

Program and Budget Committee

**Nineteenth Session
Geneva, September 10 to 15, 2012**

REPORT OF THE WIPO INDEPENDENT ADVISORY OVERSIGHT COMMITTEE

Addendum

1. Document WO/PBC/19/10 contains the Annual Report of the WIPO Independent Advisory Oversight Committee (IAOC) covering the period July 1, 2011 to June 30, 2012.
2. The Annex to the present document contains the quarterly report of the 26th session of the IAOC, which took place from August 28 to 31, 2012.
3. *The Program and Budget Committee is invited to take note of the report of the 26th session of the WIPO Independent Advisory Oversight Committee (IAOC) contained in the Annex to this document.*

[Annex follows]



WO/IAOC/26/2
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WIPO Independent Advisory Oversight Committee

Twenty-Sixth Session
Geneva, August 28 to 31, 2012

REPORT

adopted by the WIPO Independent Advisory Oversight Committee

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INTRODUCTION

1. The 26th session of the WIPO Independent Advisory Oversight Committee (hereinafter referred to as “the Committee” or “IAOC”) took place from August 28 to 31, 2012. Present were Ms. Maria Beatriz Sanz Redrado (Chair), Mr. Fernando Nikitin (Vice Chair), Messrs. Anol Chatterji, Kjell Larsson, Nikolay Lozinskiy, Ma Fang and Ms. Mary Ncube.

AGENDA ITEM 1: ADOPTION OF THE AGENDA

2. The Committee adopted the draft Agenda without modification (see Annex I).
3. Documents presented to the Committee are listed in Annex II.

AGENDA ITEM 2: WIPO GOVERNANCE

4. The IAOC presented the report that it had prepared on WIPO Governance¹ to Member States attending informal consultations chaired by the President of the General Assembly.

AGENDA ITEM 3: MEETING WITH THE EXTERNAL AUDITORS

5. In 2011, the External Auditor had recommended that the Secretariat should ensure the availability of in-house skills to sustain efforts in implementing International Public Sector Accounting Standards (IPSAS). At its 24th session, the IAOC was informed that a WIPO IPSAS expert had been recruited.

6. Prior to its meeting with the External Auditors, the IAOC was pleased to meet with the IPSAS Expert who had prepared a comprehensive presentation focusing on issues raised by the IAOC at its last meeting, including the balance indicated as Accumulated Surpluses/(Deficits) under Financial Statements Note 21 “Reserves and Fund balance”.

7. The Expert provided a breakdown of the accumulated reserves and the Committee requested a further breakdown from the Administration. The Expert’s explanations were valuable in helping the IAOC to understand better certain aspects of the drafting of the WIPO Financial Statements and the Committee looks forward to future interaction.

8. The IAOC met with the new and outgoing External Auditors. The Committee was informed that the formal transfer between the Auditors had been completed. The IAOC thanked the outgoing External Auditor for their cooperation and the courtesies extended to the Committee.

9. The outgoing External Auditor briefed the Committee on work undertaken in 2011 and their audit of the 2011 Financial Statements, the second Financial Statements to be produced under IPSAS.

10. The External Auditor highlighted open recommendations from their audit of the 2010 Financial Statements and recommendations raised on the 2011 Statements. He discussed the three other audit reports on special audits undertaken in 2011, namely: “Financial Supervision Audit on WIPO Involvement with the UNICC”; “Information Technology (IT) Audit on the Project

¹ Pursuant to a decision of the 18th session of the Program and Budget Committee (document WO/PBC/18/21)

to Implement the AIMS System”; and, “Financial Supervision Audit by the External Auditor on the Construction Projects and the Building Security Project”.

11. The WIPO closed pension fund was discussed, including the potential risk of a higher liability for WIPO. In this connection, the Committee observed similarities between this entity and the new one proposed in document WO/PBC/19/23 as an option for managing the long-term financing of After-Service Health Insurance (ASHI).

12. The IAOC took note of the External Auditor’s comments regarding the lack of actuarial commitment provided on the United Nations Joint Staff Pension Fund (UNJSPF) and his opinion that “if such a commitment were to be entered into the accounts under IPSAS 25 and according to the aforementioned criteria, that standard would have a significant impact on WIPO’s Financial Statements”.²

13. The Committee requested explanations to several issues to which management was still to provide a formal response, including:

- Reduction in the International Centre of Geneva Foundation (FCIG) loan;
- Credit items due to “The Former Yugoslavia” (9.3 million Swiss francs) and Swaziland (1.04 million Swiss francs); and,
- Utilization of reserves for construction projects.

14. The Committee also raised questions on the following issues, which will remain as matters for further consideration:

- Two tables (Annex I (Statement of Financial Position by Business Unit) and Annex II (Expenses and Revenue by Business Unit)) presented according to UNSAS, and the reasons why the External Auditor had declined to audit them;
- Utilization of reserves including reconciliation of the cost of the New Construction Project and New Conference Hall to the sources of funding; and,
- Auditing of the International Union for the Protection of New Varieties of Plants (UPOV) and the WIPO closed pension fund, and the timing of the release of those reports.

15. The discussions concluded with reiteration of the continued need for WIPO to formally define the key processes of its internal control system. Strategic Realignment Program Initiative No. 15, which is currently being elaborated, deals specifically with this point. The IAOC wishes to receive at its next session in November a detailed Secretariat presentation on the progress of implementation of this SRP initiative as noted in paragraph 53 below.

16. The Committee discussed with the new External Auditor their proposed work plan. In this connection, the IAOC and External Auditor exchanged views on areas of concern, including the Patent Cooperation Treaty System (including ICT aspects), human resources management and IPSAS aspects of the Financial Statements. As a result of information provided to the Committee outlined under Agenda Item 4 below, following its meeting with the External Auditors the Committee wrote to the new External Auditor proposing that they consider including in their work plan an audit/inspection of the New Construction Projects as a priority issue, as well as regular audits until the successful completion of the Projects.

² Document WO/PBC/19/6, Annex I paragraph 59

17. The IAOC asked about the accounting methods used for disclosure of WIPO reserves in the Financial Statements and the difference between the controls in place for regular budgetary expenditures and those from the reserves. This issue will be discussed again when the IAOC next meets with the External Auditor.

AGENDA ITEM 4: NEW CONSTRUCTIONS PROJECTS

18. On August 28, a team consisting of the Assistant Director General for Administration and Management, the Director of the Premises Infrastructure Division, the WIPO Architect for the New Construction Projects Section, and the "Pilot" for the New Construction Projects made a presentation to the IAOC and circulated a paper regarding the latest status of the New Conference Hall Project and New Construction Project.

19. The Committee was informed that, at the end of July 2012, the general contractor (*Implemia Entreprise Générale SA*) and WIPO had agreed "jointly and amicably to terminate their relationship in respect of both the New Construction Project and the New Conference Hall Project".

20. The Committee noted that it was envisaged that no new general contractor was to be appointed and that the project would instead be managed by expanding the existing professional and technical mandates of all professional service providers on these projects (Pilot, Architect and engineers) as well as inducting additional resources to cover the internal direct administration of contracts with future sub-contractors through "internal redeployment, secondment from other UN agencies or temporary engagements". The various elements of a typical "general contractor mandate" would therefore be distributed between the external and internal components of the overall construction projects management structure. It was pointed out that this is a well-practiced model in Switzerland and some other European countries.

21. The Committee was also informed that under the above framework, WIPO would assume direct responsibility (from the legal, contractual and procurement standpoint and through the Pilot and Architect, all architectural and technical aspects) for a major construction project and that all existing contracts between the general contractor and the sub-contractors would be reviewed so as to decide which ones could be taken over and which should be re-opened for tender. The Committee was further informed that a number of new tenders would be launched for remaining works which the former general contractor had not yet tendered. Furthermore, all existing contracts with construction-related service providers for the projects would be reviewed to reflect the new framework for the overall planification and general and specific worksite direction.

22. The New Construction Projects will become an IAOC standing Agenda item. In advance of each of its quarterly sessions, the IAOC wishes to continue to receive updated risk registers in addition to a quarterly progress report.

23. As far as the way forward is concerned, 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 as envisaged.

24. The Secretariat's decision, taken through the Construction Committee, to dispense with the services of a general contractor and to directly deal with the several sub-contractors and other agencies is likely to add additional complexity and workload and the financial implications are not clearly defined as of now. The Secretariat's decision needs to be formulated in much greater detail only after all relevant data has been gathered regarding the sub-contractors and agencies involved, the scope of their work and legal relationship with WIPO and the amounts

that would need to be paid. Details of payments already made by the general contractor to the sub-contractors etc., would also have to be tabulated carefully.

25. The IAOC recommends that the Director General should undertake a thorough examination of alternatives considered duly supported by detailed analysis of the financial, legal, administrative and associated issues in the project management process and only then submit formal and well considered analysis to Member States. This should include provisions for a timely and detailed independent oversight mechanism.

AGENDA ITEM 5: SECRETARIAT PRESENTATION ON WIPO DEVELOPMENT

26. The IAOC benefited from a comprehensive presentation on WIPO Development from the Deputy Director General for Development, the Chief Financial Officer (Controller) and the Head of the Program Management and Performance Section.

27. The Committee asked a number of questions linked in particular to the work of the Evaluation Section of the Internal Audit and Oversight Division (IAOD), including on the measurement of impact and enhancing synergies between WIPO and other international agencies.

28. The IAOC was informed that discussions were underway on a refinement of the definition of development with a potential positive impact on the possibility of refining Program indicators. The IAOC will follow up on this issue at its next session in November within the context of the mechanism set up in January 2012 for tracking of development expenditures.³

AGENDA ITEM 6: SECRETARIAT PRESENTATION ON THE 19TH SESSION OF THE PROGRAM AND BUDGET COMMITTEE

29. The IAOC also benefited from a comprehensive presentation on the 19th session of the Program and Budget Session by the Assistant Director General for Administration and Management, the Chief Financial Officer (Controller), the Director of the Internal Audit and Oversight Division (IAOD), the Head of the Evaluation Section, IAOD, and a consultant from the Strategic Realignment Program (SRP) Project Management Office.

30. The Committee took particular note of the recommendations of IAOD's Validation Report on the Program Performance Report for 2010-2011 and will monitor these within the context of its periodical follow-up on oversight recommendations.

31. Another area of focus was "Long-term Financing of After-Service Health Insurance (ASHI)" (document WO/PBC/19/23). The Committee asked a number of detailed questions on the option of setting up a separate entity, including on what type of governance structure was envisaged and the bases for the assumptions for the financial returns. The IAOC was informed that the option had been prepared with the help of several actuaries and on the basis of safe investment. Concerning specific details of governance of the entity, the Committee was further informed that the purpose of document WO/PBC/19/23 at this stage was to present Member States with options and to start discussions.

³ Document WO/IAOC/22/2, paragraph 30

AGENDA ITEM 7: FOLLOW-UP ON OVERSIGHT RECOMMENDATIONS

32. The Committee met with the Director of IAOD and the Head of the Internal Audit Section. The Head of the Evaluation Section and the new Head of the Investigation Section were present.
33. The IAOC was informed that 115 recommendations were open as of August 6, 2012 (as compared with 85 reported in March 2012), which had been reduced to 111 as at August 29. From March to July, 55 new recommendations had been added, 22 of which had been closed in the same period. The new recommendations came mainly from IAOD's report on Human Resources Management and the Validation Report on the Program Performance Report for 2010-2011.
34. Concerning very high risk ICT related recommendations, the IAOC was informed that greater action was now being taken in particular following the establishment of an ICT Board chaired by the Director General and the issuance of an Office Instruction on Business Continuity Management.
35. With respect to recommendations contained in the internal audit report on human resources management, the IAOC was informed that a new Director, Human Resources Management Department (HRMD), was in post on August 1. At its next session in November the IAOC wishes to meet with the new HRMD Director in a joint session with the Director of IAOD.
36. The IAOC was informed that one recommendation (on Procurement) had been closed without implementation and that IAOD was waiting for formal documentation.
37. The Committee sought information on the mechanism in WIPO for follow-up of Joint Inspection Unit (JIU) recommendations and was informed that the Assistant Director General for Administration and Management was the JIU focal point in WIPO. At its next session in November, the IAOC will discuss further the system for follow-up of JIU recommendations by the Secretariat as well as the status of JIU open recommendations. In this connection, the Committee would like to place on record its opinion that it is inappropriate to include any reference to the IAOC in the Director General's "Statement on Internal Control" annexed to the WIPO Financial Statements.
38. Concerning the follow-up system itself, the Director of IAOD recalled significant improvements in recent months, including with the input of the IAOC, notably the shift from closure of recommendations based on management assertions to the practice of closure only after active discussion between IAOD and the Program Manager and the provision of evidence. In this connection, the Committee advised that IAOD might revisit some of the older recommendations in its database ranked as being of high risk and closed without evidence of action taken.
39. The IAOC was informed of a further enhancement to the follow-up system, namely the use of specialized software known as TeamMate, planned to be in use by the end of 2012. The software would provide for ongoing dialogue with Program Managers on a web-based platform (rather than the current practice of biannual reporting using Excel spreadsheets), uploading of relevant documentation, and would assist with more timely and accurate reporting of the status of oversight recommendations in terms of the status of compensatory controls by management to mitigate residual risk and the target dates.

AGENDA ITEM 8: INTERNAL AUDIT AND OVERSIGHT

40. The Committee continued discussions with the Director of IAOD, and the Heads of the Internal Audit Section, the Evaluation Section and the Investigation Section.
41. The Director of IAOD presented a status report on the IAOD's 2012 Work Plan. The IAOC was pleased to note that implementation continued to be on track as scheduled.
42. The IAOC discussed with the Director of IAOD access for Member States to internal audit reports.
43. In this connection, the Committee had been informed during discussions under Agenda Item 6 that the JIU was planning to undertake a study on disclosure of oversight reports. The IAOC agreed with the Director of IAOD that, as a first step and pending the JIU study, WIPO Member States should have facilitated access to internal audit and evaluation reports, which the Director of IAOD proposed could be via a secure online system. The IAOC and Director of IAOD further agreed that the joint proposal for revisions to the WIPO Internal Oversight Charter (IOC) appearing in document WO/PBC/19/20 should contain an additional revision to paragraph 18 of the IOC as follows:
18. ~~“Permanent Representatives of Member States to WIPO or their designates can read final internal audit and oversight reports in the Director, IAOD’s office. Internal Audit and Evaluation reports are, upon request, made available to Member States.”~~
44. The IAOC was briefed on the work of the Internal Audit Section and informed that audits on Travel and on PCT Revenue Generation Process were in progress.
45. With respect to the work of the Evaluation Section, the Committee discussed the issues raised under Agenda Item 5 above, including measurement of impact and enhancing synergies between WIPO and other international agencies. For a second year, an IAOC member will participate in the IAOD Evaluation Seminar series to be held in November.
46. The Committee met with the new Head of Investigations. With respect to caseload, the members were informed that the rate of case closure currently exceeded that of new cases being opened.

AGENDA ITEM 9: ETHICS

47. The Committee met with the Chief of Staff and the Chief Ethics Officer.
48. The IAOC took note of the annual report of the Ethics Office as contained in Coordination Committee document WO/CC/66/1 “Annual Report on Human Resources”. It was informed by the Chief Ethics Office that an Ethics training program for WIPO staff was planned using a face-to-face rather than a web-based format following the success of the Performance Management and Staff Development System (PMSDS) training program.
49. The Committee discussed in detail the draft Whistleblower Protection Policy and asked a number of questions in particular relating to protection from retaliation. The Chief Ethics Officer informed the IAOC on the experience in the UN with implementation of its whistleblowing policy. He advised the Committee that a draft Policy had been reviewed by staff at large and that it was intended that the Policy would be finalized in the final quarter of 2012 following a final review by the Staff Council.

50. The IAOC also discussed WIPO's Declaration of Interest Policy and asked about the frequency and modalities for updating declarations. The Chief Ethics Officer briefed the IAOC on the planned future implementation of a full Financial Disclosure Policy.

AGENDA ITEM 10: INFORMATION SESSION FOR MEMBER STATES

51. An Information Session for Member States was held attended by representatives of 20 Member States. The Committee briefed the representatives on discussions at its present session as outlined in this report.

52. The representatives raised a number of issues *inter alia* on the New Construction Projects, ASHI, Development, Development Agenda and development expenditure, and the practice at WIPO for follow-up on recommendations contained in JIU Reports.

AGENDA ITEM 11: OTHER MATTERS

53. The Committee received recently published Office Instructions on Business Continuity Management and on the Establishment of a Risk Management and Internal Controls Board, chaired by the Director General. The IAOC wishes to receive at its next session in November a detailed presentation from the Secretariat on the progress of implementation of SRP initiative for Risk Management and Internal Controls (Initiative No. 15).

54. The next session of the IAOC will take place from Monday, November 26 to Thursday, November 29, 2012. Subject to further discussion, the draft Agenda is proposed as follows:

- (1) Meeting with the Director General
- (2) Meeting with the External Auditor
- (3) New Construction Projects
- (4) Secretariat Presentation on Risk Management and Internal Controls
- (5) Follow up on Oversight Recommendations
- (6) Internal Audit and Oversight
- (7) Secretariat Presentation on the International Union for the Protection of New Varieties of Plants (UPOV)
- (8) Meeting with the WIPO Ombuds-person
- (9) IAOC 2013 Work Plan
- (10) Election of Chair and Vice Chair
- (11) Information Session for Member States
- (12) Other Matters

[Appendix I follows]



WO/IAOC/26/1
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DATE: AUGUST 28, 2012

WIPO Independent Advisory Oversight Committee

Twenty-Sixth Session
Geneva, August 28 to 31, 2012

AGENDA

adopted by the WIPO Independent Advisory Oversight Committee

1. Adoption of the Agenda
2. WIPO Governance
3. Meeting with the External Auditors
4. New Constructions Projects
5. Secretariat Presentation on WIPO Development
6. Secretariat Presentation on the 19th session of the Program and Budget Committee
7. Follow-up on Oversight Recommendations
8. Internal Audit and Oversight
9. Ethics
10. Information Session for WIPO Member States
11. Other Matters

[Appendix II follows]

LIST OF DOCUMENTS

AGENDA ITEM 2: WIPO GOVERNANCE

IAOC Report on WIPO Governance dated June 12, 2012

AGENDA ITEM 3: MEETING WITH THE EXTERNAL AUDITORS

Powerpoint Presentation dated August 27 2012 prepared by the WIPO IPSAS Expert

Annual Financial Statements and FMR:

WO/PBC/19/4 2011 Financial Statements

WO/PBC/19/5 Financial Management Report (FMR) for the 2010-2011 Biennium

WO/PBC/19/6 External Auditor's Report on the Annual Financial Statements 2011

Other External Audit Reports:

WO/PBC/19/17 Financial Supervision Audit by the External Auditor on WIPO Participation in the UNICC

WO/PBC/19/19 Information Technology (IT) Audit by the External Auditor on the Update of the AIMS System

WO/PBC/19/18 Financial Supervision Audit by the External Auditor on the Construction Projects and the Building Security Project (also listed under Agenda Item 4)

IAOD Annual Report (July 1, 2011 to June 30, 2012) on External Audit Recommendations:

Memorandum to Director General of August 6, 2012, with summary and detailed status report (also listed under Item 7)

Other documents:

WO/PBC/19/7 Status of the Payment of Contributions as at June 30, 2012

WO/PBC/19/8 Status of Utilization of Reserves

WO/PBC/19/9 Financial Overview for 2012: Progress Report on the Implementation of Cost Efficiency Measures (also listed under Item 6)

WO/PBC/19/16 Final Progress Report on the Implementation of IT Modules to Establish Compliance with the New Financial Regulations and Rules and International Public Sector Accounting Standards (IPSAS)

WO/PBC/19/21 Proposed Amendments to the Financial Regulations and Rules

WO/PBC/19/23 Long-Term Financing of After-Service Health Insurance (ASHI) in WIPO (also listed under Item 6)

AGENDA ITEM 4: NEW CONSTRUCTION PROJECTS

Progress Report on the New Construction Projects

WO/PBC/19/12 Progress Report on the New Construction Project

WO/PBC/19/13 Progress Report on the New Conference Hall Project

WO/PBC/19/15 Progress Report on the Security Upgrade Project for the Existing Premises

WO/PBC/19/18 Financial Supervision Audit by the External Auditor on the Construction Projects and the Building Security Project (also listed under Item 3)

AGENDA ITEM 5: SECRETARIAT PRESENTATION ON WIPO DEVELOPMENT

Oral presentation

AGENDA ITEM 6: SECRETARIAT PRESENTATION ON OTHER PBC/19 DOCUMENTATION

WO/PBC/19/1 Prov. 2 Draft Agenda

WO/PBC/19/2 Program Performance Report for 2010-2011

WO/PBC/19/3 IAOD Validation Report on the Program Performance Report (also listed under Item 8)

WO/PBC/19/9 Financial Overview for 2012: Progress Report on the Implementation of Cost Efficiency Measures (also listed under Item 3)

WO/PBC/19/14 Progress Report on the Implementation of an Enterprise Resource Planning (ERP) System in WIPO

WO/PBC/19/22 Progress Report on the Implementation of the Strategic Realignment Program

WO/PBC/19/23 Long-Term Financing of After-Service Health Insurance (ASHI) in WIPO (also listed under Item 3)

AGENDA ITEM 7: FOLLOW UP ON OVERSIGHT RECOMMENDATIONS

Oversight Recommendations – 2012 Update

Memorandum to Director General dated August 6, 2012, and correction dated August 8, 2012, providing a summary of status of implementation of oversight recommendations.

Detailed listing of all open oversight recommendations

IAOD Annual Report (July 1, 2011 to June 30, 2012) on External Audit Recommendations

Memorandum to Director General of August 6, 2012, with summary and detailed status report (also listed under Item 3)

AGENDA ITEM 8: INTERNAL AUDIT AND OVERSIGHT

WO/GA/41/9 Summary Annual Report of the Director of the Internal Audit and Oversight Division

WO/PBC/19/3 IAOD Validation Report on the Program Performance Report (also listed under Item 6)

IAOD 2012 Workplan: Status of Work - August 2012

UNICEF Executive Board decision 2012/13 on public disclosure of Internal Audit Reports

Evaluation Report EA/2011-01 "Pilot Country Portfolio Evaluation: WIPO Kenya (2005-2010)"

Investigations Status Report – August 2012 update

AGENDA ITEM 9: ETHICS

WO/CC/66/1 Annual Report on Human Resources

Draft Whistleblower Protection Policy

Office Instruction 57/2009 Declaration of Interest

AGENDA ITEM 10: OTHER MATTERS

Office Instruction 43/2012 "Business Continuity Management", dated August 21, 2012 with Annexes "Business Continuity Management Strategy Version 01-08-2012" and "Crisis Management Plan Version 01-08-2012"

Office Instruction 37/2012 "Establishment of a Risk Management and Internal Controls Board", dated July 4, 2012

OTHER DOCUMENTS

WIPO Ombudsman Annual Report for 2011

Strategic Realignment Progress Report dated August 2012

[End of Appendix II and of document]