

Program and Budget Committee

Twenty-first Session
Geneva, September 9 to 13, 2013

REPORT BY THE WIPO INDEPENDENT ADVISORY OVERSIGHT COMMITTEE (IAOC)

prepared by the Secretariat

1. This document contains the Report by the WIPO Independent Advisory Oversight Committee (IAOC), prepared by the IAOC and covering the period September 1, 2012, to August 31, 2013.

2. The Program and Budget Committee is invited to recommend to the WIPO General Assembly to take note of the contents of this document.

[The Report by the WIPO Independent Advisory Oversight Committee follows]

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ACRONYMS

CFO	Chief Financial Officer (Controller)
EA	External Auditor
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning
GA	WIPO General Assembly
HRMD	Human Resources Management Department
IAOC	Independent Advisory Oversight Committee
IAOD	Internal Audit and Oversight Division
IOC	Internal Oversight Charter
IPSAS	International Public Sector Accounting Standards
NCHP	New Conference Hall Project
NCPs	New Construction Projects
PBC	Program and Budget Committee
PCT	Patent Cooperation Treaty
SRP	Strategic Realignment Program

ANNUAL REPORT OF THE
WIPO INDEPENDENT ADVISORY OVERSIGHT COMMITTEE
FOR THE PERIOD SEPTEMBER 1, 2012 to AUGUST 31, 2013

September 3, 2013

I. INTRODUCTION

1. This Annual Report has been prepared by the WIPO Independent Advisory Oversight Committee (IAOC) in line with paragraph E13 of its Terms of Reference, covering the period from September 1, 2012 to August 31, 2013, which includes the 27th, 28th, 29th and 30th sessions in December 2012, March, May and August 2013, with the four respective reports issued to keep Member States informed of its work on a regular basis,¹ and paragraph E14 which requires the IAOC to provide comments on the reports of the External Auditor (EA) to the PBC.

2. This document is structured in line with the Agenda of the PBC's twenty-first session. As such, matters directly related to the PBC discussions are set out under Section III A and other matters dealt with by the IAOC are set out in Section III B of this document.

II. MANDATE, WORKING METHODS AND MEMBERSHIP

3. As per its mandate, the IAOC "is an independent, expert advisory and external oversight body established to provide assurance to Member States on the appropriateness and effectiveness of internal controls at WIPO. 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."²

4. The Committee is a non-operational body, exercising its oversight function on the basis of information received from the Secretariat and/or reports of the internal and external auditors. Its working methods comprise documentation review, discussions with Secretariat officials and with the EA, and internal deliberations to reach consensus. The IAOC also provides an Information Session and subsequent Report of each quarterly session to keep Member States informed of its work, as it is established in its Term of References paragraph E12.

5. In operationalizing activities to fulfill its mandate, the IAOC continues to follow the mission, vision and four-year roadmap established in 2011, prepared by the IAOC in its 21st session. (See Annex II of document WO/IAOC/21/2).

6. During this period, the IAOC exercised the annual election of the offices of Chair and Vice Chair as it is established in its Terms of Reference and Rules of Procedure, resulting in the election of Mr. Fernando Nikitin (Uruguay) and Ms. Mary Ncube (Zambia) respectively. Mr. Anol Chatterji (India), Mr. Nikolay Lozinskiy (Russian Federation), Mrs. Ms. Mary Ncube (Zambia) and Mr. Fernando Nikitin (Uruguay), will continue to serve the Committee until 2016, and Mr. Kjell Larsson (Sweden), Mr. Ma Fang (China) and Mrs. Maria Beatriz Sanz-Redrado (Spain) will continue to serve until January 31, 2014.

¹ Documents WO/IAOC/27/2, 28/2, 29/2 and 30/2

² Article B.2 of the IAOC's terms of reference

III. TOPICS REVIEWED BY THE IAOC

7. The IAOC met with the Director General and with the Director of IAOD at each quarterly session covered in this report. It also met with the EA and senior officials of the Secretariat including, *inter alia*, the Deputy Director General for Innovation and Technology, the Assistant Director General for Administration and Management, the Chief of Staff, the Chief Financial Officer (Controller), the Chief Information Officer, the Director of Human Resources Management, the Chief Ethics Officer and the Ombudsman.

8. While considering its roadmap,³ the IAOC prioritized five particular matters during the period, namely the New Construction Projects, risk management, follow-up on oversight recommendations, financial reporting and Ethics. A summary of all topics dealt with by the Committee follows.

A. PBC/21 MATTERS

Audit and Oversight

Item 4: Report of the Selection Panel for the Appointment of the New Members of the WIPO Independent Advisory Oversight Committee (IAOC) (document WO/PBC/21/3)

9. During the period, the IAOC participated in the process for selection of three new IAOC members as provided for in document WO/GA/39/13 and recorded in document WO/PBC/21/3. The Committee looks forward to the decision of the PBC and of the GA.

Item 5: Report by the External Auditor (document WO/PBC/21/6)

10. Under paragraph B2(b) of its terms of reference, the IAOC exchanges information and views with the EA, including on the EA's work plan. Under paragraph E14, it provides comments to the PBC on the EA's report to facilitate PBC reporting to the GA under Financial Regulation 8.11.

11. Shortly prior to the reporting period, the IAOC met with the EA and exchanged views, including on the EA's work plan. The IAOC met again with the EA at its 30th session to discuss the EA's report as contained in document WO/PBC/21/6. At that session, the IAOC and EA agreed to meet twice a year to discuss the EA's work plan and the EA's report.

12. The Committee places on record the work done by the EA. In this connection, it makes the following observations:

Recommendation No. 1

13. The IAOC is of the view that although the disclosure regarding Reserves made for building projects were made by a Note to the Financial Statements, from next year there should be a clearer depiction as part of the Statements themselves following the creation of a specific Reserve for this purpose.

Recommendation No. 2

14. The IAOC discussed with the Secretariat in-house practices that resulted in the opening of bank accounts without approval of the Controller. It noted action proposed by the Secretariat in

³ Prepared by the IAOC and annexed to the report of its 21st session. See Annex II of document WO/IAOC/21/2.

this regard and looks forward to Secretariat action on formulation and implementation of an appropriate Treasury and Cash Management Policy.

Recommendations Nos. 4, 5 & 6

15. Regarding the EA's observations on acquisition of services through Special Service Agreements and a lack of adequate regulatory framework thereto, this matter was taken up with the Director of Human Resources Management Division (HRMD) at the IAOC's 30th session (see paragraph 34 below). The IAOC expects this recommendation to be acted upon as a matter of top priority and will follow up closely on action plans and their implementation.

Item 6: Report by the Director of the Internal Audit and Oversight Division (IAOD)
(document WO/PBC/21/17)

16. Under paragraphs B2(b) and (c) of its terms of reference, the IAOC reviews the effectiveness of WIPO's internal audit function, promotes internal and external audit coordination and monitors implementation of audit recommendations. Under the Internal Oversight Charter (IOC), it reviews IAOD's work plans, internal audit and evaluation reports and Division manuals; advises in cases of a conflict of interest and on IAOD resource allocation in the draft Program and Budget; and, ensures appropriate IAOD staffing.

General Observations

17. The IAOC recognizes improvements in the performance of IAOD since the new Director was appointed..

18. The IAOC also notes the greater transparency of IAOD's work following implementation by IAOD of a mechanism to provide secure online access to Member States, on their request, to audit and evaluation reports in line with revisions made by Member States to the Internal Oversight Charter in October 2012.

19. As regards implementation of audit recommendations, the system of recording and tracking recommendations made by auditors was stabilized and a steady rate of resolution of issues was observed. IAOD introduced a software system that allowed easier and quicker tracking of recommendations by IAOD and functional units.

IAOD Workplan

20. IAOD's 2012 work plan was implemented to near completion. The IAOC saw a need for refinements to the 2013 performance indicators and subsequently noted improved indicators in the proposed 2014/15 Program and Budget. In response to its recommendation that IAOD should carry out independent ICT vulnerability assessments and system penetration testing, it was informed that follow up would begin with an analysis of the results of tests already conducted.

Internal Audit

21. Five audit reports were received on, respectively, PCT Revenue Generation, Travel and Mission Support, Payment Process, Conference and Language Services, and the New Construction Projects.

Evaluation

22. Two Evaluation reports were received on improvement of IP Institutional and User Capacity and on Development of Tools for Access to Patent Information. These and other evaluation reports were discussed at a one-day IAOD Evaluation Seminar in November 2012, in which an IAOC member participated and acted as a speaker.

Investigation

23. As at August 30, 2012, 11 investigative cases were open, compared to 3 as at August 30, 2013. Between August 31, 2012 and August 30, 2013, IAOD registered 16 new cases, as compared to 15 during the previous 12 months. It also closed 24 cases, as compared to 19 during the previous 12 months.
24. Two Management Implication Reports, on issues identified in the course of IAOD's investigative activities, were received.
25. The IAOC provided comments to the Director of IAOD on a draft Investigation Policy and revised Investigation Procedure Manual. It was advised that the draft Policy had been transmitted to Member States in line with paragraph 13(b) of the IOC with comments requested by mid-October. The Manual will be finalized following issue of the Policy. Finalization of the Policy and Manual is expected by the end of 2013.
26. An investigation hotline was implemented and publicized in-house on July 16, 2013.

Conflict of Interest Reporting

27. In accordance with paragraph 5 of the IOC, the Director of IAOD sought the IAOC's advice on a possible conflict of interest in respect of two complaints received by him. He proceeded in line with the IAOC's recommendation that he carry out preliminary evaluations of the complaints and discuss the matter further with the IAOC at its 28th session. At that session, the IAOC observed that the preliminary evaluations had been carried out reasonably, in accordance with the IOC and professional standards. It further advised the Director to proceed in accordance with the proposed course of action outlined in the preliminary evaluation reports presented to the IAOC.

Item 7: Progress Report on the Implementation of the Joint Inspection Unit's (JIU) Recommendations for the Review of WIPO Legislative Bodies (document WO/PBC/21/16)

28. The IAOC noted the inclusion of this item.

Item 8: Governance at WIPO

29. A paper on Governance prepared by the IAOC was presented to the 19th session of the PBC under cover of a report by the Chair of the GA.⁴

Program Performance and Financial Reviews

30. Under paragraphs B2(a) and (c) of its terms of reference, the IAOC contributes, through its scrutiny function, to the maintenance of the highest standards of financial management; reviews the operation and effectiveness of the Financial Regulations; monitors the delivery and content of financial statements in line with WIPO's Financial Regulations; and, monitors the timely, effective and appropriate responses from management to audit recommendations.

Item 9: Annual Financial Report and Financial Statements 2012 (Document WO/PBC/21/4)

31. The IAOC notes the unqualified opinion of the EA on the 2012 Financial Statements.

⁴ Document WO/PBC/19/26

Item 10: Status of the Utilization of Reserves (document WO/PBC/21/7)

32. During the reporting period, the IAOC sought clarification on a number of financial reporting issues, including on the use of WIPO Reserves. It explained its concerns, and those expressed by Member States, to the Chief Financial Officer (Controller) (CFO), in particular on utilization of Reserves for the New Construction Projects. The CFO outlined procedures followed in line with the WIPO Policy on the Use of Reserves, including approval by the PBC for the incurring of expenditure for capital projects through Reserves. Detailed discussions included those relating to certain definitions and terminology. The Secretariat agreed that its reporting format could be modified to facilitate clearer understanding of the use of Reserves and the Secretariat is currently exploring alternatives for separate depiction of the Reserves in the Statements for application for the 2013 Statements.

Item 11: Annual Report on Human Resources (document WO/PBC/21/13)

33. The Committee puts on record its appreciation of the finalization of the WIPO Human Resources Strategy.

34. In its last annual report, the IAOC drew Member States attention to the large number of recommendations ranked as being of high risk in IAOD's internal audit report on human resources management. The IAOC followed up on the recommendations directly with the Director of HRMD at three meetings during the period. At its 30th session, it also raised the recommendations of the EA. It notes with appreciation the work carried out that has resulted in closure of 39 of the 52 open human resources related audit recommendations recorded in July 2012 and that implementation of the remaining recommendations is planned by the end of 2013. The IAOC will continue to follow up on the recommendations within the context of IAOD's regular six monthly reporting to the IAOC on the status of implementation of internal and external audit recommendations.

Item 12: Report on the Implementation of Cost Efficiency Measures (document WO/PBC/21/19)

35. The IAOC noted the response of Management to the directives of the PBC to implement cost efficiency measures and took note of document WO/PBC/21/19 which provides details of the efforts taken and the results achieved so far. The Committee discussed with the Assistant Director General for Administration and Management who stated that ongoing efforts were being made. The Committee notes that the various measures which have been taken so far, together with any further measures that may be introduced, should form part of the ongoing process to identify activities that can be modified or eliminated, particularly in the light of IT systems being introduced.

Planning and Budgeting

36. Under paragraphs 28 and 29 of the IOC, the IAOC advises on the allocation of resources to IAOD in the proposed Program and Budget, and on the adequacy of staffing of IAOD. In this connection, the Committee agrees to the proposed resource allocation for Program 26 in the proposed 2014/15 Program and Budget.

Progress Reports on Major Projects and Administrative Matters

37. Under paragraph B2(d) of the IAOC's terms of reference, the PBC may request the IAOC to review or oversee particular activities and projects. During the period, the IAOC continued to oversee the WIPO's Strategic Realignment Program (SRP) and the New Construction Projects.

Item 16: Final Report on the Implementation of the WIPO Strategic Realignment Program (SRP) (document WO/PBC/21/10)

38. The IAOC reviewed SRP quarterly progress reports and noted receipt of a final SRP quarterly progress report in May.

39. Since 2011, the IAOC has focused on risk management and Ethics within the context of the SRP. Risk management has also been reviewed within the context of an Enterprise Risk Management (ERM) roadmap prepared by the Secretariat.

Risk Management

40. During the period, a number of important ERM milestones were reached including: incorporation of a risk management process into the annual work planning cycle; inclusion of identification of risks and risk mitigation measures in the 2014/15 draft Program and Budget; and, the drafting of a WIPO Risk Policy. The IAOC also welcomed the establishment of a WIPO Risk Management and Internal Controls Board, chaired by the Director General, issuance of an Office Instruction on Business Continuity Management, and the Secretariat's decision to seek certification of compliance with the ISO/IEC 27000 series, the latter being an international standard for information technology security techniques and management systems.

41. The IAOC looks forward to continued progress on ERM implementation including, for the next period, development of WIPO's risk appetite, performance reporting on risks to Member States and improvements to risk mitigation controls.

Ethics

42. During the period, a Whistleblower Protection Policy was issued and classroom based Ethics training took place for WIPO staff. The IAOC was informed that a WIPO Financial Disclosure Policy is expected to be launched by the end of 2013. The IAOC looks forward to a progress report on Ethics-related issues at its 31st session in November, at which time the IAOC will also follow up with the Officer on the issue of mitigation of risks related to the commercial value of confidential information handled by staff, an issue that the IAOC raised in 2011.

Item 17: Progress Report on the New Conference Hall Project and New Construction Project (document WO/PBC/21/11)

43. During the period, the IAOC increased its oversight of the NCPs following the amicable and jointly agreed separation between WIPO and the former general contractor and WIPO's decision to dispense with the services of a general contractor and assume direct responsibility for the Projects. In addition to monitoring progress, the IAOC provided close guidance for the development of an enhanced monitoring and reporting mechanism commensurate with WIPO's new responsibilities, and enhanced auditing of the Projects. Key points from the IAOC's quarterly session reports follow.

Progress on the New Conference Hall Project

44. At its 27th session, the IAOC was informed that the overall situation was expected to become fully stable at the end of January 2013, and that completion within budget was

confidently expected. At that time, a revised provisional timetable was under preparation and the Project Risk Register was being re-drafted.

45. At its 28th session, progress was indicated by the award of some 32 contracts for a total amount of 42.4 million Swiss francs (84.8% of the construction cost) and a revised completion date of February 28, 2014, with the Hall expected to become operational by summer 2014.

46. At its 29th session, the IAOC was informed of construction delays, the impact of which would be assessed at the end of May. It noted that, as at April 30, 2013, about 40 contracts had been awarded for a total of 45 million Swiss francs (90% of the construction cost) with the remaining contracts to be awarded representing some 4 to 5 million Swiss francs (less than 10%). At that session, the IAOC was informed that the approved budget and provisions continued to be sufficient to absorb all commitments.

47. At its 30th session, 50 awards had been made representing a total of 46.5 million Swiss francs (some 93% of the construction costs). Some 6 to 8 future awards are to be made representing 4 million Swiss francs (some 7% of construction costs). The Secretariat stated that the construction delays previously reported amounted to only a few weeks and that the exact impact on the overall timetable would shortly be known.

Progress on the New Administrative Building

48. The Committee was apprised of the ongoing repair and replacement works for the New Administrative Building. At its 27th session, completion of works was expected for summer 2013, revised at its 28th session to the end of 2013. At its 29th session, completion remained on track, except for replacement of certain windows to be completed in the summer 2014, a situation reported as unchanged at the IAOC's 30th session. The IAOC was informed that all outstanding works continued to be covered through monies retained by WIPO from the balance owed to the general contractor.

Enhanced NCHP Project monitoring and reporting

49. At its 27th session, the IAOC explained to and agreed with the Secretariat a detailed mechanism that disclosed planned versus actual expenses incurred by all sub-contractors together with information on the timeliness and quality of the expected deliverables. Following receipt at its 28th session of a more detailed progress report and cost table, and an updated Project Risk Register, the IAOC asked for an expanded view of all construction elements required to reach the stage at which the Conference Hall would become operational, within the expected timelines, budget and quality attributes.

50. At its 29th session, it received a progress report that substantially addressed the information requested namely: an expanded timetable with a critical path leading up to the date at which the Hall was expected to become fully operational; a progress report of actual versus planned completion of the physical acceptance of the components, complementing the actual expenses versus budgeting information provided; and, an updated risk register reflecting the points above, and including emerging risks arising from re-delegation of all elements of the mandate of the former general contractor to the various WIPO professional contractors. At its 30th session, the Secretariat requested that the quarterly report include additional information on the quality of the deliverables. The progress report presented to the 21st session of the PBC (document WO/PBC/21/11) contains an annex which addresses the recommendation made by the PBC, at its 19th session in September 2012, for a "more detailed explanation of the events that led to the termination of the contract with the former general contractor for historical reference".

Enhanced Auditing

51. As regards WIPO's decision to dispense with the services of a general contractor for the Projects, the IAOC observed that "a thorough audit/inspection of the project management from the selection of the general contractor to the mutually agreed separation would provide very reliable information on the issues which led to the current situation and which would have to be taken care of in any attempt to complete the program".⁵ The IAOC wrote to the EA in this regard, and discussed its observations with the Director of IAOD.

52. In June 2013, IAOD issued an internal audit report on the Projects. The EA will carry out a compliance audit in March 2014. The IAOC was informed that the JIU has launched a "Review of Good Practices in the Management of Contracts of Capital, Refurbishment, and Construction Projects across the UN System" and has included a large portion on construction projects in its 2013 "Management and Administration Review at WIPO".

B. OTHER MATTERS

WIPO Ombudsman

53. Under paragraph B2(b) of its terms of reference, the IAOC reviews the collective internal oversight coverage of various WIPO functions, which includes the Office of the Ombudsman. During the period, the Ombudsman briefed the IAOC on the 2012 caseload, and the IAOC followed up on the 2011 Annual Report recommendations with the Director of HRMD in view of their importance, *inter alia*, for development of WIPO's Human Resources Strategy.

Presentations, Briefings and Meetings

54. The IAOC benefited from a presentation on the International Union for the Protection of New Varieties of Plants (UPOV), which clarified that UPOV does not fall within IAOC's mandate. Two IAOC members also attended an "audit and budget" presentation to certain Member States in March, organized in response to a request by those Member States to the Director of IAOD. The IAOC believes the presentation could benefit all Member States.

55. The IAOC met and exchanged views twice with a JIU team conducting a "Review of Management and Administration in WIPO".

56. The IAOC also met with representatives of the WIPO Staff Council, at the Council's request, who briefed the Committee on matters of concern to the Council.

IV. CONCLUDING REMARKS

57. Following its existing practices, the Committee met the Director General, the Assistant Director General for Administration and Management, as well as other WIPO officials including the Director of HRMD and the Director of the Conference and Language Department. It also met with the Director IAOD and the EA. The salient matters which were discussed and certain conclusions of the Committee are placed below:

- (a) The EA had conducted performance audits and compliance audits in addition to their audit of the Financial Statements in which they issued an unqualified opinion. However, as indicated in paragraph 13 above, there should be a clearer depiction as part of the Statements themselves following the creation of a specific Reserve for this purpose. During discussions, the Assistant Director General for Administration and Management stated that he appreciated the concerns of Member States and would address the issue as a priority.

⁵ Paragraph 23 of document WO/IAOC/26/2

- (b) In their performance audit of Special Service Agreement contracts, the EA had emphasized the need for a proper regulatory framework for entering into such contracts.
- (c) IAOD had produced a number of reports including on the New Construction Projects, PCT Revenue Generation, Human Resources Management, and Conference and Language Services. During his discussions with the IAOC, the Director General stated that the matters raised in these reports were relevant and would be addressed.
- (d) The Director of HRMD discussed the matters arising out of the HR Annual Report. This Report contained a very good quantitative analysis of HR related issues in WIPO. It was agreed that the geographical distribution of posts needed to be addressed as an important matter.

58. The Committee would like to report that both the internal and external auditors have addressed matters of importance and that the response of Management to their reports, as well as to the advice of the Committee, was positive.

59. In conclusion, the Committee would like to assure the PBC that it will continue to observe the highest standards of professional practice and justify the confidence reposed in it.

60. The IAOC wishes to thank the Director General and all WIPO staff members with whom it has interacted for their availability, openness and timely provision of documents. It also wishes to thank Member States for sharing their questions and comments at the IAOC Information Sessions and looks forward to continued engagement and dialogue.

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