

WIPO AUDIT COMMITTEE

Eighteenth Meeting
August 23 to 25, 2010, Geneva

REPORT

Adopted by the Audit Committee

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INTRODUCTION

1. The eighteenth meeting of the WIPO Audit Committee (hereinafter referred to as “the Committee”) took place from July 5 to 9, 2010. Present were Messrs. Khalil Issa Othman (Vice Chair), Geoffrey Drage, Gong Yalin, George Haddad, Akuetey Johnson and Igor Shcherbak.

AGENDA ITEM 1: EXECUTIVE SESSION

2. Apologies were received from Messrs. Gian Piero Roz (Chair), Akeem Oladele and Pieter Zevenbergen. The Committee was quorate. In accordance with its Rules of Procedure, the Vice Chair assumed the Chair.

AGENDA ITEM 2: ADOPTION OF THE AGENDA

3. The Committee adopted the draft Agenda with modifications (Annex I).

AGENDA ITEM 3: MEETING WITH THE DIRECTOR GENERAL AND SENIOR MANAGEMENT TEAM

4. The Committee was pleased to meet with the Director General and members of the Senior Management Team (SMT), namely: Deputy Director General Christian Wichard (Global Issues Sector), Assistant Directors General Trevor Clarke (Culture and Creative Industries Sector) and Ambi Sundaram (Administration and Management Sector), and Mr. Naresh Prasad, Executive Director and Chief of Staff.
5. The Director General briefed the Committee on a range of issues including: the Medium Term Strategic Plan; the Strategic Realignment Program; WIPO external offices; and, the forthcoming sessions of the Program and Budget Committee and the WIPO Assemblies.
6. Questions and answers and discussion followed related to: risks facing the Organization and mitigating factors; oversight bodies in the Organization and, in particular, the Committee’s role since its inception and its interaction with Member States and the Secretariat; and, recommendations made by the Committee in its Report on the Assessment on the Work and Operations of the WIPO Audit Committee.
7. There was discussion about the Committee’s reporting to Member States. It was noted that under its terms of reference, the Committee is required to report to the Program and Budget Committee but that in addition and since its inception the Committee has, as a matter of practice, made an oral statement to the WIPO General Assembly.
8. The Committee expressed its appreciation for such meetings with the Director General and the SMT and valued the continuation of this practice.

AGENDA ITEM 4: FINANCIAL MANAGEMENT REPORT

9. The Committee met with Mr. Ambi Sundaram, Assistant Director General, Mr. Philippe Favatier, Chief Financial Officer (Controller) and Mrs. Cook Robbins, Head, Finance Services.
10. Documents presented to the Committee are listed in Annex II.

11. *Inter alia*, the Committee noted:
- (a) Concerning Development Agenda (DA) funding, CHF8 million were approved by the Member States in 2008 for the five DA recommendations. Only CHF800,000 of this was spent in 2009. The CHF7.2 million left over had the effect of increasing the result and, consequently, the reserves. In order to avoid the DA from losing this amount, the Secretariat proposed, exceptionally, that the CHF7.2 million in the reserves be earmarked for the financing of the five recommendations. The Committee decided to review the policy on reserves and status of utilization at its next meeting.
 - (b) Discussions were in progress with actuarial consultants with regard to provision for post employment benefits needed to be made as a consequence of completing the VSP. The Committee would expect an update on this topic at its next meeting, to be held from November 29 to December 3, 2010.
 - (c) Currently under its statutory reporting requirements and demands from Member States, at the end of a biennium, WIPO presents, *inter alia*: Financial Statements and Financial Management Report; Report of External Auditor on the Financial Statements; and, Program Performance Report (PPR) and PPR Validation Report. As the Committee has previously mentioned,¹ because these reports are not integrated, it is difficult to understand how the Organization performed. The Committee was advised by the Secretariat that under the Medium Term Strategic Plan, there would be scope within the Results Based Management framework to substantially improve reporting. The Committee decided to revert to this matter in future meetings.

AGENDA ITEM 5: NEW CONSTRUCTION PROJECTS

12. The Committee met with Mr. Ambi Sundaram, Assistant Director General, Administration and Management Sector, Ms. Isabelle Boutillon, Secretary, Construction Committee; Mr. Alfio Favero, Consultant, New Construction Projects Section, Premises Infrastructure Division; and, Mr. Jean-Daniel Fehr, Project Director General, Burckhardt+Partner SA ("the Pilot").
13. The document presented to the Committee is listed in Annex II.

A. External Audit Report on the New Administrative Building (document WO/PBC/15/13)

14. The Committee noted:
- (a) The external audit report on the New Administrative Building was dated August 2009. Accordingly, aspects of the report such as the financial envelope were substantially out of date. The Secretariat advised the Committee that this matter was only being dealt with now because the first Program and Budget Committee (PBC) since this report was available was not until September 2010. The External Auditor was not expected to review the New Construction Project again until after completion.

¹ See documents WO/AC/17/2, paragraph 50, WO/AC/15/2, paragraph 65(c), WO/AC/11/2, paragraphs 27(c) and 28, and WO/AC/10/2, paragraph 19(d)

- (b) The responses by the Secretariat to the External Auditor's recommendations as detailed in document WO/PBC/15/13. The Committee agreed that particular attention should also be made to mitigate the high risk connected with the necessity to assure proper financial monitoring and coordination with the WIPO Secretariat until the end of construction.

B. Progress Report on the New Administrative Building

15. The Committee was advised by the Secretariat that the New Administrative Building was currently on budget with the unutilized portion of the provision for unforeseen standing at approximately CHF5 million. The final position would not be known until all retentions were released to the General Contractor, which was not expected before the end of 2011. The Pilot advised that the General Contractor had confirmed that the hand over of the new administrative building was still expected to be in accordance with the revised delivery dates of October 8, 2010, for 80% of the building, November 5 for the lower levels, and November 25 for the data center.

AGENDA ITEM 6: STRATEGIC REALIGNMENT AND VOLUNTARY SEPARATION PROGRAMS

16. The Committee met with Mr. Ambi Sundaram, Assistant Director General; Mrs. Thérèse Dayer, Acting Director, Human Resources Management Department; Mrs. Chitra Narayanaswamy, Acting Director, Resource Planning, Program Performance and Management Division; Mrs. Ingrid Wynant, Consultant, Human Resources Engagement and Development Section; and, Mr. Alberto Salvador de la Hoz, External Consultant.
17. Documents presented to the Committee are listed in Annex II.

A. Voluntary Separation Program

18. The Committee was given a presentation on document WO/CC/63/3 being submitted to the Coordination Committee. The Committee noted that the document did not address the utilization of posts following completion of the Voluntary Separation Program (VSP). Neither was it clear how VSP related strategically to the Strategic Realignment Program (SRP). The Committee enquired whether properly detailed organizational charts and a staffing table had been prepared in the context of SRP and taking into account the effects of VSP. The Secretariat explained that:
- (a) VSP provided some flexibility to facilitate SRP.
- (b) A sector by sector manpower "needs analysis" had been undertaken by the Secretariat which had been completed in July, resulting in a series of new Office Instructions reflecting staffing levels for each sector. This was now being translated into new organigrams.
- (c) A position paper, which was seen by the Committee, was being provided to the Coordination Committee explaining that, as previously noted by the Committee,² of the 87 posts liberated under VSP, 55 were to be utilized in regularizing employment contracts of long standing temporary staff through a process of internal advertisements.

² Document WO/AC/17/2, paragraph 24(d)

19. The Committee agreed that it would further review the impact of the VSP and its relationship with the SRP at its next meeting in November/December and, *inter alia*, would expect to review the methodology used, as also previously referred to by the Committee,³ and the organization charts and the staffing table at that time.

B. Strategic Realignment Program

20. The Secretariat gave a powerpoint presentation on the current status of the Strategic Realignment Program (SRP).
21. In particular, the Committee noted that:
 - (a) SRP was still primarily in a planning and definition stage rather than implementation.
 - (b) Whereas, as had been advised to the Committee at its seventeenth meeting (document WO/AC/17/2, paragraph 22(e)), Project Leaders had been expected to complete all Project Briefs based on the Project Management Office (PMO) template by July 31, 2010, only approximately 60% of Briefs had been completed so far. Completion of this exercise was now expected in October 2010.
 - (c) The PMO was focusing on project management tasks, risk registers and the results framework for SRP i.e. Results Based Management for SRP. Key performance indicators and baselines had yet to be set. Each initiative and project would have a risk register and above that there would be a strategic risk register.
 - (d) It was well recognized that communications were a key factor of SRP. In the short term, this would comprise information to staff but longer term it would be essential to establish good two-way communication to ensure staff engagement. To help staff understand the SRP core values, there were to be "value focus groups" and values were to be integrated into the Performance Management and Staff Development System (PMSDS). Staff, as well as customer surveys, would be undertaken and the WIPO Intranet would also be updated.
 - (e) There was much to be done with regard to human resources management not least the updating of the Staff Regulations and Staff Rules. The change in leadership of the Human Resources Management Department (HRMD) had slowed progress on this matter. It was pointed out that, all being well, a new HRMD Director would be in post in October.
 - (f) In terms of budgetary resources for SRP implementation, the Secretariat would review in October 2010 what was left available for the remainder of the 2010/11 biennium and consider what would be required consequently in 2012/13.
22. The Committee enquired about the pivotal role of the PMO and the risk associated with that. The Secretariat explained that SRP is "owned and managed" by the Senior Management Team (SMT) and that the PMO is a facilitator. In this connection, it was pointed out that the SMT meets every two weeks and that SRP was a standing agenda item.
23. The Committee welcomed the Secretariat's explanations and looked forward to an update by the Secretariat, including of analysis of budgeted costs for SRP in 2010/11 and expected costs for 2012/13 at its next meeting.

³ Documents WO/AC/15/2, paragraph 19 and WO/AC/16/2, paragraph 61(g)

AGENDA ITEM 7: REVISION OF THE INTERNAL AUDIT CHARTER

24. The Committee met again with Mr. Nick Treen, Director, Internal Audit and Oversight Division (IAOD). The document presented to the Committee is listed in Annex II.
25. The Committee reminded the Director of IAOD of the Committee's position at its seventeenth meeting in July 2010:⁴
 - (a) it emphasized its recommendation that “the term of office of the Director of IAOD be limited to five years non-renewable” in line with best practice in the UN system.
 - (b) it drew his attention to other points including the coverage of an Internal Audit Charter:
 - “58. The Committee reviewed the proposed changes to the WIPO Internal Audit Charter (IAC) and considered that the revisions did not fully reflect developments in WIPO in the areas of ethics, internal control, accountability, and the internal system of justice, as well as international developments in the area of internal audit. Developments within WIPO as a result of the Strategic Realignment Program were also not reflected.”

Observations

26. The Committee further noted that, with respect to the proposed revised Charter:
 - (a) The proposed title of the Charter “Internal Audit and Oversight Charter” privileged audit over other IAOD oversight functions i.e. inspection, investigation and evaluation.
 - (b) Under Section D. Authority and Prerogatives, paragraph 4, the proposed text identified the Director of IAOD as part of management, which is not the case. He/she is part of the Organization but not of management. In this connection, he/she should duly consider matters brought to his/her attention by the Director General or Member States. He/she is a member of staff.
 - (c) Section D, paragraph 7 “ states that “the Director of IAOD shall have access to the Chair of the General Assembly”. No similar stipulation is made with regard to the Chair of the Program and Budget Committee (PBC).
 - (d) Under the Revision clause, paragraph 36, it is stated that the Charter be subject to review every three years. It not made clear, however, that the Charter may be amended within that timescale should circumstances necessitate it. Furthermore, it is not clear that in making amendments to the Charter, due account is taken that the Charter acts as and remains a proper umbrella for all IAOD's activities.

⁴ Document WO/AC/17/2, paragraphs 56 to 61

Recommendations

27. The Committee recommends that:
- (a) The title of the Charter should be changed to "Internal Oversight Charter". The title of the Director of IAOD should be changed accordingly.
 - (b) Paragraph 4 of the proposed text should be amended to state that the Director of IAOD should be part of the Organization and not part of management.
 - (c) Paragraph 7 of the proposed text should be amended to provide that the Director of IAOD shall have access both to the Chair of the General Assembly and the Chair of the Program and Budget Committee.
 - (d) The Revision clause, paragraph 36, should be amended to provide for revision of the Charter as and when appropriate or after three years, whichever is the earlier and that amendments should take into account whether the Charter acts as and remains a proper umbrella for all IAOD's activities.
28. The Committee would continue to review the Charter as appropriate.

AGENDA ITEM 8: EXTERNAL AUDITOR SELECTION PROCESS

29. The Committee met with Mr. Ambi Sundaram, Assistant Director General, Mr. Philippe Favatier, Chief Financial Officer (Controller) and Mrs. Cook Robbins, Head, Finance Services.
30. The documents presented to the Committee are listed in Annex II.
31. In undertaking its review of the evaluation by the Secretariat (Finance Services and the Internal Audit and Oversight Division (IAOD)) of the proposals submitted by candidates for the role of External Auditor, the Committee reiterated that its role was to exercise oversight and not to be part of the evaluation process. It agreed that it should not see nor review the individual applications *per se* but rather it should review the methodology used by Finance Services and IAOD and, further, the consistency with which such methodology was applied.
32. The evaluation matrix including the weighting bases had been reviewed by the Committee and approved by the Selection Panel on July 7, 2010.
33. Accordingly, the Committee reviewed the evaluation matrix as completed by Finance Services and IAOD.
34. The Committee enquired as to the basis of the scoring results and was advised by the Secretariat of the iterative processes involved.
35. As a consequence, the Committee concluded that it had no reason to believe that the scoring process had not been applied on a consistent basis.

36. The Committee noted, however, that because of the very wide range in the cost of provision of external audit services between the various candidates and the weighting (maximum 25%) given to the financial component of the matrix (as opposed to the aggregate of the technical competence factors - maximum 75%), the overall scoring results were noticeably skewed to the cheapest candidates. The Committee was also made aware that candidates had not necessarily provided their cost information on a strictly comparable basis. These cost issues were foreshadowed by the Committee in its recommendation at its sixteenth meeting:⁵

“57. The Committee recommends that the financial proposal should not be considered as a criterion for the selection of the External Auditor and that the Call for Proposals be amended accordingly.”

The Committee concluded that the Selection Panel should be alerted to this matter.

37. In response to a question raised by the Committee, the Secretariat advised that the Selection Panel had not requested a standard questionnaire for interviewing short listed candidates. The Committee considered that in the interests of consistency, such a questionnaire would be helpful.

Recommendations

38. The Committee recommends that the Secretariat should:
- (a) Draw the Selection Panel's attention to the skewing affects of low cost of services provision in candidates overall scores and the fact that there was lack of comparability in these costs of service (see paragraph 36 above).
 - (b) Prepare a standard questionnaire for the Selection Panel for use when interviewing the short listed candidates.

AGENDA ITEM 9: ENTERPRISE RESOURCE PLANNING

39. The Committee met with Mr. Ambi Sundaram, Assistant Director General, Mr. Wei Lei, Chief Information Officer, and Mrs. Chitra Narayanaswamy, Acting Director, Resource Planning, Program Performance and Management Division.
40. The document presented to the Committee is listed in Annex II.
41. The Secretariat pointed out that:
- (a) WIPO has historically underinvested in administrative and management systems and is one of the last organizations to undertake the implementation of an ERP system which is essential infrastructure for a modern, efficient, transparent and accountable Organization.
 - (b) Apart from modules already implemented under AIMS and for the procurement and asset management modules, ERP was in a planning phase requiring, *inter alia*, reaching agreement on a Portfolio Vision and, following completion of the conceptual design for ERP and establishment of how individual modules interrelate and integrate, production of a Solution Map. Two key impacts of implementation of the Enterprise Resource Planning (ERP) system would be on the management of human resources and on the chart of accounts for the provision of financial information.

⁵ Document WO/AC/16/2, paragraph 57

- (c) Results Based Management as set out in the Medium Term Strategic Plan was a key aspect of the vision for ERP.
 - (d) The primary customers for ERP would in effect be internal i.e. WIPO staff.
42. The Committee questioned whether WIPO staff would be sufficiently “informed customers” to enable successful design and implementation of ERP. The Secretariat advised that implementation contractors would be carefully selected such that they combined technology implementation skills and expertise in business process engineering. The tender process would consequently be critical. In addition, as pointed out in document WO/PBC/15/17, Annex, page 22, paragraph 40, independent verification would be used to validate business requirements and implementation quality. In managing implementation, WIPO would use the PRINCE2 project management methodology.
43. The Committee briefly discussed organization and governance for ERP noting that three key appointments were envisaged, namely a project portfolio manager, a change manager and an enterprise architect. The Committee pointed out that irrespective of the proposed governance architecture, effective team working would be an essential ingredient for a successful ERP implementation.
44. The Committee raised the issue of cost for the systems the ERP is to replace. The Secretariat advised that the current operating costs of some of the legacy systems were low because they were outdated and could not obtain the support from the suppliers. It was pointed out that in the Human Resources Management Department (HRMD), it should be possible to calculate the operational costs of current systems. The Secretariat advised that most of the capabilities in the ERP are new to the organization and do not have equivalent systems in place today. In terms of costs so far on ERP, CHF12 to 13 million had been invested in the AIMS and the Procurement and Asset Management modules, excluding operating costs which are provided for under the Program and Budget. The implementation of new modules under ERP estimated at CHF25 million would be provided for out of WIPO’s reserves. It was not clear to the Committee what the operating costs of the new ERP modules would be. The Committee noted that the costs of the proposal were limited to the one time capital expenditure for the implementation in accordance with the current and proposed reserves utilization policy of the Organization. Operating costs of systems and modules that go live within the timeframe of the project would be included in subsequent Program and Budget proposals under the ICT program. The Committee expects to receive an update on ERP at its next meeting in November/December.

AGENDA ITEM 10: FOLLOW UP ON MEETING WITH THE STAFF COUNCIL

45. The Committee met with Messrs. Azzeddine Kateb, President, and Ismail Abdulaziz and Anil Sinha, Vice Presidents, Staff Council, at the request of the Council.
46. The Committee reminded the Staff Council members that the Committee did not have operational and managerial responsibilities, as per its terms of reference.
47. At the request of the Committee, a paper was forwarded to the Committee, which was an update on topics raised at the Committee’s seventeenth meeting namely: the Ethics Office; the Investigation Manual; Dialogue between the Staff Council and the Director General and senior management; and, the Strategic Realignment Program. The President of the Staff Council presented the paper and discussions followed.

AGENDA ITEM 11: OTHER MATTERS

48. The next meeting of the Committee is tentatively scheduled to take place from Monday, November 29 and Friday, December 3, 2010.
49. Subject to further discussion by the Committee, the draft Agenda for that meeting is anticipated to include:
 1. Meeting with the Director General and Senior Management Team
 2. Medium Term Strategic Plan
 3. Strategic Realignment Program (SRP)
 - Strategic Realignment Program Plan
 - Human Resources Management
 - Enterprise Resource Planning
 4. Internal Controls
 - Internal Audit and Oversight Division Staffing and Work Plans
 - Follow-up on Oversight Recommendations
 - Investigations
 - Internal Audit Reports
 5. Program Performance and Management
 - Work Plan
 - Performance Monitoring and Evaluation
 6. Meeting with the External Auditor
 7. Accounting Matters
 - IPSAS and Preparation for 2010 Accounts
 - Reserves
 - Policy on Reserves and Principles Applied in Respect of Use
 - Status of the Utilization of Reserves
 8. New Construction Projects
 9. Work and Operations of the WIPO Audit Committee
 - Election of Chair and Vice Chair
 - Terms of Reference
 10. Meeting with Representatives of WIPO Member States
 11. Other Matters (Joint Inspection Unit Report on “The Audit Function in the United Nations System”)

[Annex I follows]



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DATE: AUGUST 19, 2010

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AGENDA

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1. Executive Session
2. Adoption of the Agenda
3. Meeting with the Director General and Senior Management Team
4. Financial Management Report
5. New Construction Projects
6. Strategic Realignment and Voluntary Separation Programs
7. Revision of the Internal Audit Charter
8. External Auditor Selection Process
9. Enterprise Resource Planning
10. Follow-up on Meeting with the Staff Council
11. Other Matters

[Annex II follows]

LIST OF DOCUMENTS

Agenda Item 1: Executive Session

Document(s): Document WO/PBC/15/22 "Report by the Chair of the Audit Committee"

Agenda Item 2: Adoption of the Agenda

Document WO/AC/18/1 Prov.1, dated August 12, 2010

Agenda Item 3: Meeting with the Director General and Senior Management Team

Document(s): none

Agenda Item 4: Financial Management Report

- Document WO/PBC/15/2 "Financial Management Report for the 2008-2009 Biennium; Arrears in Contributions as of June 30, 2010", dated July 23, 2010
- Publication "Financial Management Report for the 2008-2009 Biennium"
- Audit of the financial statements for the 2008–2009 biennium, dated July 5, 2010

Agenda Item 5: New Construction Projects

Document WO/PBC/15/13 "New Construction Project: "Evaluation Report of the External Auditor on the New Administrative Building and Additional Storage Construction Project - Follow-up to the 2008 Audit", dated June 30, 2010

Agenda Item 6: Strategic Realignment and Voluntary Separation Programs

A. Strategic Realignment Program

Powerpoint presentation "Audit Committee Meeting. Progress on the Strategic Realignment Program", dated August 2010

carried over from AC/17:

- "Report on the Progress on the Strategic Realignment Program to the WIPO Audit Committee", dated July 2010
- Powerpoint presentation "Audit Committee Meeting. Progress on the Strategic Realignment Program", dated July 2010

B. Voluntary Separation Program

Document WO/CC/63/3 "Report on the Implementation of the Voluntary Separation Program (VSP), dated June 30, 2010

Agenda Item 7: Revision of the Internal Audit Charter

Document WO/PBC/15/14 "Review of the Internal Audit Charter", dated July 13, 2010

Agenda Item 8: External Auditor Selection Process

Document(s):

- Evaluation Matrix
- Cost of Services Comparison Matrix
- Document WO/PBC/15/15 "Report on the Status of the Selection of the External Auditor", dated June 30, 2010

Agenda Item 9: Enterprise Resource Planning

Document WO/PBC/15/17 "Proposal for the Implementation of a Comprehensive Integrated Enterprise Resource Planning (ERP) System", dated June 30, 2010

Agenda Item 10: Follow up on Meeting with the Staff Council

Memorandum "Staff Matters to be Considered by the Audit Committee", dated August 23, 2010, from the Staff Council to the Audit Committee

Other Documents:

- Document WO/PBC/15/1 Prov. 2 "Draft Agenda", dated July 22, 2010
- Document WO/PBC/15/7 "Policy on Reserves and Principles applied in Respect of the Use of Reserves" Draft Agenda", dated June 21, 2010
- Document WO/PBC/15/8 "Policy on Investments", dated June 29, 2010
- Document WO/PBC/15/18. "Progress Report on the Implementation of IT Modules to Establish Compliance with the New Financial Regulations and Rules (FRR) and International Public Sector Accounting Standards (IPSAS)", dated June 26, 2010
- Document WO/PBC/15/16 Prov. "Status of the Utilization of Reserves and Updated Financial Overview for 2010", dated June 21, 2010

[End of Annex II and of document]