

WIPO



WO/PBC/WG/2/07/2

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DATE: September 3, 2007

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WORLD INTELLECTUAL PROPERTY ORGANIZATION
GENEVA

WORKING GROUP OF THE PROGRAM AND BUDGET COMMITTEE

Geneva, September 10, 2007

REVIEW OF THE TERMS OF REFERENCE OF THE WIPO AUDIT COMMITTEE

prepared by the Secretariat

1. The present document is submitted to the Member States for the reconvened session of the Working Group of the Program and Budget Committee. For ease of reference, the main body of the Report of the last meeting of the Working Group, held on April 27, 2007, is attached as Annex I.

ITEM 4 OF THE DRAFT AGENDA: REVIEW OF THE TERMS OF REFERENCE OF THE WIPO AUDIT COMMITTEE (CONTINUED)

2. At its meeting in April 2007, the Working Group reviewed proposed revisions to the terms of reference of the WIPO Audit Committee, presented by the Audit Committee.

3. In its final decision, the Working Group noted that the Audit Committee would consider, at its fifth meeting, comments made by delegations, and requested that the Secretariat provide to the Working Group in September 2007, a new document presenting any further amendments that the Audit Committee wished to recommend in respect of changes considered necessary to its terms of reference.¹

¹ Document WO/PBC/WG/07/3, paragraph 8(ii) and (iii).

4. Further amendments that the Audit Committee wishes to recommend are contained in Annex II of this document.

5. Annex II has four parts. Following introductory remarks in Part I, the Audit Committee's suggested version of its terms of reference is presented in Part II. To facilitate review of that proposal, Part III contains a table detailing the review process, and Part IV a statement made by Mr. Khalil Issa Othman, Chair of the Audit Committee to the Working Group in December 2006, outlining the main principles that, governing oversight bodies in the public sector, including in the UN system, have guided the Audit Committee in preparing its proposals.

6. *The Working Group is invited to:*

(i) consider the contents of Annex II;

(ii) make its recommendations to the Program and Budget Committee on the revised terms of reference of the Audit Committee.

[Annexes follow]

WIPO



WO/PBC/WG/07/3

ORIGINAL: English

DATE: July 3, 2007

WORLD INTELLECTUAL PROPERTY ORGANIZATION
GENEVA

E

**WORKING GROUP OF THE
PROGRAM AND BUDGET COMMITTEE**

Geneva, April 27, 2007

REPORT

adopted by the Working Group

1. A formal session of the open-ended Working Group of the Program and Budget Committee (PBC), hereinafter referred to as “the Working Group”, was held at the headquarters of WIPO on April 27, 2007. The list of participants is annexed to the present document (Annex I).

ELECTION OF A CHAIR

2. The Working Group elected Mr. Usuma Sarki (Nigeria) as *Ad hoc* Chair. Mrs. Carlotta Graffigna (Executive Director and Controller, WIPO) acted as the Secretary.

ADOPTION OF THE AGENDA

3. The Agenda was adopted as annexed (Annex II).

REVIEW OF THE TERMS OF REFERENCE OF THE WIPO AUDIT COMMITTEE

4. The Secretariat recalled the present session continued a follow up to the September 2006 decision of the Assemblies to convene an open-ended Working Group of the PBC (paragraph 188(c) of document A/42/14). The Working Group was to review the terms of reference of the Audit Committee and prepare a proposal on adequate resources for the Audit Committee, including the possibility of an independent secretariat. The Working Group would review the Internal Audit Charter, and review the structure and resources required for effective internal audit and oversight in WIPO.

6. The Working Group had met for the first time on December 14, 2006, to discuss these topics. The Report and papers of that meeting appear in document WO/PBC/WG/07/2.

7. Since then, the Audit Committee had examined its Methods of Work and reviewed its Terms of Reference during its fourth meeting in Geneva, from March 26 to 29, 2007. The proposed changes by the Audit Committee are attached (Annex III).

8. The delegations of Algeria, Brazil, Canada, France, Germany, India, Mexico, Morocco, Netherlands, Pakistan, Russian Federation, Spain, Switzerland, Tunisia, United Kingdom and the United States of America took the floor on this item of the agenda.

9. *The Working Group:*

(i) *took note of the presentation made by the Audit Committee and the comments made by a number of delegations;*

(ii) *noted that the Audit Committee would consider the comments concerning the terms of reference of the Audit Committee made by delegations, at the fifth meeting of the Audit Committee in July 2007.*

(iii) *requested the Secretariat to convene a one-day session of the Working Group in September 2007, and to provide to the Working Group a further document presenting the amendments that the Audit Committee may wish to recommend in respect of changes considered necessary to its terms of reference;*

(iv) *agreed that at the September meeting, the Working Group would consider again the Audit Committee's recommendations concerning revision of the Audit Committee's terms of reference.*

REVIEW OF THE WIPO INTERNAL AUDIT CHARTER, AND STRUCTURE AND RESOURCES FOR INTERNAL AUDIT AND OVERSIGHT AT WIPO

10. The Director of IAOD introduced this item of the agenda. He noted that the Audit Charter is required to be reviewed two years after its adoption (paragraph 28 of the Audit Charter). The WIPO Secretariat is currently considering changes that may be needed to the Audit Charter. These will be provided for consideration by the Audit Committee at its fifth meeting in July 2007, and thereafter the September 2007 meeting of the Working Group.

11. The Audit Committee had made proposals for changes to the Internal Audit Charter at the Working Group of the Program and Budget Committee, held on December 14, 2007 (see document WO/PBC/WG/07/2).

12. The delegations of Netherlands and Switzerland requested that changes proposed by the Secretariat and the Audit Committee be represented in a “track change” type format.

ADJOURNMENT OF THE SESSION

7. The session was adjourned.

[Annexes follow]

[Annex II follows]

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ANNEX II

REVIEW OF THE TERMS OF REFERENCE
OF THE WIPO AUDIT COMMITTEE

PART I

INTRODUCTORY REMARKS

1. In a decision taken at its Forty-first session in 2005, the Assemblies of the Member States of WIPO approved the establishment of the WIPO Audit Committee¹ and its terms of reference,² as recommended by the Working Group of the Program and Budget Committee.

2. The Audit Committee held its first official meeting in April 2006.

3. The last recommendation made by the Working Group of the Program and Budget Committee, subsequently included in document A/41/10, stipulates:

“*Recommends* to review the mandate, functioning and membership of the Audit Committee at the end of two years.”

4. At its Forty-second Session in 2006, the Assemblies of the Member States of WIPO requested that the Secretariat convene an open-ended Working Group of the Program and Budget Committee “to review the terms of reference of the Audit Committee and to prepare a proposal on adequate resourcing, including the possibility of an independent secretariat.”³

5. The Working Group met on December 14, 2006, and requested that the Audit Committee review its terms of reference, taking into consideration the decision of the Assemblies referred to above. The Working Group, *inter alia*, requested that the Audit Committee submit proposals for revisions to its terms of reference and resources to a Working Group meeting in the Spring of 2007.⁴

6. The Working Group met on April 27, 2007, and reviewed proposed revisions presented by the Audit Committee. In its final decision, the Working Group requested that, taking into consideration comments made by Member States, the Audit Committee submit to a Working Group meeting in September 2007, any further amendments it wished to recommend in respect of changes considered necessary to its terms of reference.⁵

7. The Audit Committee’s suggested version of its terms of reference is presented in Part II of this Annex. To facilitate review of that proposal, a table detailing the review process follows in Part III.

¹ Document A/41/17, paragraph 194(ii).

² Document A/41/10.

³ Document A/42/14, paragraph 188 (c).

⁴ Document WO/PBC/WG/06/2, paragraph 7(v).

⁵ Document WO/PBC/WG/07/3, paragraph 8(iii).

8. In preparing its proposals, the Audit Committee has been guided by the main principles governing oversight bodies in the public sector, including the UN system, as communicated to Member States in formal and informal meetings. In particular, paragraph 10 of the “Statement of Mr. Khalil Issa Othman, Chairman of the WIPO Audit Committee: Review of the Terms of Reference of the WIPO Audit Committee”⁶ (Statement reproduced in full in Part IV of this Annex), which reads:

“10. Members of the WIPO Audit Committee see the Committee as a *review* external oversight mechanism which, in dealing with an issue, receives reports or documents, analyzes them, reaches conclusions and makes recommendations. The Committee not only receives reports and documents: it also may initiate queries on certain topics for discussion and review. For instance, we might ask the Secretariat to prepare something on a specific issue which we would then review and submit our conclusions and recommendations to Member States. In addition to being a review oversight mechanism, the WIPO Audit Committee is an *advisory* oversight body. It does not make decisions: it advises and recommends, and it is up to Member States to take decisions. A third principle governing the WIPO Audit Committee is while that its members are elected by Member States we do not represent Member States: we function *independently* and in our personal capacities. These three elements — review, independence and advisory nature — are essential principles on which the WIPO Audit Committee should stand and function.”

⁶ Document WO/WG/PBC/06/2, Annex II

PART II

PROPOSED TERMS OF REFERENCE OF THE WIPO AUDIT COMMITTEE

A. PREAMBLE

1. 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.

B. FUNCTIONS AND RESPONSIBILITIES

2. 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, 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 function;

(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 Assembly.

(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 and projects, such as:

- the New Construction Project,
- 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 reference of the Audit Committee, as it considers appropriate.

C. MEMBERSHIP AND QUALIFICATIONS

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

4. 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.

5. The members of the Audit Committee shall select a Chair and Deputy Chair.

6. 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 and rotation should guide the selection process.

7. 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.

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

D. MEETINGS AND QUORUM

9. The Audit Committee will meet regularly every quarter in formal meeting.
10. A minimum of five members of the Audit Committee are required to be present for a meeting of the Committee to be quorate.
11. The Audit Committee may invite officials of WIPO Secretariat or others to attend meetings.

E. REPORTING AND REVIEW

12. 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 Member States through the Director General of WIPO.
13. The mandate, functioning and membership of the Audit Committee shall be reviewed after two years of the initial creation. They should also be reviewed on a regular basis, but at least every three years, at the initiative of Member States or of the Committee itself.

F. SUPPORT BY THE WIPO SECRETARIAT

14. 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, in accordance with the principles of accountability and transparency. Functions of such part-time assistance shall include: (a) logistical and administrative support. This would entail preparing for and attending Audit Committee meetings and assisting with preparing draft reports; (b) substantive and technical work which may include research and background position papers, and others, as may be requested by the Audit Committee.

G. BUDGET

15. In its biennial budget WIPO shall provide a specific program for the Audit Committee, providing for costs on an annual basis associated with the approved activities and related expenditures as provided in the terms of reference and namely four formal meetings of four days each, attendance by Audit Committee members to the Program and Budget Committee and other meetings as required, secretarial and substantive support, and external consultancies.
16. Expenses for members of the Audit Committee will be paid by WIPO in accordance with WIPO's financial rules and regulations.

H. INFORMATION REQUIREMENTS

17. 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.

PART III

PROPOSED REVISIONS TO THE
TERMS OF REFERENCE OF THE WIPO AUDIT COMMITTEE

<i>Existing</i> ¹	<i>Proposed Terms of Reference 04/07</i> ²	<i>Amendments 09/07</i> ³	<i>Comments</i>
	A. Preamble		
	1. 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.		New Text. "Preamble" refers to the process followed for the creation of the Audit Committee.
	B. Functions and Responsibilities		
2. The Audit Committee of WIPO shall have the following terms of reference:	2. 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:		New Text. "Functions and Responsibilities" aims at clarifying the nature, role and functions of the Audit Committee based on best practice in the UN system, and outside. This text reflects best practice and is in line with the statement made by the Chair of the Audit Committee to the Working Group of the Program and Budget Committee on December 14, 2006 (document WO/PBC/WG/06/2, Annex III).
(a) Promoting internal control by:	(a) Promoting internal control by:		
(i) Systematic appraising of management's actions to maintain and operate appropriate and effective internal controls;	(i) Systematic appraising of management's actions to maintain and operate appropriate and effective internal controls;		

¹ As approved by the Assemblies of the Member States of WIPO in 2005 (document A/41/10).

² As presented to the Working Group of the Program and Budget Committee by the Audit Committee on April 27, 2007, but with outline numbering revised.

³ As recommended by the Audit Committee to the Working Group of the Program and Budget Committee on September 10, 2007.

<i>Existing</i>	<i>Proposed Terms of Reference 04/07</i>	<i>Amendments 09/07</i>	<i>Comments</i>
(ii) Contributing, through its scrutiny function, to the maintenance of the highest possible standards of financial management and the handling of any irregularities;	(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;	(iii) Reviewing the operation and effectiveness of the Financial Regulations;		
(iv) Reviewing management's assessment and approach to risk;	(iv) Reviewing management's assessment and approach to risk;		
(v) Overseeing the new construction project.			Existing text replaced. This part of the mandate is now covered in proposed new Section B, paragraph 2(d) (<i>page 10</i>). The main reason for moving this part of the mandate is that the existing sub-paragraph is too specific compared with other functions and responsibilities given by Member States to the Audit Committee. The General Assemblies and the Program and Budget Committee may wish, at any time, to ask the Audit Committee to oversee other specific major projects or activities. Proposed new Section B, paragraph 2(d) aims at better explaining the respective responsibilities and roles of Member States and the Audit Committee.
	(v) Reviewing arrangements for checks and balances in areas such as ethics, financial disclosure by certain categories of staff, fraud prevention and misconduct.	(v) Reviewing arrangements for checks and balances in areas such as ethics, financial disclosure by certain categories of staff , fraud prevention and misconduct.	New Text. Added to take into account recent developments worldwide, including within UN system, as re-affirmed in Resolution A/RES/60/1, paragraph 161, in the Outcome document of the UN 2005 World Summit of Heads of States and Governments. <i>Proposed new text amended to reflect comments made by Member States at the April 2007 Working Group meeting.</i>
(b) Focusing assurance resources by:	(b) Focusing assurance resources by:		

<i>Existing</i>	<i>Proposed Terms of Reference 04/07</i>	<i>Amendments 09/07</i>	<i>Comments</i>
(i) Agreeing and approving the audit plans and arrangements for internal and external audit;	(i) Reviewing and monitoring the effectiveness of WIPO's internal audit function;		Existing text changed to: - ensure that the Internal Audit and Oversight Division maintains full independence in its activities, as defined in Section B, paragraph 2 of the WIPO Internal Audit Charter; and, - delete the reference to External Auditor, in accordance with discussions at the Working Group meeting in December 2006, as reflected in document WO/PBC/WG/06/2, decision paragraph 7(iv).
(ii) Encouraging liaison between the internal and external audit functions;	(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;		Existing text modified to: - re-define the relationship between the Audit Committee and the External Auditor; and, - reinforce the co-ordination role between various audit functions, to avoid danger of "over-auditing" and work duplication.
(iii) Confirming audit and assurance arrangements have been conducted and delivered during the year to provide the necessary levels of assurance required by the General Assembly.	(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.		Editorial correction only: "Assemblies" not "Assembly".
(c) Monitoring audit performance by:	(c) Overseeing audit performance by:		Existing text modified: "Monitoring" changed to "overseeing"
(i) Ensuring the timely, effective and appropriate responses from management with regard to audit recommendations;	(i) Monitoring the timely, effective and appropriate responses from management with regard to audit recommendations;		Existing text modified: "Ensuring" changed to "Monitoring". The Audit Committee has no operational or line management responsibilities over WIPO staff and therefore no legal means to "ensure the timely" action by WIPO staff. This is a responsibility of WIPO management
	(ii) Monitoring the implementation of audit recommendations;		New text. Incorporates existing Section 2(c)(iii) (page 10, second row) with change in language from "confirming that audit recommendations have been implemented" to "Monitoring the implementation of audit recommendations".

<i>Existing</i>	<i>Proposed Terms of Reference 04/07</i>	<i>Amendments 09/07</i>	<i>Comments</i>
(ii) Monitoring the delivery and content of financial statements in accordance with the requirements of the Financial Regulations;	(iii) Monitoring the delivery and content of financial statements in accordance with the requirements of the Financial Regulations.		
(iii) Confirming that audit recommendations have been implemented;			Existing text replaced. This part of the mandate is now covered in proposed new Section B, paragraph 2(c)(ii) (page 9).
(iv) Monitoring the Secretariat's implementation of the recommendations made by the Joint Inspection Unit (JIU); (v) Overseeing the desk-to-desk review recommended by the JIU.	(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.	(d) The Program and Budget Committee may from time to time request the Audit Committee to review or oversee particular activities <u>and projects, such as:</u> <u>- the New Construction Project,</u> <u>- the WIPO desk-to-desk assessment, and</u> <u>- any other major project.</u>	New text. Reference to JIU recommendations deleted as this function is now covered in proposed new Section B, paragraph 2(c)(ii) (page 9), JIU recommendations being audit recommendations. New text also incorporates reference in existing Section 2(a)(v) (page 8, fourth row) to the New Construction Project. Comments on the rationale for replacing existing sub-paragraph (v) (page 8, fourth row), also apply to the desk-to-desk assessment. <i>Proposed new text amended: Editorial change only.</i>
(d) The Audit Committee shall make recommendations to the Program and Budget Committee on issues within the terms of reference of the Audit Committee, as it considers appropriate.	(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. The Working Group of the Program and Budget Committee further <i>Recommends</i> that the Audit Committee meet regularly, in general every quarter, and keep Member States informed of its work on a regular basis;			Existing text replaced. Periodicity of meetings and reporting requirements now covered in proposed new Sections E "Meetings and Quorum" (page 14) and F "Reporting and Review" (page 15).
<i>Recommends</i> that the members of the Audit Committee have the qualifications and skills required, and be elected for a period of two years. Members should possess relevant qualifications and experience in auditing, accounting, risk management and other financial and administrative matters;			Existing text replaced. Qualifications, skills and expertise now covered in proposed new Section C, paragraph 6 (page 12), and duration of mandate in proposed new Section C, paragraph 4 (page 11).

<i>Existing</i>	<i>Proposed Terms of Reference 04/07</i>	<i>Amendments 09/07</i>	<i>Comments</i>
<p><i>Recommends</i> that the said members should have or acquire soon an understanding of the objectives of the Organization, its structure and its culture, and the relevant rules governing it;</p>			<p>Existing text replaced. Induction of new members now covered in proposed new Section C, paragraph 8 (<i>page 13</i>).</p>
	C. Membership	C. Membership <u>and Qualifications</u>	<p><i>Section title amended: Editorial change only.</i></p>
	<p>3. The Audit Committee shall have nine members elected by the Program and Budget Committee.</p>		<p>New text. Incorporates existing Section 3, fifth paragraph (<i>page 13, second row</i>). Based on experience for selection/election of membership of the first Audit Committee, the Audit Committee recommends that all nine members be elected by the Program and Budget Committee, and not seven elected and two selected. In this way:</p> <ul style="list-style-type: none"> - all members will have same line of authority, being nominated and elected by Member States; and, - more equitable geographical representation and rotation will be further assured. <p>The current qualifications stipulated for the two selected members, namely to possess "oversight or management experience at senior level in the UN system", are now covered in proposed new Section C, paragraph 7(e) (<i>page 12</i>).</p>
	<p>4. 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.</p>		<p>New text. It is proposed that the duration of the mandate foreseen in existing Section 3, second paragraph (<i>page 10, bottom row</i>) be extended from two to three years to:</p> <ul style="list-style-type: none"> - ensure continuity, otherwise all new members will start from scratch; - preserve equitable geographical representation and rotation: new members could be elected from non- or under-represented groups; - maintain the level of skills and corporate competencies required; - ensure continued overseeing of current specific mandates, such as the New Construction Project with its estimated 2010 completion date; and, - re-affirm the principle that the Audit Committee was created by Member States and could be suppressed whenever they so decide.

<i>Existing</i>	<i>Proposed Terms of Reference 04/07</i>	<i>Amendments 09/07</i>	<i>Comments</i>
	5. 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.	5. 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.	New text. Incorporates existing Section 3, seventh paragraph (<i>page 14, sixth row</i>) and introduces function of Deputy Chair, which already <i>de facto</i> exists. <i>Proposed new text amended, inter alia, to suppress reference to presence in Geneva in line with UN principle of non-discrimination on grounds of costs incurred to geographical location.</i>
	6. 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.	6. 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 <u>and rotation</u> should guide the selection process.	New text. Incorporates existing Section 3, second paragraph (<i>page 10, last row</i>) and last sentence of Section 3, fifth paragraph, subparagraph (a) (<i>page 13, third row</i>) <i>Proposed new text amended: Reference to rotation added.</i>
<i>Recommends</i> that the Committee should corporately possess the following competencies:	7. The Audit Committee should corporately possess the following competencies:		Editorial change only.
(a) Technical or specialist issues pertinent to the Organization's business;	(a) Technical or specialist knowledge of issues pertinent to the Organization's business;		
(b) Experience of managing similar sized organizations;	(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;	(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;	(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 text. Based on existing Section 3, fifth paragraph, subparagraphs (b) and (c) (<i>page 13, fourth and fifth rows</i>)

<i>Existing</i>	<i>Proposed Terms of Reference 04/07</i>	<i>Amendments 09/07</i>	<i>Comments</i>
	8. 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.	8. New members should have or should acquire by a structured induction program organized by the WIPO Secretariat <u>in consultation and with the participation of Member States</u> an understanding of the objectives of the Organization, its structure and its culture, and the relevant rules governing it.	New text. Incorporates existing Section 3, third paragraph (<i>page 11, first row</i>). <i>Proposed new text amended to reflect comments made by Member States at the April 2007 Working Group meeting on the need for Member States to participate in the induction of Audit Committee members.</i>
<i>Recommends</i> that the Audit Committee shall have nine members and that they shall be selected as follows:			Existing text replaced. Number of members now stipulated in proposed new Section C, paragraph 3 (<i>page 11</i>).
(a) Seven members shall be nominated by Member States and elected by the Program and Budget Committee. Expertise as well as geographical distribution should guide the selection process.			Existing text replaced. It is proposed to replace the nomination of two members with their election, as stipulated in new Section C, paragraph 3 (<i>page 7</i>). Reference to expertise and geographical distribution now covered in proposed new Section C, paragraphs 6 and 7 (<i>page 12</i>).
(b) One member shall be selected by the above-mentioned seven members of the Audit Committee based on his/her qualifications as a senior oversight professional or senior manager in the United Nations system.			Existing text replaced: See comment above.
(c) One member shall be selected by the above-mentioned seven members of the Audit Committee based on his/her qualifications as a senior oversight professional or senior manager from outside of the United Nations system.			Existing text replaced: See comment above.
	D. Expenses	D. Expenses	<i>Proposed new Section title suppressed. Expenses now covered in new Section G "Budget" (page 16).</i>
	9. Expenses for members of the Audit Committee will be paid by WIPO in accordance with WIPO's financial rules and regulations.	9. Expenses for members of the Audit Committee will be paid by WIPO in accordance with WIPO's financial rules and regulations.	New text. This is simply to confirm current practice, as documented in document A/41/10, paragraph 4 and Annex III. It is confirmed that Audit Committee Members will not receive any remuneration for their services. <i>Proposed new paragraph suppressed here. Reappears in new Section G "Budget" as paragraph 16 (page 16).</i>

<i>Existing</i>	<i>Proposed Terms of Reference 04/07</i>	<i>Amendments 09/07</i>	<i>Comments</i>
	E. Meetings and Quorum	<u>ED.</u>	
	10. 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.	10.9. 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.	New text. Incorporates existing Section 3, first paragraph (page 10, fifth row). Additional meetings may become necessary if new mandates are given to the Audit Committee. <i>Proposed new text amended in response to concerns expressed by Member States at the April 2007 Working Group meeting on the budgetary implications of additional meetings. Amended text ensures that no expenditure can be incurred for additional meetings without the consent of the Program and Budget Committee.</i>
	11. 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.	11.10. 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.	New text. Since it has proved difficult to have full membership present at all meetings, it appears necessary to define the quorum for Audit Committee recommendations to be considered valid. <i>Proposed new text amended.</i>
<i>Recommends</i> that the Controller and the External and Internal Auditor of WIPO and any other person—if required—may attend meetings on the invitation of the Audit Committee.	12. The Audit Committee may invite officials of WIPO Secretariat or others to attend meetings.	12.11.	Existing text modified: Editorial change only.
The WIPO Internal Audit Division shall provide support services to the Committee;			Existing text replaced. Support services now covered in proposed new Section F “Support by the WIPO Secretariat” (page 15).
<i>Recommends</i> that the Chair of the Audit Committee be selected by the members of the Committee;			Existing text replaced. Selection of Chair now covered in proposed new Section C, paragraph 5 (page 12).
	F. Reporting and Review	<u>FE.</u>	
	13. 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.	13.12. 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. <u>Member States through the Director General of WIPO.</u>	New text. Incorporates existing Section 3, first paragraph (page 10, fifth row). <i>Proposed new text amended: Actual procedure.</i>

<i>Existing</i>	<i>Proposed Terms of Reference 04/07</i>	<i>Amendments 09/07</i>	<i>Comments</i>
	14. 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.	14.13. The <u>mandate, functioning and membership of the</u> 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. <u>be reviewed after two years of the initial creation. They should also be reviewed on a regular basis, but at least every three years, at the initiative of Member States or of the Committee itself.</u>	New text. Incorporates existing Section 3, final paragraph (<i>this page, second row</i>). <i>Proposed new text amended to take into account comments made by Member States at the April 2007 Working Group meeting. According to the amended text, the terms of reference of the Audit Committee would be reviewed in 2007 (current review) and in 2010. The 2010 review would coincide with the planned completion of the New Construction Project, which the Audit Committee is mandated to oversee.</i>
<i>Recommends</i> to review the mandate, functioning and membership of the Audit Committee at the end of two years.	15. The Terms of Reference and mandate of the Audit Committee shall be subject to periodic review and renewal by the General Assemblies.	14. The Terms of Reference and mandate of the Audit Committee shall be subject to periodic review and renewal by the General Assemblies.	<i>Proposed new text suppressed. Periodic review of the terms of reference of the Audit Committee now covered in proposed new Section E, paragraph 13 above, as amended.</i>
	G. Secretariat and Budget	G. Support by the WIPO Secretariat and Budget	<i>Proposed new section title amended. Editorial change, and suppression of "and Budget". Budget now covered under a separate section (page 16)</i>
	16. 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 from a professional staff for substantive work including research and background position papers, and others, as requested by the Audit Committee, shall be provided by the WIPO Secretariat.	16.14. 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. <u>in accordance with the principles of accountability and transparency.</u> Functions of such part-time Secretariat assistance shall include: (a) logistical and administrative support. This would entail <u>preparing for and attending the</u> Audit Committee meetings and <u>assisting with</u> preparing draft reports—; (b) <u>Moreover, assistance from a professional staff for substantive and technical work including</u> which may include research and background position papers, and others, as <u>may be</u> requested by the Audit Committee, shall be provided by the WIPO Secretariat	New text. Replaces existing Section 3, paragraph 6 (<i>page 14, sixth row</i>). This is a follow-up to the decision of the Working Group on December 14, 2006 (document WO/PBC/WG/06/2). Experience has demonstrated that, to efficiently perform its duties, the Audit Committee may need substantive assistance for research and drafting of documents. For transparency purposes, it is suggested that the level of support required be specified in the terms of reference so that the Controller can prepare budget estimates and expenditure reports which reflect the actual expenditure related to Audit Committee activities. It is estimated and proposed that such assistance would amount to 0.25 person per year per staff and would be budgeted accordingly. It also appears advisable that such assistance be provided outside of the Internal Audit and Oversight Division to avoid conflicts of interest of the staff concerned. The Secretariat and the Audit Committee would jointly determine the best administrative location of the two staff providing part-time assistance to the Audit Committee. <i>Proposed new text amended to render it more specific.</i>

<i>Existing</i>	<i>Proposed Terms of Reference 04/07</i>	<i>Amendments 09/07</i>	<i>Comments</i>
		<u>G. Budget</u>	<i>New Section added.</i>
	17. The Audit Committee may where appropriate obtain independent third party expert advice.		New text. The need for such expertise, mostly technical, may arise. <i>Proposed new paragraph suppressed. Covered in paragraph 15, below.</i>
	18. 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.	18.15. In its biennial budget WIPO shall provide a specific program for the Audit Committee, providing for costs on an annual basis associated with <u>the approved activities and related expenditures as provided in the terms of reference and namely at least four formal meetings of four days each, and several information meetings, with appropriate Secretariat support, attendance by Audit Committee members to the Program and Budget Committee and other meetings as required, secretarial and substantive support, and external consultancies.</u>	New text. Clarifies the way in which Audit Committee expenditures would be submitted to Member States for approval. (Costs currently covered in an Annex to the existing terms of reference (Annex to document A/41/10)). <i>Proposed new text amended in response to concerns expressed by Member States at the April 2007 Working Group meeting on the operational costs of the Audit Committee. Amendment renders text more specific.</i>
		<u>16. Expenses for members of the Audit Committee will be paid by WIPO in accordance with WIPO's financial rules and regulations.</u>	<i>This paragraph formerly appeared as proposed new paragraph 9 (page 13) with the comment "New text. This is simply to confirm current practice, as documented in document A/41/10, paragraph 4 and Annex III."</i>
	G. Information Requirements	<u>G.H.</u>	
	19. Well in advance of each formal meeting, the Audit Committee will be provided by the WIPO Secretariat with documents and information related to its Agenda, and any other relevant information.	19-17.	New text. To ensure that Audit Committee members are provided with documentation well in advance of each meeting so that its deliberations can move in a more efficient manner.

PART IV

STATEMENT OF MR. KHALIL ISSA OTHMAN, CHAIRMAN OF THE WIPO AUDIT COMMITTEE: REVIEW OF THE TERMS OF REFERENCE OF THE WIPO AUDIT COMMITTEE¹

I. RESPONSIBILITIES AND FUNCTIONS OF THE WIPO AUDIT COMMITTEE

1. Allow me to describe the placement of the WIPO Audit Committee within the structure of the United Nations' system of oversight, where oversight is primarily the responsibility of Member States.
2. Member States delegate part of their oversight responsibilities to the Secretariat of an organization, especially the internal control mechanisms, as well as the external oversight bodies.
3. Oversight itself is part of the system of governance which provides Member States with assurances that (a) activities are carried out in accordance with legislative mandate; (b) funds are fully accounted for; (c) activities are conducted in the most efficient and effective manner, i.e., the most economical use of resources, both human and financial; and (d) staff, including high officials, adhere to the highest standards of professionalism, integrity and probity.

II. STRUCTURES OF OVERSIGHT

4. The structure of oversight within the UN system differentiates between internal and external oversight mechanisms.
5. An example of an internal oversight mechanism would be an internal audit and oversight division, as is the case in WIPO. An internal audit and oversight division's primary objective is to assist the executive head in fulfilling his managerial responsibilities and to provide advice on the adequacy of internal control and management practices based on the systematic and independent review of the operations of the organization. An internal audit and oversight division is part of an organization but is not part of its management. This is a very important distinction.
6. As to external oversight mechanisms, they are the oversight bodies of Member States and are accountable to Member States. External oversight mechanisms provide advice and recommendations on the operations and management of the organization; their coverage could be system wide or a single organization.
7. A further distinction between operational oversight mechanisms and the review oversight mechanism is that operational oversight mechanisms base their analyses and reports on primary data that they themselves collect. Examples of such bodies are: the Joint

¹ Statement made to the Working Group of the Program and Budget Committee on December 14, 2006.

Inspection Unit (JIU), the UN Board of Auditors (BOA), the Panel of Auditors. On the other hand, review oversight mechanisms use data, reports and information which have been prepared for them but to which they add their own examination and analyses, followed by advice and recommendations. Examples of review external oversight bodies are: the Advisory Committee on Administrative and Budgetary Questions in the United Nations (ACABQ) or the Committee for Program and Coordination (CPC) at the United Nations in New York.

III. A NEW CLASS OF OVERSIGHT BODIES

8. A recently established new class of oversight bodies is a group of external oversight bodies which cover a single UN organization, examples of which are the World Meteorological Organization (WMO) Audit Committee or the WIPO Audit Committee. The question arises as to why these bodies were created and the justification whether or not there is a need for them. From the WIPO Audit Committee's interaction with representatives of WIPO Member States, from the Committee's own findings, as well as from a reading the "Proposal on the Establishment of a WIPO Audit Committee" (document A/41/10), one detects that internal control and the WIPO Internal Audit and Oversight Division (IAOD) as it exists today, or as it has existed for some time, is deficient. Members of the WIPO Audit Committee hope that, with the recruitment of a new director, the IOAD will be strengthened as quickly as possible. Member States also have concerns about possible managerial deficiencies in the Organization, which is closely linked to Strategic Goal 5 (Greater Efficiency of Management and Administrative Support Process within WIPO).

9. Allow me to allay some misconceptions concerning the WIPO Audit Committee, its role and functions.

10. Members of the WIPO Audit Committee see the Committee as a *review* external oversight mechanism which, in dealing with an issue, receives reports or documents, analyzes them, reaches conclusions and makes recommendations. The Committee not only receives reports and documents: it also may initiate queries on certain topics for discussion and review. For instance, we might ask the Secretariat to prepare something on a specific issue which we would then review and submit our conclusions and recommendations to Member States. In addition to being a review oversight mechanism, the WIPO Audit Committee is an *advisory* oversight body. It does not make decisions: it advises and recommends, and it is up to Member States to take decisions. A third principle governing the WIPO Audit Committee is while that its members are elected by Member States we do not represent Member States: we function *independently* and in our personal capacities. These three elements — review, independence and advisory nature — are essential principles on which the WIPO Audit Committee should stand and function.

11. I would now like to refer to some of the specific points raised at the most recent session of the Audit Committee (document WO/AC/3/2, November 2, 2006) in which we flagged a number of issues.

12. First, with reference to the number and qualifications of the members of the WIPO Audit Committee, seven of us were elected by the Program and Budget Committee (PBC) based on our personal qualifications as well as geographical distribution, and two of us were then selected by the seven who had been elected by the Member States. We now number nine members. Whether or not that number is or will continue to be acceptable to Member States

is a question which we put before you, taking into consideration the configurations that other audit committees have in the UN system. There is an on-going discussion in the UN, New York, about the newly-proposed audit committee, that is, an independent advisory audit committee where the suggested number of members is 10 but where there is an ongoing discussion as to whether it should be lower.

13. Another point in this regard is the term of office. According to the present Terms of Reference we each serve for a two-year period: in other audit committees the term of office is longer. We leave it to the Member States to decide whether or not you wish this to be changed or not.

14. A third important point is turnover. We all took office on the same date (January 1, 2006). In December 2007, WIPO Member States may decide to retain half of the Audit Committee members, in order to assure continuity or to re-elect all Audit Committee members. This decision is an important one because of continuity but Member States may wish to establish an understanding that individuals who might stay for a second, consecutive term, would not be eligible for subsequent re-election.

15. With regard to Audit Committee members' qualifications, the Terms of Reference consider both individual and corporate qualifications. In terms of our individual and corporate qualifications, we have been working in harmony. We feel our experiences and qualifications complement each other.

16. With regard to the suggested periodicity of our meetings, while quarterly meetings are acceptable to us and have worked well, the duration of meetings has varied from one meeting to the next. It was foreseen that we would meet for two-and-a-half days on a quarterly basis and, when we inquired as to the reason for that duration we learned that it was mainly because of budgetary concerns for cost of interpretation. We would ask that Member States consider a duration of from three to five days, contingent upon (a) the kind of agenda for a specific meeting and (b) whether or not our meetings will need to be aligned with other meetings, for example the PBC, or others.

17. With reference to the resources for a secretariat to the Audit Committee, we have so far worked without our own secretariat. We have had very good assistance from the IAOD but the question arises as to whether or not we need our own, permanent secretariat. We have come to the conclusion that we do need our own secretariat, but only on a part-time basis. While the present Terms of Reference of our Committee foresee that this support be provided by WIPO's Internal Audit Oversight Division, we are of the opinion that this support may be better served by a secretariat that is not directly connected to that Division, so that we may be more independent, with no prejudice to our current or future relationship with the IAOD.

18. At our initiative, members of the WIPO Audit Committee met with the External Auditor and exchanged views. One of the clauses in the present Terms of Reference (paragraph 2(b)(i) of document A/41/10) stipulates that the WIPO Audit Committee shall, focus assurance resources by "agreeing and approving the audit plans and arrangements for internal and external audit;". After discussion with the External Auditor, we share the understanding that we are each an independent body and for that reason concur with the External Auditor that the Audit Committee cannot approve the External Auditor's plans. We can review them and, if we should have any comments or suggestions, we would of course forward them to the Member States and the Secretariat. It is therefore our opinion that a change to this clause should be considered.

19. As to our relationship with the Internal Auditor, we look forward to a continuing excellent relationship with the newly appointed Director, to the benefit of both the Secretariat and the Member States, as well as to receiving, reviewing and overseeing his audit plan as soon as they can be prepared. We also look forward to the accelerated recruitment of additional staff to the IAOD.

20. To recapitulate, the WIPO Audit Committee is an independent, advisory review body. We intend to follow the basic principles I have presented to you in our activities. As today's discussion will continue later this spring, we will say more about the Committee's functions and possibly present a more detailed proposal on the other items to Member States at that time, with an eye to concluding and submitting a more detailed proposal to the Assemblies at their September 2007 session.

[End of Annex II and of document]