

WIPO



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WORLD INTELLECTUAL PROPERTY ORGANIZATION
GENEVA

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WIPO AUDIT COMMITTEE

Fourth Meeting Geneva, March 26 to 29, 2007

REPORT

1. The fourth WIPO Audit Committee meeting (hereinafter referred to as “the Audit Committee”) took place from March 26 to 29, 2007. Present were Messrs. Khalil Issa Othman (Chair), Geoffrey Drage, Gong Yalin, George Haddad, Akuetey Johnson, Akeem Babatunde Ajibola Oladele, Gian Piero Roz and Igor Shcherbak.
2. The Committee adopted the draft Agenda (Annex II).
3. The Audit Committee meeting was briefed by the Chair on the outcome of the Working Group of the Program and Budget Committee, held on December 14, 2006, and the Tripartite Meeting on the Desk-to-Desk Assessment Project, held on January 22, 2007, as well as on informal meetings with Member States and Secretariat officials.

AGENDA ITEM 1: The New Construction Project

4. The Audit Committee was provided with the following documents by the WIPO Secretariat:
 - Progress Report on the New Construction Project, issued on March 8, 2007, by Mr. Philippe Petit, Chair, and Ms. Isabelle Boutillon, Secretary, of the Construction Committee
 - Charter for the New Construction Project, issued on March 8, 2007, by Mr. Philippe Petit, Chair, and Ms. Isabelle Boutillon, Secretary, of the Construction Committee
 - Charter for the New Construction Project, issued on March 8, 2007, by Mr. Philippe Petit, Chair, and Ms. Isabelle Boutillon, Secretary, of the Construction Committee, showing changes between versions 3 and 4

- Pilot Monthly Reports for the months of November/December 2006 and January/February 2007
- Report of the External Auditor dated November 9, 2006

5. Further information and explanations were provided orally to the Audit Committee by Mr. Philippe Petit, Chair, and Ms. Isabelle Boutillon, Secretary, of the Construction Committee, as well Mr. Jean-Daniel Fehr, Project Director General and Mr. Jean-Noël Alaterre, Project Associate Director, Burckhardt + Partner SA (“the Pilot”) during the course of the meeting.

6. The Audit Committee recommends:

- (a) The risk registers (Annexes XIII A and B of the Construction Charter) should be amended to include a named individual responsible for dealing with each risk specified;
- (b) The risk register (Annex XIII B of the Construction Charter) prepared by the Secretariat should set out specific measures for risk mitigation;
- (c) The risk registers (Annexes XIII A and B of the Construction Charter) should be amended so that they are set out in order of risk priority;
- (d) In its future reports, the Secretariat should provide information to the Audit Committee on key changes to the risk register and, if any, the reasons for removing risks or reducing priorities from its risk register;
- (e) The Pilot is invited to provide comments on the Secretariat risk register.
- (f) Inconsistencies in the reporting line between the Architect and the Pilot in Annex IA and Annex IC of the Construction Charter should be eliminated;
- (g) The role of Internal Audit and Oversight Division (paragraphs 63 and 64) deleted from the Construction Charter version 2006 0304 issued on October 15, 2006, should be reinstated and amended to permit Internal Audit and Oversight Division to sub-contract this role in so far as its own human resources are insufficient for this purpose;
- (h) Throughout the Construction Charter and relevant appendices thereto, clear distinction should be made between reporting for information purposes and reporting for accountability purposes;
- (i) The Pilot’s monthly reports should include an analysis of problems registered, risks removed or mitigated and new issues foreseen;
- (j) The result of consultation by the Construction Committee with the *Institute du droit suisse et international de la construction* with regard to dispute resolution procedures to be incorporated in the general contractor’s contract be reported to the Audit Committee prior to its next formal meeting.

AGENDA ITEM 2: The Desk-to-Desk Review

7. The Audit Committee was provided with the following documents by the WIPO Secretariat:

- Summary of Discussions held during the Tripartite Meeting on the Desk-to-Desk Assessment Project. January 22, 2007
- Progress Report on the Desk-to-Desk Assessment of WIPO's Human and Financial Resources

- WIPO Desk-to-Desk Review: IPSC/PwC Meeting: Status Report and Preparation of March Deliverables, dated February 27, 2007

8. The Audit Committee was briefed by Mr. Richard Golding, Partner, Mr. Kevin Delany, Partner, Ms. Karin Hagemann, Director and Ms. Gill Sivyver, Director, of PricewaterhouseCoopers (PwC) and separately by Mr. Francis Gurry, Deputy Director General, in his capacity as Chairman of the Internal Project Steering Committee (IPSC) on the progress of the project. The briefings were in the form of an oral presentation. In this regard, the Audit Committee was informed that, for the sake of confidentiality at a stage when the project had not yet reached final conclusions, the Steering Committee had agreed with PwC that there would not be an interim written report on the subject.

9. The information provided by PwC and the Chairman of the Steering Committee suggested that the project was on track and that a diagnosis of the vulnerable areas and malfunctions had already emerged, but needed further substantiation before recommendations could be made. The Audit Committee had extensive discussions with both PwC and the Chairman of the Steering Committee about specific items raised by PwC. Nevertheless, the Audit Committee concluded that the absence of a written report limited its ability to oversee the progress made so far, in particular, as it related to the key questions raised by the Audit Committee during the tripartite meeting held on January 22, 2007, and as to whether PwC's progress was in accordance with the Terms of Reference.

10. The Audit Committee took note of the fact that the final version of the report would not be available before the end of June. Accordingly, the Audit Committee urges the WIPO secretariat to monitor closely the progress of work, in terms of its substantive content and direction, in order to ascertain that the desk-to-desk exercise is addressing the core issues reflected in the Project's Terms of Reference, in particular, those relating to the questions raised by the Audit Committee during the tripartite meeting of January 22, 2007. The Committee will keep under review the progress of the project in order to closely examine the conclusions and recommendations of PwC and provide its views on the matter to the Program and Budget Committee.

AGENDA ITEM 3: Internal Audit and Oversight

11. The Audit Committee was provided with the following documents:

- Comprehensive List of WIPO Oversight Recommendations from 2002 to 2007, and Status of Implementation, as of March 23, 2007
- Internal Audit and Oversight Progress Report, March 2007

12. Further information and explanations were provided orally by Mr. Nicholas Treen, Director, Internal Audit and Oversight Division (IAOD). The Committee was aware of the deficiencies in IAOD prior to Mr. Treen's appointment and was looking forward to work with him towards strengthening the resources of the IAOD. However, while the Committee has been recommending the strengthening of IAOD, the Committee notes with concern that one senior post had been taken out of IAOD.

13. The Audit Committee makes the following recommendations:
- (a) the Director of IAOD reviews the oversight recommendations for continuing relevancy and develops a follow-up system, to include compliance benchmarks;
 - (b) the Director of IAOD develops a strategic approach and rationale for his 2007 plans, setting out the objectives, priorities and resource requirements. Consideration should be given to outsourcing skills urgently required, using funding available in respect of vacant posts;
 - (c) the development of policy and guidelines for conducting investigations and inspections should be given high priority;
 - (d) investigation and inspection functions should be separated for planning and resourcing purposes;
 - (e) the assignment of responsibility for preparing the Program Performance Report, presently undertaken by IAOD, should be reassessed in line with the UN system common practice.

AGENDA ITEM 4: Methods of Work of the WIPO Audit Committee

AGENDA ITEM 5: Examination of document A/41/10 “Proposal on the Establishment of a WIPO Audit Committee”

AGENDA ITEM 6: Internal Audit Charter

14. The Audit Committee examined its Methods of Work and reviewed its Terms of Reference. The proposed amended Terms of Reference appear in **Annex I** to this Report.

15. The Audit Committee will continue to follow up and participate in the discussion regarding the Internal Audit Charter in the Working Group of the Program and Budget Committee.

AGENDA ITEM 7: Draft WIPO Financial Regulations and Rules

AGENDA ITEM 8: Procurement

16. The Audit Committee was provided with the following documents by the WIPO Secretariat:

- Draft Revised Financial Regulations and Rules of WIPO (First Draft, dated March 6, 2007)
- Presentation on Draft Revised Financial Regulations and Rules of WIPO – Powerpoint slides

17. Further information and explanations were provided orally to the Audit Committee by Mrs. Carlotta Graffigna, Executive Director and Controller, Office of the Controller, Mr. Philippe Favatier, Director, Finance Division, and Mr. Cecil Ee, Office of the Controller.

18. The Audit Committee noted with appreciation the fact that WIPO had based its draft paper on the UN Financial Regulations and Rules recently approved by the UN General Assembly. This approach leads to savings in time and effort and contributes towards the needed harmonization of Rules and Procedures within the UN system.

19. A section on the procurement related regulations and rules was to be added to the WIPO Financial Regulations and Rules by the WIPO Secretariat. On the other hand, the Audit Committee will take up the question of procurement as a separate issue (Office Instruction 21/2006: “Procurement and Purchase. General Principles, Framework and Procedures”, of August 2006) at its forthcoming meeting.
20. The Audit Committee reviewed in detail the proposed Regulations and Rules and shared comments with WIPO’s administration.
21. The Audit Committee recommends that the proposed new financial rules and regulations be presented to the Program and Budget Committee with a timetable for their implementation and the detailed description of efforts required to implement them through the establishment of new manual and automated processes, with estimated related costs.
22. The Audit Committee particularly expressed concerns about the capability of the Secretariat to implement, by January 2008, some of the needed changes proposed in the revised Staff Regulations and Rules, due to the lack of adequate automated systems.
23. The Audit Committee welcomed the proposed measures to re-assign accountability to Program Managers. This would end the current practice whereby the Controller certifies all kinds of expenditure related to the implementation of the Programs, which absolves the Program Managers from the responsibility of managing their projects.
24. The Audit Committee recommends that:
- (a) the Director of the Internal Audit and Oversight Division (IAOD) complete rapidly plans related to the establishment of Ethics-related and financial disclosure procedures within WIPO, noting staff constraints in IAOD;
 - (b) Member States consider ratifying the conventions agreed upon by the General Assemblies, upon which the implementation of certain proposed regulations depends;
 - (c) the Secretariat prepare a detailed plan for the training of current and future managers in the application of the new Financial Regulations and Rules. The program should include special training for all newly appointed or promoted managers. Training should also be envisaged for all General Service and Professional staff whose work will require knowledge of the new Financial Regulations and Rules;
 - (d) the Secretariat develop a regulatory policy for short- and long-term investments, which would be approved by Member States. External expertise should be envisaged in this connection;
 - (e) the Secretariat complete new financial regulations and rules for procurement and external audit (possibly attached as an Annex to the WIPO Financial Regulations and Rules, as is the case for the UN Financial Regulations and Rules) for review by the Committee at its next session in July.
25. The Audit Committee is of the opinion that the successful implementation of the Financial Regulations and Rules is contingent upon an effective and efficient financial management structure within the Secretariat. Accordingly, the Audit Committee recommends that the Director General completes, as soon as possible, the review of the current dual

financial management structure, which it considers inefficient, and that a unified system be established.

26. Regarding the inclusion of a reference to the Audit Committee in the Financial Regulations and Rules, the Controller suggested that a regulation be added and the Terms of Reference of the Audit Committee be included as an Annex. As recommended by the Controller, the Audit Committee recommends the inclusion of the following Regulation to the text proposed:

“There shall be an Audit Committee to assist Member States in their role of oversight and for better exercise of their governance responsibilities with respect to the various operations of WIPO. The Audit Committee shall operate as an independent expert advisory external oversight body. The General Assemblies shall approve the WIPO’s Audit Committee Terms of Reference upon recommendation by the Program and Budget Committee. These Terms of Reference shall be appended to the present Financial Regulations.”

AGENDA ITEM 9: Other Matters

27. The Audit Committee met with the Chairman of the Audit Committee of the World Meteorological Organization (WMO), General John J. Kelly Jr. In a subsequent meeting, the Chairman of the WIPO Audit Committee met with members of the WMO Audit Committee. In both meetings, briefings were given by the two Chairs on their respective Committees’ work and activities, and views were exchanged.

28. The next session of the Audit Committee is tentatively scheduled for July 16 to 19, 2007.

29. Subject to further discussion by the Audit Committee, the draft Agenda for the July 2007 session is anticipated to include:

1. The New Construction Project
2. The Desk-to-Desk Review
3. Internal Audit and Oversight
4. Follow-up on the review by the Working Group of the Program and Budget Committee of:
 - A. Review of the Terms of Reference of the WIPO Audit Committee
 - B. Review of the Internal Audit Charter
5. Draft WIPO Financial Regulations and Rules
6. Procurement
7. Other matters

[Annex follows]

ANNEX I

Review of the Terms of Reference of the WIPO Audit Committee
as requested by the Working Group of the Program and Budget Committee,
document WO/PBC/WG/06/2, dated December 14, 2006

PROPOSED AMENDED TERMS OF REFERENCE

1. Preamble

In its September 2005 General Assemblies, WIPO Member States approved the proposal of the Working Group of the Program and Budget Committee on the establishment of a WIPO Audit Committee in accordance with Annex II, A/41/10.

2. Functions and Responsibilities

The Audit Committee of WIPO is an independent, expert advisory and external oversight body. It aims to assist Member States in their role of oversight and for better exercise of their governance responsibilities with respect to the various operations of WIPO. Its mandate is as follows:

(a) *Promoting internal control* by:

- (i) Systematic appraising of management's actions to maintain and operate appropriate and effective internal controls;
- (ii) Contributing, through its scrutiny function, to the maintenance of the highest possible standards of financial management and the handling of any irregularities;
- (iii) Reviewing the operation and effectiveness of the Financial Regulations;
- (iv) Reviewing management's assessment and approach to risk;
- (v) Reviewing arrangements for checks and balances in areas such as ethics, financial disclosure by certain categories of staff, fraud prevention and misconduct.

(b) *Focusing assurance resources* by:

- (i) Reviewing and monitoring the effectiveness of WIPO's internal audit function;
- (ii) Exchanging information and views with the external auditor, including his audit plan;
- (iii) Promoting effective coordination of activities between the internal and external audit functions;
- (iv) Confirming audit and assurance arrangements have been conducted and delivered during the year to provide the necessary levels of assurance required by the General Assemblies.

(c) *Overseeing audit performance* by:

- (i) Monitoring the timely, effective and appropriate responses from management with regard to audit recommendations;
- (ii) Monitoring the implementation of audit recommendations;
- (iii) Monitoring the delivery and content of financial statements in accordance with the requirements of the Financial Regulations.

(d) The Program and Budget Committee may from time to time request the Audit Committee to review or oversee particular activities, such as the New Construction Project and the WIPO desk-to-desk assessment, and any other major project.

(e) The Audit Committee shall make recommendations to the Program and Budget Committee on issues within the Terms of the Reference of the Audit Committee as it considers appropriate.

3. Membership

The Audit Committee shall have nine members elected by the Program and Budget Committee.

The nine members shall have an initial period of office of three years from appointment. The Program and Budget Committee will elect three new members effective 2009 with the membership to be rotated thereafter bearing in mind the need for continuity and respect for geographical distribution. No member shall serve more than six years. Former members of the Audit Committee may be reappointed to the Audit Committee subject to not serving more than six years in aggregate.

The members of the Audit Committee shall select a Chair and Deputy Chair for an initial term of three years. In selecting the Chair, the Audit Committee members will be mindful of the requirements for the Chair to be present in Geneva from time to time between Audit Committee meetings.

Member States in nominating candidates for election by the Program and Budget Committee shall ensure such candidates possess relevant qualifications and experience in auditing, accounting, risk management and other financial and administrative matters; expertise as well as geographical distribution should guide the selection process.

The Audit Committee should corporately possess the following competencies:

- (a) Technical or specialist knowledge of issues pertinent to the Organization's business;
- (b) Experience of managing similar sized organizations;
- (c) Understanding of the wider relevant environments in which the Organization operates, including its objectives, culture and structure;
- (d) Detailed understanding of the Organization's governance environment and accountability structures;
- (e) Oversight or management experience at senior level in the United Nations system.

New members should have or should acquire by a structured induction program organized by the WIPO Secretariat an understanding of the objectives of the Organization, its structure and its culture, and the relevant rules governing it.

4. Expenses

Expenses for members of the Audit Committee will be paid by WIPO in accordance with WIPO's financial rules and regulations.

5. Meetings and Quorum

The Audit Committee will meet regularly and at least every quarter in formal meeting. The Chair of the Audit Committee may convene additional meetings, if and when needed.

A minimum of five members of the Audit Committee, including the Chair or Vice-chair, are required to be present for a meeting of the Committee to be quorate.

The Audit Committee may invite officials of WIPO Secretariat or others to attend meetings.

6. Reporting and Review

The Audit Committee shall keep Member States informed of its work on a regular basis. In particular, following each of its formal meetings the Committee shall prepare a report for circulation to the Program and Budget Committee.

The Audit Committee shall review, at least every three years, the adequacy of its present terms of reference and resources, and where necessary propose changes to the Program and Budget Committee for consideration and approval.

The Terms of Reference and mandate of the Audit Committee shall be subject to periodic review and renewal by the General Assemblies.

7. Secretariat and Budget

Assistance shall be provided to the Audit Committee from the WIPO Secretariat on a part-time basis. This assistance shall be outside of the Internal Audit and Oversight Division of WIPO. Functions of such part-time Secretariat shall include logistical and administrative support. This would entail attending the Audit Committee meetings and preparing draft reports. Moreover, assistance of a professional staff for substantive work including research and background position papers, and others, as requested by the Audit Committee shall also be provided by the WIPO Secretariat.

The Audit Committee may where appropriate obtain independent third party expert advice.

In its biennial budget WIPO shall provide a specific program for the Audit Committee, providing for costs on an annual basis associated with at least four formal meetings of four days each and several information meetings, with appropriate Secretariat support.

8. Information Requirements

Well in advance of each formal meeting, the WIPO Secretariat shall provide the Audit Committee with documents and information related to its Agenda, and any other relevant information.

[End of Annex I, Annex II follows]

WIPO



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WIPO AUDIT COMMITTEE

Fourth Meeting
Geneva, March 26 to 29, 2007

DRAFT AGENDA

prepared by the Secretariat

1. The New Construction Project
2. The Desk-to-Desk Review
3. Internal Audit and Oversight
4. Methods of work of the WIPO Audit Committee
5. Examination of document A/41/10 (“Proposal on the establishment of a WIPO Audit Committee”)
6. Internal Audit Charter
7. Draft WIPO Financial Regulations and Rules
8. Procurement
9. Other matters

[End of Annex II and of document]