assurances. | IOD accepts this recommendation. However, it should be noted that in the transitional period for this alignment, the PBC and General Assembly will receive a 6-month report (July 2019 to December 2019) for the sessions in 2020. | We have noted the response of IOD to align the reporting periods and consider this recommendation closed. | Closed. |
| 2018 (WO/PBC/30/4) R#5 | 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. | Management has accepted this recommendation. The results framework for Program 23 in the approved Program and Budget 2020/21 was revised to incorporate internal measurements. | We note the changes to the performance indicators reported in the 2020/21 programme budget. We also note though that baselines are targets have not yet been established. | In progress. WIPO's estimated implementation date: 30/06/2020 |
| 2018 (WO/PBC/30/4) R#6 | Ensure that the key performance indicators for each program contain an | Ensure that the key performance indicators for each program contain an appropriate balance of measures to align | We note management's response to | In progress. WIPO's estimated implementation date: 31/12/2021 |

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| | appropriate balance of measures to align activities to the strategic goals. | activities to the strategic goals. This will be addressed in the context of the Program & Budget 2022/23 | incorporate this in to the 2022/23 biennium. | |
| 2018 (WO/PBC/30/4) R#7 | 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. | Management has accepted this recommendation. This will be addressed with Programs as part of the baseline/target update exercise for the biennium 2020/21. | We note WIPO's future implementation date of this recommendation and we will review the status during next year's audit. | In progress. WIPO's estimated implementation date: 30/06/2020 |
| 2018 (WO/PBC/30/4) R#8 | 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. | Assessing the achievement of indicators within a range is common results-based management practice. Management will therefore further explore this recommendation. This will be further explored in the context of the WIPO Performance Report 2018/19 | We note WIPO's future implementation date of this recommendation and we will review the status during next year's audit. | In progress. WIPO's estimated implementation date: 31/12/2020 |
| 2018 (WO/PBC/30/4) R#9 | 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 | The development of replacement indicators can only be addressed in the context of the preparation of the biennial Program and Budget. The 2020-21 Program and Budget has already been approved by Member States during the 2019 Assemblies of WIPO Member | We note management's response to incorporate this in to the 2022/23 biennium. | In progress. WIPO's estimated implementation date: 31/12/2021 |

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| | developing new or replacement indicators where significant gaps or a disproportionate emphasis exist. | States. As such, new indicators may only be proposed during the preparation of the Program and Budget for the next biennium (2022-23), i.e. around early-2021. | | |
| 2018 (WO/PBC/30/4) R#10 | 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. | This recommendation was duly taken into account during the preparation of the Program and Budget 2020/21 and performance indicators were revised accordingly. Baselines and targets providing clear indications of planned progress in the biennium were defined for 95% and 98% of the baselines/targets respectively. The minimal remaining baselines and targets will be defined during the baseline/target update exercise as per usual practice. | We note the changes to the performance indicators reported in the 2020/21 programme budget. We also note that baseline targets have not yet been established for all program 23 indicators. | Closed, but we note that the program 23 baselines/targets were less fully defined than the program budget overall. |
| 2018 (WO/PBC/30/4) R#11 | 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. | Management has accepted this recommendation. HRMD will ensure that the Gender Action Plan is sustainably aligned with and integrated into WIPO's revised Policy on Gender Equality, as recommended by EVAL 2019-02. Within this framework, HRMD will review the implementation of the Action Plan and report on progress in the 2021 Annual Report on Human Resources. | We note WIPO's future implementation date of this recommendation and we will review the status during next year's audit. | In progress. WIPO's estimated implementation date: 01/03/2021 |

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| 2018 (WO/PBC/30/4) R#12 | Work with Member States to resolve the lack of clarity around geographical representation of the workforce. | <p>Management has accepted this recommendation. As stated at the PBC session of July 2019 and as reflected in the Report of the Coordination Committee during the Assemblies of WIPO Member States in October 2019, an extensive exercise was undertaken amongst the Member States on this question in the years 2015 and 2016, in which the 1975 Accord on geographical representation agreed to by Member States, was revisited and had resulted in a report. However, in the discussions held in 2015 and 2016, Member States did not agree to change it. Responsibility to clarify or modify the 1975 Accord lays with Member States and not with the Secretariat, which can only assist the Member States in its discussions. The Secretariat will implement any decision on the issue of geographical distribution once taken by Member States. Meanwhile, the Secretariat continues to take action to improve geographical representation in its workforce through its Focal Point Initiative and targeted outreach visits to unrepresented Member States.</p> | We note the constraints here and WIPO's future implementation date of this recommendation and we will review the status during next year's audit. | In progress. WIPO's implementation date: 31/12/2020 |

| Previous reference | Summary of recommendation | Administration's comments on status: May 2020 | External Auditor's view | Status |
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| 2018 (WO/PBC/30/4) R#13 | Consider reviewing the effectiveness of its training offer, to ensure it meets current business needs and the talent management strategic priorities | Management has accepted this recommendation. A new learning and development policy is foreseen in 2020 and this will include a revised approach to training offered. | We note WIPO's future implementation date of this recommendation and we will review the status during next year's audit. | In progress. WIPO's estimated implementation date: 31/12/2020 |
| 2018 (WO/PBC/30/4) R#14 | Ensure it utilises the full range of performance assessment markings, as a means of targeting training and identifying underperformance; | Management has accepted this recommendation. A new learning and development policy, foreseen in 2020 and which will be widely consulted will include performance assessment, underperformance and targeted training | We note WIPO's future implementation date of this recommendation and we will review the status during next year's audit. | In progress. WIPO's estimated implementation date: 31/12/2020 |
| 2018 (WO/PBC/30/4) R#15 | 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. | Management has accepted this recommendation. Measures are being put in place which would lead to a reduction in absenteeism. Following the introduction of the absence management module in AIMS in January 2019, new reporting tools on sick leave have been and are in the process of being developed to enhance accountability. Internal guidelines on return to work have been drafted and are in use since the third quarter of 2019 on a pilot basis | We note WIPO's future implementation date of this recommendation and we will review the status during next year's audit. | In progress. WIPO's estimated implementation date: 31/12/2020 |

| Previous reference | Summary of recommendation | Administration's comments on status: May 2020 | External Auditor's view | Status |
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| 2018 (WO/PBC/30/4) R#16 | 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 | Management has accepted this recommendation. A staff survey covering a number of themes mentioned in the recommendation may be implemented in 2021. The Procurement and Travel Division is reviewing existing tenders of other UN Agencies and a review of UN Staff Surveys is currently underway to assist WIPO in the design of its own regular staff surveys. | We note WIPO's future implementation date of this recommendation and we will review the status during next year's audit. | In progress. WIPO's estimated implementation date: 30/06/2021 |

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

Financial Management

Recommendation no.1

WIPO should annually review the content of the Financial Report and Financial Statements and discuss proposed changes at the relevant meeting of the IAOC in advance of preparing the annual financial statements.

Response

Management reviews the content and presentation of the WIPO Financial Report and Financial Statements at least annually as part of its year-end closing process. This includes consideration of the impact of changes in the Organization's operations, and of developments in International Public Sector Accounting Standards. The WIPO Financial Report and Financial Statements are presented each year to the IAOC in accordance with its mandate and responsibilities in the area of financial reporting.

External Offices

Recommendation no. 2

WIPO should consider the development of a clearer strategy for offices outside of Geneva taking full account of the business and operational priorities identified in its next strategic plan and establishing clearer criteria to support the decision-making process.

Response

In view of the 'Guiding Principles Regarding WIPO External Offices', the Secretariat understands that this recommendation is directed to the Member States.

Recommendation no. 3

Following a more clearly articulated strategy, WIPO should consider changes to the balance of responsibilities between Member States and the Secretariat in relation to external office decision-making.

Response

In view of the 'Guiding Principles Regarding WIPO External Offices', the Secretariat understands that this recommendation is directed to the Member States.

Recommendation no. 4

WIPO should consider measures to enhance the activity reports and plans produced by external offices by:

- a. ensuring these follow closely the activities agreed in Program and Budget work plans, enabling a clearer assessment of external office progress.
- b. adopting a 'plan on page' discipline to these reports recording key metrics, activities and engagements and key next steps in line with the agreed work plan.

- c. reviewing the frequency of the formal reporting of external office activities, if supplemented by other more regular communications.

Response

The Secretariat accepts the recommendation and will implement changes to its activity reporting starting in January 2021.

Recommendation no. 5

WIPO's Independent Oversight Division should consider the value in undertaking an audit of external office operations and the flow of information between offices and the headquarters.

Response

IOD accepts the recommendation and will integrate an audit of external offices in the 2022/2023 oversight work-plan; taking into account the PBC evaluation of external office planned for 2021.

Recommendation no. 6

Alongside existing indicators and measures, WIPO should consider establishing specific result areas and performance indicators relevant to each external office, reflecting the unique circumstances of their implementation priorities and the local context.

Response

The Secretariat will take this duly into account in the context of the preparation of the Program and Budget 2022/2023.

Recommendation no. 7

WIPO should consider regular independent surveys of host country stakeholders to measure their views on the contributions from the external offices, to identify trends and movements and to ensure they remain relevant and focused on WIPO core objectives.

Response

The Secretariat accepts the recommendation within the context of the WIPO Performance Assessment biennial exercise.