

ANNEX II

EXTRACT FROM THE REPORT OF THE TWELFTH SESSION OF THE PROGRAM  
AND BUDGET COMMITTEE (DOCUMENT WO/PBC/12/9)

ITEM 6 OF THE AGENDA:

REVISION OF THE FINANCIAL REGULATIONS AND RULES  
OF THE ORGANIZATION

61. The deliberations of the Committee were based on document WO/PBC/12/6. In introducing the item, the Controller stated that the draft Revised Financial Regulations and Rules contained in that document reflected the feedback received from the Member States following the Committee's eleventh session in June 2007, as well as the informal consultations held on July 20, 2007 as requested by the Committee. She added that following the circulation of the said document, the Secretariat had had a further exchange of views on the subject with the Audit Committee, as reflected in the report of the September session of the latter (document WO/AC/6/2). The Audit Committee had made a number of recommendations and subject to the agreement of the Member States, the Secretariat was ready to reflect these in the final version of the proposed new Financial Regulations and Rules of the Organization.

62. In order to take into account the views of the Audit Committee on the revised Financial Regulations and Rules, the Chair of the Audit Committee was invited to present his report on the work of the Committee at this point. The text of his statement is attached to this document as Annex V (please also refer to agenda item 7).

63. Interventions on this agenda item were made by the Delegations of Colombia, France, Germany, Morocco, Romania, Spain, Switzerland, the United States of America, and Zambia.

64. All Delegations who spoke commended the Secretariat on the significant work done in developing the proposals under consideration. The Delegation of the United States of America stated that the proposals resulting from such extensive undertaking were a major improvement over the current system that could serve as an example to other organizations.

65. The Delegation of Spain raised the issue of a potential contradiction between draft Regulation 2.8 as appearing in document WO/PBC/12/6 and Article 11.4 of the WIPO Convention. Following other interventions from the floor and clarifications by the Controller, it was agreed to amend the text of draft Regulation 2.8 by deleting the words "in the second year of the financial period."

66. The Delegation of the United States of America proposed, and the Committee agreed, to add the word "international" before the words "audit standards" in draft Regulation 8.4.

67. The Delegation of the United States of America also proposed to bring the term of office of the External Auditor into line with that applied by the UN system. Following several interventions from the floor and clarifications by the Secretariat, it was therefore agreed to amend the text of draft Regulation 8.2 by replacing the words "shall be appointed for a term of office of four years' duration renewable only once" with the words "shall be appointed for a term of office of six years non renewable consecutively".

68. The Delegation of France submitted for the consideration of the Committee a number of amendments to the text of certain draft Regulations and Rules as appearing in the document WO/PBC/12/6. In this connection, the Committee made a distinction between the amendments that could be recommended immediately to the Assembly for adoption and those that needed further analysis by the Committee. The latter related to flexibility adjustments under the PCT, Madrid and Hague systems as per draft Regulation 5.6.

69. Following several interventions from the floor and further clarifications and editorial suggestions by the Controller, the Committee agreed to recommend to the Assembly the amendments suggested by the Delegation of France as reproduced in Annex VII of the present report. It further agreed that it was not yet in a position to make a final recommendation on the text of draft Regulation 5.6, pending further analysis and input from the forthcoming sessions of the PCT, Madrid and Hague Assemblies, respectively.

70. *The Program and Budget Committee:*

(i) *took note of the information contained in document WO/PBC/12/6, as well as of the views expressed by the delegations and the Audit Committee;*

(ii) *recommended to the Assemblies of WIPO Member States the adoption of the new Financial Regulations as appended to document WO/PBC/12/6, with January 1, 2008, as date of entry into force, as amended to reflect the recommendations of the Audit Committee (as per paragraph 34 of document WO/AC/6/2), as well as to reflect the agreement reached by the Committee on a number of further amendments, as described in the report of the session. Regarding draft Regulation 5.6 (Flexibility Adjustments), the Committee agreed that it required further consultations before being in a position to make a recommendation to the Assemblies on the adoption of this provision, and proposed to continue examining this draft with a view to making a recommendation to the Assemblies at their 2008 session;*

(iii) *gave its positive advice on the establishment by the Director General of the new Financial Rules as appended to document WO/PBC/12/6, effective January 1, 2008 as amended to reflect, as appropriate, the recommendations of the Audit Committee*

*(as per paragraph 34 of document  
WO/AC/6/2) as well as to reflect the  
agreement reached by the Committee on a  
number of further amendments, as described  
in the report of the session.*

ANNEX V OF DOCUMENT WP/PBC/12/9

BRIEFING BY THE CHAIR OF THE WIPO AUDIT COMMITTEE

Statement made to the Program and Budget Committee  
by Mr. Khalil Issa Othman, Chair, WIPO Audit Committee

Mr. Chairman, Distinguished Delegates,

I am pleased to introduce, on behalf of the Audit Committee, the reports of both its fifth meeting held from July 9 to 12 (document WO/AC/5/2) and its sixth meeting, held from September 3 to 5 (document WO/AC/6/2).

At those two meetings, the Committee reviewed several items including the Desk-to-Desk Review, the New Construction Project, Procurement, the Financial Regulations and Rules, Internal Audit and Oversight, the Review of the WIPO Internal Audit Charter and the Review of the Terms of Reference of the Audit Committee.

For the last two items, the Program and Budget Committee has already taken a decision following discussions at the Working Group on Monday, and I do not have to brief you further. I will begin with the Financial Regulations and Rules.

The Committee continued to review and monitor changes introduced to the draft Financial Regulations and Rules. In its latest review and exchange of views with Secretariat officials, the Committee noted that:

- (a) The Secretariat planned to have the new Financial Regulations and Rules effective as of January 1, 2008;
- (b) The recommended provisions move a step further in the implementation of Results-Based Budgeting (RBB) (Regulations 2.5 and 2.14); and,
- (c) There was no regulation or procedure applicable to Member States withdrawing from the Organization (Regulation 3.8).

The Committee recommended a number of changes and/or additions, most of which were orally accepted by the Secretariat official. Among these comments were the following:

- (a) A detailed plan for the training of current and future management in the application of the new Financial Regulations and Rules be prepared, including training for staff whose work will require knowledge of the new Financial Regulations and Rules. During this training, attention should be given to the ethics-related and financial disclosure procedures currently being prepared by the Internal Audit and Oversight Division;
- (b) The proposed Program budget, in addition to the Objectives and Expected Results, also include indicators of achievement, which would be used to measure results achieved and facilitate analysis by Member States (Regulations 2.5 and 2.14);
- (c) Financial institutions be designated after competitive bidding (Regulation 4.9);

- (d) A copy of the financial statement sent to the External Auditor should also be sent to the Committee (Regulation 6.5); and,
- (e) The Secretariat ensures implementation and monitors compliance with the revised Financial Regulations and Rules, and reports regularly on the implementation of the Financial Regulations and Rules to Member States and to the Audit Committee, which will review those reports and submit its findings to the Program and Budget Committee.

I will now turn to the question of procurement and the Procurement Manual.

In its review of the Procurement Manual, and following discussions with Secretariat officials, the Committee noted that the Secretariat had based its draft Procurement Manual on Office Instruction No. 21/2006 Rev., and other UN models, and recommended that the Internal Audit and Oversight Division monitor the actual implementation of the provisions of the Manual in the procurement process.

The Committee noted the explanations provided by the Secretariat on the methods of solicitation/threshold for tender procedure and the exemption clauses (pages 10 to 12, paragraphs 62 to 63) in the Manual, and recommended that a log of all exemptions be maintained by the Procurement Division.

The Committee observed that the procedures for appointing financial institutions for transactions of the Secretariat have not normally been subject to bidding, and recommended that normal bidding procedures apply for the selection of financial institutions for the Organization.

The Committee was informed that a risk register relating to procurement has not yet been prepared, and that its preparation is awaiting the report of the Internal Auditor on the review of the procurement process undertaken in June-July 2007. The Committee recommended that a risk register be developed for the risks affecting procurement, as well as a framework for managing identified risks.

With regard to the New Construction Project, the Committee met with Secretariat officials and representatives of the Pilot, reviewed and discussed the progress of the Project, and recommended the following:

- (a) The security improvement costs related to the new building be submitted in a detailed budgetary format, together with the proposals related to sources of financing;
- (b) The Secretariat prepare an analyzed consolidated budget of the new building, to include the associated costs such as security, financing, any additional staffing and contingency provisions, together with all contracting and subcontracting costs;
- (c) The Secretariat take into account in negotiating the loan for the new building financing, the possibility of incurring finance charges between the date of entering into a contractually binding agreement with the bank or banks concerned, and actual facility draw down; and,
- (d) The Secretariat and Pilot establish the necessary procedures for a dynamic follow-up, updating and monitoring of the risk registers, together with a mechanism to alert all parties concerned of problems that may have occurred, or changes made in the schedule of the Project.

My final comments are on the Internal Audit and Oversight Division (IAOD).

The Committee continued to be concerned with the staffing situation in IAOD. A senior auditor was recruited, a senior evaluation officer was leaving, and the recruitment of an investigator was ongoing.

The Committee recommended that IAOD and the WIPO Secretariat embark on a more intensive recruitment process for vacant posts, and that Member States endorse the request of the Secretariat to recruit the additional posts stipulated in the draft Program and Budget for 2008/09.

The Committee noted that no 2007 plans setting out objectives, priorities and resources requirements for audit, inspection, investigation and evaluation were in place. Neither were there manuals for investigation and inspection.

The Committee recommended that the Director of IAOD start developing a strategic approach and rationale for his 2007 and 2008 plans, with a critical path analysis, setting out the objectives, priorities and resource requirements. It also recommended that the Director of IAOD start working on manuals for investigation and inspection, and be enabled to outsource skills urgently required using funding available in respect of vacant posts

The Committee noted that the follow-up system on oversight recommendations had no benchmarks for compliance, with dates. This was thoroughly examined and a number of recommendations were made as contained in the reports of the Committee's fifth and sixth meetings.

In view of the importance of this Division, and its role in internal control and the difficulties encountered therein, the Committee decided to take up the of the subject of the Internal Audit and Oversight Division in its entirety at its next meeting in December 2007.

I have left out the Desk-to-Desk Review item, because, with your agreement, I will introduce this item after Mr. Gurry's presentation.

I thank you, Mr. Chairman.

ANNEX VII OF DOCUMENT WO/PBC/12/9

AMENDMENTS TO THE FINANCIAL REGULATIONS AND RULES  
PROPOSED BY THE DELEGATION OF FRANCE AS AGREED TO BY THE PROGRAM  
AND BUDGET COMMITTEE

Regulation 1.1     add “They are approved by the General Assembly.”

Rule 101.1     ~~delete~~ “approved by the General Assembly”  
                  add second sentence “The Program and Budget Committee is informed of any  
                  modification of the Financial Rules.”

Rule 101.3, point (d)     add “personnel resources” before the words “and finance.”

Regulation 2.5           reads (amendments in italics): The proposed program and budget shall be divided into programs. Proposed programs shall include a narrative setting out objectives and expected results during the biennium, together with financial and human resources required to achieve the objectives, (*added: “benchmarks and indicators of execution”*). The proposed program and budget shall be preceded by a statement explaining (*deleted: “the main changes made in”*) the content of the program and the volume of resources allocated to it in relation to the previous financial period. The proposed program and budget shall be accompanied by such information, annexes and explanatory statements as may be requested by the General Assembly and the Assemblies of the Unions and such further annexes or statements as the Director General may deem necessary and useful.

Rule 102.2

point (a)     after the words” proposed budget” add “and by nature of expenditure”;  
                  after the words “financial period” add “the adopted initial budget”.

point (d)     should read: “a detailed organigram of the International  
                  Bureau including names of Directors and Program Managers.

Regulation 2.14     after the word “results” add “benchmark indicators of execution”

Regulation 5.10     delete “the notes to”

Regulation 6.6           after the words “balance sheet,” add “a report on the investment policy  
                  results”

[End of Annex II and end of document]