

WIPO General Assembly

Thirty-Ninth (20th Extraordinary) Session Geneva, September 20 to 29, 2010

EVALUATION OF THE FUNCTION OF INTERNAL AUDIT

prepared by the secretariat

1. The present document contains the information on the Evaluation of the Function of Internal Audit (document WO/PBC/15/12), which is being submitted to the WIPO Program and Budget Committee (PBC) at its fifteenth session (September 1 to 3, 2010).
2. The recommendation of the PBC in respect of this document will be included in the "Summary of Recommendations Made by the Program and Budget Committee at its Fifteenth Session Held from September 1 to 3, 2010" (document A/48/24).
3. *The General Assembly is invited to approve the recommendation of the Program and Budget Committee made in respect of document WO/PBC/15/12, as recorded in document A/48/24.*

[Annex follows]



Program and Budget Committee

Fifteenth Session

Geneva, September 1 to 3, 2010

EVALUATION OF THE FUNCTION OF INTERNAL AUDIT

prepared by the Secretariat

1. In accordance with Article 11(10) of the Convention Establishing the World Intellectual Property Organization (WIPO), the designated external auditors, the Swiss Federal Audit Office made, in August, 2009, a report on the "Evaluation of the Internal Audit Function", which is enclosed in the Annex.
2. The observations from the Secretariat in respect of the Recommendations made by the External Auditors are set out below, in the order in which they appear in the Audit Report.
3. Recommendation 1:

"I invite the Director General to submit to the WIPO General Assembly a change in the name of the Internal Audit Charter to the "Internal Audit and Oversight Charter". The Charter could then encompass the activities of the Evaluation Section and could give a general description of the tasks of the Division and a more detailed description of the tasks of each Section (Director, Internal Audit, Investigation and Evaluation/Inspection)."
4. The recommendation has been accepted. IOAD very much support this recommendation as it will help clarify the distinct roles of the three main oversight functions, i.e. internal audit, investigation and evaluation and promote the role of oversight in WIPO. A revision of the Internal Audit Charter will be proposed for review by the Program and Budget Committee which will create an Internal Audit and Oversight Charter.

5. Recommendation 2:

“I consider that the Director of IAOD should draw up a list of the training undertaken by all of his staff and update such a file as and when necessary.”
6. The recommendation has been accepted. The recommendation will assist further the tracking of the professional training being carried out.
7. Recommendation 3:

“I invite the Director of IAOD to develop a program (concept) of quality assurance and improvement that includes documentation on periodic and ongoing internal assessments of all areas of internal audit activity. Once established, this concept should be included in the Internal Audit Manual. It seems clear that ongoing assessments would only be suitable when the Internal Audit Section has at least two qualified staff members, which should be the case in the near future.”
8. The recommendation has been accepted. All audits are done in line with the Institute of Internal Auditors (IIA) Standards and are subject to review and quality control. It is already IAOD's stated policy to have regular external and internal quality assurance in accordance with the IIA Standards. Requests have been made to have more internal audit staff.
9. Recommendation 4:

“I invite IAOD:

 - a. *to decide, during its annual planning, on precise audit themes which are then mentioned in the final reports,*
 - b. *to continue to draw up a list of planned, completed and reported audits, which should be updated as necessary, and*
 - c. *to implement long-term audit planning.”*
10.
 - a. The recommendation has been accepted. Although this does not happen very often, it is true that the titles of planned audits may differ from the titles of the final audit reports due to the changes in the scope of the individual audits and until the specific audit has started and a final report has been drafted. Due consideration will be given to ensure, as far as possible, that the titles of the performed audits are more similar with the titles of the planned audits unless there has been a major change in the scope of the planned audit.
 - b. The recommendation has been accepted. To facilitate the correlation between the planned versus the performed audits the list will be kept up-to-date.
 - c. The recommendation has been accepted. The Internal Audit plans will be prepared on a biennial basis starting 2010, in line with the budget cycle.
11. Recommendation 5:

“I believe that IAOD should complete the drafting of the audit manual started in 2007 and make it available to WIPO staff over the intranet. This manual should cover all the essential elements specified in the Audit Standards.”
12. The recommendation has been accepted. The Internal Audit Section is currently the smallest audit activity that it is possible to have (1 person at present, but with a new post allocated in 2008 which currently remains unfilled). The IIA Practice Advisory 2040-1 does give us flexibility for more informal management and control of audit work through daily and close supervision, which is our approach. In such circumstances we think it is

not so significant that we have fully formalized procedures and manuals. We note that the IIA has set up a project in 2008 to develop a Practice Guide for "Small Internal Audit Shops" which, we hope, will help us in this area. The IIA have told us this guidance will be available in 2010. However, the draft Internal Audit Manual is now on the WIPO intranet and the Manual will be completed and updated in the light of the recent revision to the IIA standards in 2010.

13. Recommendation 6:

"In accordance with Standard 2060, I suggest that, from now on, IAOD includes an evaluation of the following in its reports:

- a. exposure to significant risks and the corresponding controls,*
- b. subjects relating to governance, and*
- c. any other issue in response to a need or a request of the general management or the Audit Committee."*

14. The recommendation has been accepted. The Summary Annual Report of the Director, IAOD to the General Assembly for the period 2008-2009 included specific information on major risks and control weaknesses noted in the audit reports. The report also contained reference concerning risk management governance and ethics. IAOD note that quarterly reports will be revised to include reference to above-mentioned issues. The Evaluation Section has also made recommendations concerning ethics, governance, risk management, strategy and planning. The Summary Annual Report also records the problem with operational independence caused by lack of Internal Audit staff. All future Summary Annual Reports to the General Assembly as well as IAOD's quarterly activity reports to the DG will include, to the extent possible, a reference to issues relating to the risk management, governance and control issues in WIPO. A recent Internal Audit Report on Internal Controls reviews raised several important issues relating to these topics.

15. Recommendation 7:

"I invite IAOD to review its strategy on planning for audits involving medium to low risks in order to concentrate more on engagements involving higher risks."

16. The recommendation has been accepted. A cyclical approach has been adopted for audits to be undertaken in all operational areas to be able to cover all areas of the audit universe at regular intervals and in line with the significance assigned to them based on a rigorous and annual audit needs and audit risks assessment. Due to lack of staffing, IAOD has not been able to cover all the high risk areas included in annual detailed internal audit work plans. The Internal Audit Strategy for 2010 has been amended to reflect this recommendation and detailed internal audit work plans will continue to include only areas of high risks until adequate internal audit staff will be in place to cover, over a reasonable cycle, the medium and lower risk audit areas.

17. Recommendation 8:

"I believe that the Internal Audit Section should:

- a. clarify the work program by linking it with the risk analysis,*
- b. ensure that the work program includes the priorities and the resource allocation for each subject to be audited,*
- c. ensure that the work program allows a connection to be made between the working papers and the recommendations,*

- d. *ensure that comments concerning the involvement and assignment of external experts are highlighted in the audit plan, and*
 - e. *ensure that the signature of the Director of IAOD and the date of approval are systematically placed on the audit program before the audit begins.”*
18. The recommendation has been accepted. As discussed with the External Auditor, these issues have not played a significant role on the content and quality of the audit reports which have been found very useful and value-adding to the Organization. The External Auditor has recognized the usefulness of the audit reports in their report in order to avoid any misperception of this recommendation. Evidence for review and quality control clearly exist in the audit files and due consideration will be given to ensure that this is done even more systematically and documented better.
19. Recommendation 9:
- “I invite IAOD:*
- a. *to improve the formalization of working documentation so that a third party audit professional is always able to compare the objectives of the engagement, the content of the examinations carried out, the results, the auditor’s opinion and the recommendations. The standardization and organization of working papers could go some way to achieving this,*
 - b. *to integrate into the Internal Audit Manual regulations relating to audit documents, information to be archived and the period for which files must be kept; rules on access by third parties to working papers should also be included,*
 - c. *to create audit notes that include a summary of the work carried out and allow connections to be made between the work program, interviews, analyzed documents and the notes and recommendations contained in the report,*
 - d. *to establish a system for reviewing working papers and dating and signing them, and*
 - e. *to provide for the establishment of standards relating to documentation in the audit manual.”*
20. The recommendation has been accepted. See also the response to the Recommendation 8 above. Working papers structure has been revised to provide for an even better linkage with the audit programs and evidence and the audit report. All audit working papers are reviewed by the Director of IAOD. The Internal Audit Manual is in course of finalization and will help to continue to ensure satisfactory conformity with the IIA standards. The draft Manual is on the WIPO intranet and the Manual will be in conformity with IIA Standards and with the IIA practice advisory PA 2040-1 for “small audit shops”. This gives flexibility for more informal management and control of audit work through daily and close supervision for small Internal Audit Sections. Working papers have been revised to include audit issues/recommendations which will enable a better linkage with audit program and the internal audit report. Current standard audit documentation was developed in 2007 and has been used consistently since then.
21. Recommendation 10:
- “In order to be able to deliver audit reports in due course following the end of the audit, I believe that the steps to be taken in case of a significant delay in receiving the observations of the audited services need to be defined. Similarly, I think that*

the role of IAOD needs to be promoted in general and that communication with those who are subject to audit needs to be improved, in order to guarantee the necessary attention from management.”

22. The recommendation has been accepted. Both the intranet and the internet sites have been updated. Managers have been informed that External Audit have commented adversely on the time taken for them to respond to the draft reports. Transmittal letters for draft reports already contain a warning to managers that if comments are not received by the requested date the report will be finalized.
23. Recommendation 11:
“In order to increase the visibility of the internal audit function within WIPO, I invite the Director of IAOD to increase his contact with the WIPO Director General.”
24. The recommendation has been accepted. This is a normal good practice. Regular personal meetings with the Director General to exchange views and discuss major oversight issues and risks facing the organization are in place and proceeding with good results. This improved contact with the Director General has helpfully increased the visibility of IAOD but also helps the Director General receive value-adding advice on risk management/control/governance issues directly and less formally from the Director of IAOD.
25. Recommendation 12:
“I invite the Director General to follow up IAOD’s request of May 27, 2009 concerning draft Office Instruction 24/2008 on Implementation of Oversight Recommendations.”
26. The recommendation has been accepted. The Office Instruction clarifying the roles and responsibilities of the program managers and the effective follow up of all oversight recommendations has been approved by the Director General and is in place.
27. The External Auditors overall conclusions (paragraphs 48-53) are accepted. In particular the recruitment of a Head for the Internal Audit Section will help improve quality control and assurance. The report records an overall percentage of the application of the IIA Standards of just above 80 percent. This is very acceptable for such a small and relatively new Internal Audit function. We understand from the External Auditor that this is the level of the better performing internal audit functions that they have reviewed elsewhere.
28. The Evaluation of the Function of Internal Audit by the External Auditors has been very helpful and useful. The work of the External Auditors is very much appreciated and the professional working cooperation and coordination with Internal Audit is effective and beneficial.

29. *The Program and Budget Committee is invited to recommend to the General Assembly to take note of the contents of the present document and of its Annex.*

[Appendix follows]



ENGLISH TRANSLATION PREPARED BY WIPO

WORLD INTELLECTUAL PROPERTY ORGANIZATION (WIPO)

GENEVA

EVALUATION OF THE INTERNAL AUDIT FUNCTION

**Report of the External Auditor
to the WIPO General Assembly**

Registration No. 1.9208.944.0033.xx
dear/nede

August 11, 2009

GENERAL

Terms of Reference

1. At the forty-third series of meetings, held in Geneva from September 24 to October 3, 2007, the General Assembly of the World Intellectual Property Organization (WIPO), the WIPO Coordination Committee and the Assemblies of the Paris, Berne, Madrid, Hague, Nice, Lisbon, Locarno, IPC, PCT and Vienna Unions renewed the Swiss Government's mandate, until 2011 inclusive, as Auditor of the accounts of WIPO and the Unions administered by WIPO, and of the accounts for the technical assistance projects carried out by the Organization (paragraph 273 of document A/43/16).
2. The Government of the Swiss Confederation mandated me, as Director of the Federal Audit Office, to audit the accounts of WIPO and the above Unions. I entrusted several qualified colleagues from the Federal Audit Office with carrying out, at the headquarters of the International Bureau (IB) in Geneva, an assessment of the internal audit function provided by the Internal Audit Section, which is part of the Internal Audit and Oversight Division (IAOD). The assessment was completed on July 31, 2009.
3. My terms of reference are stipulated in Regulation 6.2 of the WIPO Financial Regulations and also in the Terms of Reference Governing External Audit annexed to those Regulations.

Subject of the audit

4. The assessment of WIPO's internal audit function conforms to the International Standards on Auditing (ISA)¹ that state that the external auditor must review the activities of the internal audit function and their potential impact on external audit procedures. Annex II of WIPO's Financial Regulations and Rules implicitly provides for this type of analysis. Furthermore, the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA)² recommend that external assessments of the internal audit service are carried out periodically by people independent of the organization. That the External Auditor carries out such assessments is a recognized principle within the United Nations system.

1 International Standards on Auditing. Reference to ISA Standard 610 «Using the work of internal auditors»

2 Reference to Standard 1312

Audit principles and assessment approach

5. In order to form an opinion of the WIPO Internal Audit Section, my colleagues compared the current situation to widely recognized good auditing practices. Accordingly, they referred to the IIA International Standards for the Professional Practice of Internal Auditing mentioned above.
6. The Standards define the fundamental principles and the framework conditions for internal auditing. They prescribe a minimum standard for the form and the process of the audit that is not related to the size of the internal audit section. Respect for these standards by the internal audit section guarantees the quality and transparency of its audit services.
7. The assessment of the quality of the audit services, consultancy and other similar activities provided by the Internal Audit Section has been carried out with the use of the "Quality Self-Assessment Tool" (Q-SAT), which was developed by the Swiss Institute of Internal Auditing (SIIA). My colleagues also used the "Internal Audit Guidelines" produced in 2005 by the SIIA. Both reference documents are based on the IIA's recognized international professional standards. Q-SAT allows the activities of an internal audit body to be reviewed at a glance through the use of a reference evaluation table. To carry out this audit, up-to-date assessment standards were used, which included the relevant amendments that entered into force on January 1, 2009.
8. The assessment of WIPO's internal audit took place in several stages, namely the preparation and planning of the audit, a joint information session with IAOD and the submission of the detailed Q-SAT questionnaire. In advance of the information session, the Internal Audit Section carried out an overall self-assessment, using a tool similar to Q-SAT called "Tool 19". My colleagues analyzed this self-assessment and examined the activities and files of this Section using surveys. They then gave a general appraisal and identified areas for improvement.
9. My colleagues assessed the work of the Internal Audit Section under the authority of the Director of IAOD according to each Standard and gave an opinion on whether they were respected, partially respected or not respected. The results are contained in the work files, the details of which I have not presented in this report.
10. The objective of this report is to assess the audit framework and the internal audit activities of WIPO only. As a result, it concerns exclusively the main impacts of the Internal Audit Section. My colleagues have not undertaken any analysis of the work of the Investigation Section or the Evaluation and Inspection Section, which are part of IAOD (see the organizational chart on the following page).

Information and documents

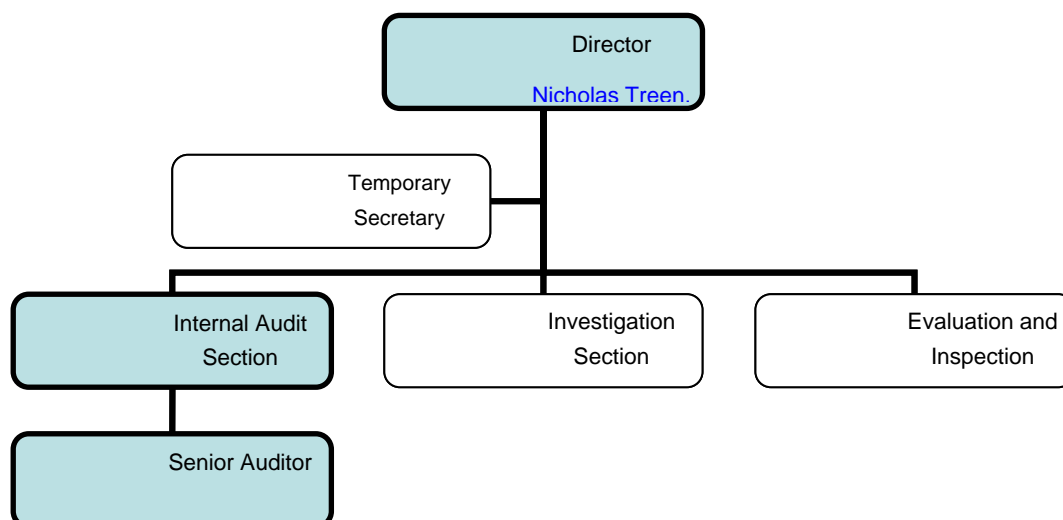
11. I would like to thank Mr. Nicholas Treen, Director of IAOD, and Mr. Tuncay Efendioglu, Senior Auditor in the Internal Audit Section, for their support and obliging manner in making available the information and documents needed to complete the assignment.
12. The final discussion took place on August 14, 2009, with Ms. Elizabeth March, Senior Adviser in the Office of the Director General, Mr. Treen and Mr. Efendioglu.

CHECKS AND FINDINGS

Information on the internal audit

13. Internal audit activities began officially in 2000. The Internal Audit and Oversight Division (IAOD), which is responsible for the Internal Audit Section, is currently led by a Director who took up the post on January 16, 2007. At the time of the audit, the Internal Audit Section comprised just one auditor, who has held the post since May 2007. The structure of IAOD is as follows:

Current organizational chart of IAOD



14. The IAOD Director's employment contract states that he is appointed for a four-year period, which is renewable for an additional period of four years. The Internal Audit Section comprises the position of Head, which was vacant at the time of the audit, and the position of Senior Auditor.
15. The Internal Audit Section includes a financial capacity of over 530 million Swiss francs, according to the accounts for the 2006–2007 biennium.

Standards

1000 – Purpose, authority and responsibility

16. The purpose, authority and responsibilities of internal audit are set out, in accordance with professional standards, in the Internal Audit Charter. In line with its recommendations, the Internal Audit Charter was reviewed by WIPO in 2007. On the recommendation of the Director General and the Audit Committee, the review of the Charter was approved by the WIPO General Assembly in September 2007. The revised Charter can also be found in Annex I of the WIPO Financial Regulations and Rules applicable since January 1, 2008.
17. My colleagues noted that the WIPO Internal Auditor receives requests from the Director General, as provided for in paragraph 4 of the WIPO Internal Audit Charter.
18. The Internal Audit Charter covers internal audit, inspection and investigation. The internal audit aims to be an assurance and serve as a consulting activity designed to add value and improve WIPO's operations. Inspection activities allow review on an ad hoc basis of a strong indication that a wasteful use of resources or poor management of results has occurred. For its part, Investigation consists of a legal inquiry to examine allegations of unlawful acts and wrongdoing in order to determine whether they have occurred and, if so, to identify the person or persons responsible. Evaluation activities are not included in the WIPO Internal Audit Charter but are provided in an evaluation policy approved by the Director General in 2007; they aim to measure the effectiveness of the policies, programs and projects implemented by the Organization.
19. The Head of IAOD has the position of Director (grade D1 in the United Nations system). In accordance with the Internal Audit Charter (paragraph 4), he/she has the title of "Internal Auditor" within IAOD. Such a title covering the exercise of different and distinct functions may lead to confusion. As described above, internal audit, inspection, investigation and evaluation are clearly different. With that in mind, I believe that the Charter needs to be modified in order to make a clear distinction between the different activities and functions.

Recommendation No. 1: I invite the Director General to submit to the WIPO General Assembly a change in the name of the Internal Audit Charter to the "Internal Audit and Oversight Charter". The Charter could then encompass the activities of the Evaluation Section and could give a general description of the tasks of the Division and a more detailed description of the tasks of each Section (Director, Internal Audit, Investigation and Evaluation/Inspection).

1100 – Independence and objectivity

20. The WIPO General Assembly is the supreme body that monitors the activities of IAOD. Accordingly, all IAOD final reports are addressed to the Director General, the Audit Committee and the External Auditor. As part of their control of audit documents, my colleagues noted that two short reports (memorandums of November 2008 and January 2009) containing specific analyses in connection with the Director General taking up his office had been produced at his request. However, copies of these two reports were not submitted to the Audit Committee or the External Auditor. According to the explanations received, they concerned two small assignments to provide reports and information exclusively for the Director General. In the future, I consider that, in order to ensure transparency in IAOD activities, all engagement reports including those in short form (memos) should be subject to ordinary distribution to interested parties.

21. In the interests of good governance and in accordance with United Nations recommendations on audit policy, WIPO has set up an Audit Committee. The functions and responsibilities of the Audit Committee are set out in Annex III of the WIPO Financial Regulations and Rules, applicable as from January 1, 2008. The creation of this Audit Committee was approved by the WIPO General Assembly in September 2005. It comprises nine elected members, of whom seven were appointed by the Program and Budget Committee during its tenth session. The members of the Audit Committee then nominated two additional members. Since its creation, the Audit Committee has met 13 times, which is equivalent to approximately four times per year. The Audit Committee's Charter defines the requisite qualifications and desirable experience that members should have in the fields of audit, accountancy and risk management as well as their knowledge of law or finance and administration. The competencies at the collective level are more linked to the nature of the Organization (size, technical know-how, public sector). Geographical and rotational factors are also part of the selection process.
22. In his or her daily activities, the Internal Auditor must be impartial and not prejudiced; he or she should also avoid conflicts of interests. This Standard lays the foundations for creating stable, relationships of trust between the auditor and those being audited, in order to ensure optimum audit activity within the Organization. The organizational structure of IAOD may represent a conflict of interest in itself, based on the principle that the Internal Auditor cannot audit the Investigation and Evaluation and Inspection Sections. In the current situation, given the limited number of internal audit staff, this risk may be considered marginal.

1200 – Proficiency and professional integrity

23. The Senior Auditor has solid theoretical and practical skills to carry out audits with due care. With an educational background in economics, in addition to several professional qualifications relevant to the profession (CIA, CISA, CFSA and CCSA), he has held different audit posts with companies or other specialist bodies in the field. My colleagues regretted that IAOD does not have a summary list of training and courses undertaken by its staff, which would attest to their up-to-date knowledge: a requirement for this type of work.

Recommendation No. 2: I consider that the Director of IAOD should draw up a list of the training undertaken by all of his/her staff and update such a file as and when necessary.

1300 – Quality assurance and improvement program

24. IAOD has to date not considered it timely to implement a quality assurance and improvement program that would concern all aspects of internal audit and allow ongoing control of its effectiveness. This program would normally include carrying out periodic internal and external quality assessments as well as ongoing internal monitoring. Each part of the program would have a dual goal: helping internal audit to bring added value to the Organization's operations and improving such operations, and guaranteeing that the audit is carried out in accordance with the Standards.

Recommendation No. 3: I invite the Director of IAOD to develop a program (concept) of quality assurance and improvement that includes documentation on periodic and ongoing internal assessments of all areas of internal audit activity. Once established, this concept should be included in the Internal Audit Manual. It seems clear that ongoing assessments would only be suitable when the Internal Audit Section has at least two qualified staff members, which should be the case in the near future.

Operating standards

2000 – Managing internal audit

25. My colleagues have looked through several IAOD reports and consulted its correspondence file. The conclusions of this analysis highlight the important contribution of IAOD to improving the management of WIPO's financial and administrative activities. Targeted actions encourage economic potential and the simplification of processes.
26. During each annual planning exercise, IAOD establishes a risk analysis for the different WIPO entities, for projects and for the new construction. This risk analysis is based on a theoretical standard developed by IAOD and on risk evaluation criteria. The documents received ("Detailed Internal Audit Planning 2009" of November 25, 2008 and "Revised Annual Internal Audit Plan 2008" of August 19, 2008) both contain the risk analysis and the audit methodology used. The various documents submitted are partially redundant in terms of theory. The system itself gives an overview of the risks evaluated for WIPO entities. Nevertheless, my colleagues did not find it useful for these documents to contain the applicable methodology and audit theory. They believe that this type of information should appear in the audit manual, which would prevent the annual planning documents from being unnecessarily long.
27. In the annual planning for 2008 and 2009, it appeared that certain topics came up regularly. My colleagues noted that the new construction is monitored biannually by IAOD. The Audit Committee also follows developments in this construction. I myself have assigned one of my colleagues to ensuring that the works related to this construction are monitored regularly. The current situation may lead to duplication in the monitoring of matters related to the new construction.
28. During the examination of the planning documents for the 2008 and 2009 audit assignments, my colleagues could not easily compare planned audits with final audit reports in order to check if the planned audits had been carried out. In addition, there was no list of planned, completed, reported, cancelled and ongoing audits for 2007 onwards. Such a list was drawn up during the audit by the Senior Auditor.
29. IAOD does not have a long-term program. Although a lack of resources goes some way to explaining this situation, I consider that long-term planning should be established, as this would guarantee rotation in the approach of certain future audits.

Recommendation No. 4: I invite IAOD:

- to decide, during its annual planning, on precise audit topics, the titles of which would be mentioned in the final reports,
 - to continue to draw up a list of planned, completed and reported audits, which should be updated as necessary, and
 - to implement long-term audit planning.
30. In accordance with the relevant international standards, paragraph 13(c) of the WIPO Internal Audit Charter states that IAOD must prepare, publish, disseminate and maintain an internal audit manual. In fact, an unfinished audit manual has existed since 2007. A lack of human resources and the fact that the Senior Auditor works alone have been cited by IAOD as reasons for this. I firmly believe that the audit manual must be written and made available to WIPO staff on the Intranet. This would increase the visibility of the internal audit function within WIPO and would clearly differentiate the internal control system and the tasks of IAOD.

Recommendation No. 5: I believe that IAOD should complete the drafting of the audit manual started in 2007 and make it available to WIPO staff over the Intranet. This manual should cover all the essential elements specified in the Audit Standards.

31. In accordance with Standard 2020 and as part of its annual planning, IAOD informed the Director General and the Audit Committee of the lack of resources that it faces. In autumn 2008, a vacancy announcement for the post of Head of the Internal Audit Section was advertised. This post was still vacant at the time of this audit. It would be advisable to fill this vacancy, as this would allow better coverage of the areas of activity that have been identified as high risk and in which it has not yet been possible to carry out audits due to a lack of staff, despite the use of qualified external consultants.
32. The Director of IAOD prepares a quarterly report on the results of audits for the Director General and the Audit Committee, and a public annual report for the Director General and the WIPO General Assembly. However, these reports do not provide information on exposure to significant risks (including risks of fraud) and corresponding controls, or on subjects relating to governance, or any other issue in response to a need or a request of the Director General or the Audit Committee. Furthermore, no reasons are given for the absence of the above elements.

Recommendation No. 6: In accordance with Standard 2060, I suggest that, from now on, IAOD includes an evaluation of the following in its reports:

- exposure to significant risks and the corresponding controls,
- subjects relating to corporate governance, and
- any other issue in response to a need or a request of the senior management or the Audit Committee.

2100 – Nature of work – assessment of corporate governance, risk management and control processes

33. According to this Standard, internal audit must evaluate governance processes (defining the organization's objectives, promoting and safeguarding the organization's code of ethics, guaranteeing effective performance management, demonstrating appropriate and correct information, etc.) and ensuring their efficiency. My colleagues noted that IAOD had not yet carried out such an analysis. However, in order to address this situation, of whose importance it is aware, IAOD commissioned a group of external consultants to carry out this task. Fifty-five working days have been allocated, starting in August 2009, to carry out the "Internal Control Gap Assessment".
34. Audit planning is based on IAOD's risk analysis. Most audit assignments in the annual working plan concern activities that are considered high risk. The fact remains that medium-risk or lower-risk engagements are also planned, despite the lack of staff. Following up the implementation of the recommendations contained in all internal and external audit reports, as well as those by the Audit Committee, is also part of IAOD's annual tasks, as are audits of the new construction. Given the lack of staff, I question whether it is sensible to carry out audits in activity sectors where the risk analysis only shows medium to low risks.

Recommendation No. 7: I invite IAOD to review its strategy on planning for audits involving medium to low risks in order to concentrate more on engagements involving higher risks.

35. My colleagues noted with satisfaction that WIPO had commissioned an external consultant to assess the ethics and integrity of the Organization. This audit was the focus of an evaluation report of December 2008 on the UN WIPO Integrity and Ethics System. This document was submitted to the Audit Committee in July 2009.

36. IAOD examinations assist the Organization in strengthening its internal control system; they help to improve the effectiveness and efficiency of its operations, of its heritage protection (tangible and intangible) and its respect for laws, regulations and contracts. Additionally, WIPO has decided to formalize its internal control system. This measure is linked to the introduction of the new International Public Sector Accounting Standards (IPSAS).

2200 – Engagement planning – engagement planning with objectives and scope

37. During their analysis of audit documents, my colleagues noted that the folders contained the audit plan and the audit program. The work program shows the audit's objectives and the items to audit, but without making any links to the list of risks identified. These documents are brief and their relation to the working papers is not always clear. According to the explanations received by my colleagues, it emerged that the lack of resources does not allow support for audit planning documents. The auditors remarked that the audit program does not clarify what the priorities are, nor does it give details on the resources allocated. As the Internal Audit Section only has one auditor, external resources are sometimes used. In this case, reasons for the commissioning of external consultants and their participation in the engagement is not made clear in the audit plan. In addition, the Director of IAOD's approval of the audit plan and program before the beginning of the audit does not feature clearly in all the documents.

Recommendation No. 8: I believe that the Internal Audit Section should:

- clarify the work program by linking it with the risk analysis,
- ensure that the work program includes the priorities and the resource allocation for each subject to be audited,
- ensure that the work program allows a connection to be made between the working papers and the recommendations,
- ensure that comments concerning the involvement and assignment of external experts are highlighted in the audit plan, and
- ensure that the signature of the Director of IAOD and the date of approval are systematically placed on the audit program before the audit begins.

2300 – Performing the engagement

38. In the absence of a documentation standard, IAOD has established work folders in a similar way since 2007; they are completed by a checklist that is signed by the Director of IAOD. My colleagues noted that the documentation largely consists of interview notes that do not contain conclusions; copies of analysis documents; and on occasion even summaries. On the basis of these documents, it would be difficult for a third party to make a connection easily between the working papers and the conclusions, and also the recommendations.
39. IAOD has not created regulations on archiving and accessing working papers. The Internal Audit Charter governs access to the reports (which can be read in the IAOD offices), but not access to working papers.
40. Documentation on the overseeing of the audit activity by the Director of IAOD is limited to his signature on the program, the audit plan and the control checklist. The audits show that it is not always possible to ascertain the order in which documents are produced and signed.

Recommendation No. 9: I invite IAOD:

- to improve the formalization of working documentation so that a third party audit professional is always able to compare the objectives of the engagement, the content of the examinations carried out, the results, the auditor's opinion and the recommendations. The standardization and organization of working papers could go some way to achieving this,
- to integrate into the Internal Audit Manual regulations relating to audit documents, information to be archived and the period for which files must be kept; rules on access by third parties to working papers should also be included,
- to create audit notes that include a summary of the work carried out and allow connections to be made between the work program, interviews, analyzed documents and the notes and recommendations contained in the report,
- to establish a system for reviewing working papers and dating and signing them, and
- to provide for the establishment of standards relating to documentation in the audit manual.

2400 – Communicating results

41. IAOD communicates the results of the audit to the services that have been audited during a closing meeting. The draft report is then sent to those who have been audited, giving them a time limit for communicating their observations and proposing envisaged measures. IAOD does also offer them the possibility to discuss the report in one or more additional meetings, if required. My colleagues noted that the process of drawing up the draft report through to issuing the final report can sometimes take far too long; it may last several months.
42. The final reports contain information and observations that are completed, if necessary, by recommendations relating to the assignment that has been carried out; they are completed by observations and the measures envisaged by those who have been audited. The format of the reports changes and also depends on whether external experts are involved in their production. The format may still be considered stable and uniform. The report model used gives a level of control (control effectiveness) to the audited areas, in order to give a balance to the observations.
43. In the management summary of the analyzed reports, IAOD states that the audit has been carried out in accordance with audit standards. It was planned to remove this remark, as no external audit on respect for the standards had ever been carried out. Given the current situation, I believe that IAOD may continue to refer to the standards as being the basis of audits that are carried out, provided that any significant departure from them is noted.

Recommendation No. 10: In order to be able to deliver audit reports in good time following the end of the audit, I believe that the steps to be taken in case of a significant delay in receiving the observations of the audited services need to be defined. Similarly, I think that the role of IAOD needs to be promoted in general and that communication with those who are subject to audit needs to be improved, in order to guarantee the necessary attention from management.

44. Information exchange between the governing bodies of an organization is very important. The internal audit function is no exception. This service can also play an important role in supporting the management of the organization. In this respect, I think that the Director of IAOD should have regular meetings with the WIPO Director General.

Recommendation No. 11: In order to increase the visibility of the internal audit function within WIPO, I invite the Director of IAOD to increase his contacts with the WIPO Director General.

2500 – Monitoring progress

45. The Internal Audit Charter states that IAOD shall monitor the follow-up of recommendations contained in the reports of the External Auditor. In fact, IAOD carries out a twice-yearly follow-up of all the recommendations contained in internal audit reports (IAOD), external audit reports (External Auditor, Joint Inspection Unit, audit offices, etc.) and the summary records of Audit Committee meetings, a not inconsiderable workload. As at June 30, 2009, the list of open recommendations was presented in a 120-page document “Part I: List of Open Oversight Recommendations with Outstanding Implementation Status”. This contains a table with columns entitled “Recommendation not yet fully implemented”, “Management comments on the status of implementation”, “Benchmark”, “List to risk register” and “IAOD Comments”. My colleagues noted that there were no comments in the “Benchmark” and “List to risk register” columns. However, to improve the layout of the recommendations, they considered that it would be sensible to state, in special columns, the name of the service responsible for implementing the recommendations and the relevant time limit for doing so. This information sometimes comes under the column “Management comments on the status of implementation”, but not in a systematic fashion. However, this format does not give a precise and quick overview of the information. IAOD is also looking at how to manage this list with a more practical working tool.
46. In its annual planning, IAOD provides for several working days to ensure the implementation of the above document, which then prevents it carrying out other audit engagements. The above list is submitted more or less twice-yearly to the Audit Committee. From a strictly administrative point of view, the current process is fairly cumbersome for IAOD. Its Director had sent a message to the former Director General on September 19, 2008, accompanied by a draft Office Instruction (24/2008) entitled “Implementation of Oversight Recommendations”. Another message referring to this draft instruction was sent to the new Director General on May 27, 2009. As at the end of July 2009, no follow-up has been given to this document by the senior management.

Recommendation No. 12: I invite the Director General to follow up IAOD’s request of May 27, 2009 concerning draft Office Instruction 24/2008 on Implementation of Oversight Recommendations.

2600 – Senior management’s acceptance of risks

47. Standard 2600 states that when the head of internal audit believes that senior management has accepted a level of residual risk that may be unacceptable to the Organization, he or she must discuss the matter with senior management. If no decision on residual risk is taken, the head of internal audit must report the matter to the Audit Committee, or even the WIPO General Assembly, for resolution. No referral process concerning the application of this Standard has been brought to my attention to date.

CONCLUSION

48. The results of the assessment give a positive view of the relevance of WIPO’s internal audit action. It certainly contributes to improved management of the Organization’s financial and administrative activities, as well as its internal control system. Its targeted actions encourage economic potential and the simplification of processes. From this point of view, it satisfies the Standard on creating added value for the Organization.

49. However, when compared to professional internal audit standards, I consider that the current situation at WIPO could be improved by better formalizing audit documents (quality control of engagements, reasons for noting certain elements, audit note summaries, for example) and by stepping up the quality control of WIPO's internal audit work (lack of a quality assurance and improvement program).
50. Overall, the assessment report, which is based on more than 120 points, highlights that there is the potential to improve the audit provision, at a formal level, in relation to each of the standards in order to meet the required conditions. The internal audit respects some 60 per cent of the standards and partially follows about 33 per cent of them, while seven per cent of the standards are not applied. This gives an overall percentage of the application of standards of just above 80 per cent.
51. I am still waiting for the drafting of the audit manual to be finalized and put on the Intranet, which should help raise the visibility of internal audit within WIPO. Some of the gaps noted are a result of the Internal Audit Section only having one auditor at present.
52. I believe that adapting the Audit Charter and clearly defining the internal audit function in relation to the Investigation and the Evaluation and Inspection Sections will help to make the different engagements more transparent and more easily distinguishable.
53. The planned strengthening of the Internal Audit Section should allow an even stricter application of the relevant internal audit standards.

(signed)

K. Grüter
Director
SWISS FEDERAL AUDIT OFFICE

(External Auditor)

[End of Appendix and of document]