

## **Program and Budget Committee**

### **Nineteenth Session** **Geneva, September 10 to 14, 2012**

#### REPORT OF THE WIPO INDEPENDENT ADVISORY OVERSIGHT COMMITTEE

*prepared by the Secretariat*

1. This document presents the Annual Report of the WIPO Independent Advisory Oversight Committee (IAOC), prepared by the IAOC. The Report covers the period July 1, 2011 to June 30, 2012. In view of the appointment of the new IAOC membership in February 2011, information on important issues dealt with by the new membership between February and July 2011 is also included.
2. The quarterly report of the IAOC's 26<sup>th</sup> session (August 28 to 31, 2012) will be issued as an Addendum to this document prior to this Program and Budget Committee session.
3. *The Program and Budget Committee is invited to take note of the Annual Report of the WIPO Independent Advisory Oversight Committee.*

[Annex follows]

ANNUAL REPORT OF THE  
WIPO INDEPENDENT ADVISORY OVERSIGHT COMMITTEE  
FOR THE PERIOD JULY 1, 2011 to JUNE 30, 2012

## INTRODUCTION

1. This is the first Annual Report of the WIPO Independent Advisory Oversight Committee (hereinafter referred to as “the IAOC” or “the Committee”), prepared on the IAOC’s own initiative.<sup>1,2</sup> Issues dealt with by the IAOC during the reporting period are reviewed with a view to highlighting salient points, assessing progress made and identifying possible future directions.
2. During the reporting period, four quarterly sessions were held (August and November 2011 and March and May-June 2012) and respective session reports issued (documents WO/IAOC/22/2, WO/IAOC/23/2, WO/IAOC/24/2 and WO/IAOC/25/2). In view of the new membership’s appointment in February 2011, this Annual Report also contains information on important issues dealt with by the new membership between February and July 2011.
3. The IAOC wishes to highlight the significant progress made during the period in addressing two long-standing issues at WIPO, namely follow-up on oversight recommendations and the functioning of the Internal Audit and Oversight Division (IAOD). Concerning work prioritization for the next period, the IAOC will continue to monitor closely internal controls and risk management and follow-up on implementation of oversight recommendations. Special attention will also be given to financial reporting and Ethics.

## MANDATE AND MEMBERSHIP

4. In September 2005, the WIPO General Assembly (GA) established a WIPO Audit Committee (AC),<sup>3</sup> “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.”<sup>4</sup>
5. In 2010, the name of the Committee was changed to WIPO Independent Advisory Oversight Committee<sup>5</sup> and following revisions to IAOC rotation and selection procedures, the Program and Budget Committee (PBC) appointed in January 2011 the following seven new members:<sup>6</sup>

- Mr. Anol Chatterji (India)
- Mr. Kjell Larsson (Sweden)
- Mr. Nikolay Lozinskiy (Russian Federation)
- Mr. Ma Fang (China)
- Ms. Mary Ncube (Zambia)
- Mr. Fernando Nikitin (Uruguay)
- Mrs. Maria Beatriz Sanz Redrado (Spain)

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<sup>1</sup> Pursuant to a decision at the IAOC’s 23<sup>rd</sup> session (document WO/IAOC/23/2, paragraph 19).

<sup>2</sup> In 2008, the IAOC presented to the WIPO General Assembly a consolidated report for the 2006-2007 biennium (document WO/GA/34/3).

<sup>3</sup> Document A/41/10

<sup>4</sup> Document WO/GA/34/15

<sup>5</sup> Document WO/GA/39/13

<sup>6</sup> Document WO/PBC/16/2

6. To facilitate transition, the services of two former AC members, Messrs. George Haddad and Gian Piero Roz, were retained until December 31, 2011.<sup>7</sup> Following a drawing of lots<sup>8</sup> by the new members, Messrs. Larsson, Ma and Ms. Sanz Redrado are serving a term of three years non-renewable and Messrs. Chatterji, Lozinskiy, Nikitin and Ms. Ncube a term of three years, renewable once and for a final term.

7. Mrs. Sanz Redrado and Mr. Nikitin were elected as Chair and Vice Chair for 2011, and were subsequently re-elected in the same positions for 2012.

## WORKING METHODS

8. The IAOC is an independent advisory oversight body reporting to the Program and Budget Committee. It has no operational, executive or managerial responsibilities. During the reporting period, the IAOC continued to meet on a quarterly basis and to follow its standard work methodology, which includes examining relevant documents provided by the Secretariat, receiving Secretariat presentations followed by open discussion, and internal deliberation to reach consensus.

9. In addition, the IAOC provided to the Secretariat comments and documentation on best practices, including on Enterprise Risk Management (ERM) and “risk appetite” (see paragraph 20 below), as well as proposed guidelines for follow up of oversight recommendations.

10. At each quarterly session, the IAOC met with the Director General and Senior Management Team members. The Committee also met with the: former and incoming External Auditors, Chief Financial Officer (Controller), Chief Information Officer, former and incoming Directors of the Internal Audit and Oversight Division, Director of the Premises Infrastructure Division, Director of the Resource Planning, Program Management and Performance Division, Chief Ethics Officer, Ombudsman, and the Deputy Director of the Business Solutions Management Service. It also met with the IT Technical Service and IT Service Management Heads and the Heads of the Sections of Budget, Evaluation and Inspection, Information Security, Internal Audit, the Acting Head of the Investigation Section, as well as with the Head of the Finance Services and a Strategic Realignment Program (SRP) Project Management Office consultant.

11. In line with a GA decision<sup>9</sup>, on the last day of each quarterly session an information session for Member States was held. Each information session was attended by representatives of, on average, 15-20 Member States. Following each quarterly session, the IAOC issued a report circulated to Member States through the Director General.

## ISSUES REVIEWED BY THE IAOC

12. Selection and prioritization of issues were guided by the IAOC’s five year roadmap<sup>10</sup>, prepared by the Committee in line with its Terms of Reference, and following inductions to the new membership and a review in March 2011 of the Committee’s 2006-2010 work.

13. During the reporting period, five areas were identified as needing improvement and consequently dealt with at each quarterly session, namely: coherence of WIPO oversight structures and functional relationships; risk management and internal controls (SRP

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<sup>7</sup> Document WO/GA/39/13

<sup>8</sup> Ibid

<sup>9</sup> Ibid

<sup>10</sup> Document WO/IAOC/21/2, Annex II

Initiative No. 15); follow-up on oversight recommendations; internal audit and oversight; and, following a PBC decision in September 2011, a review of WIPO's governance structure. In addition, the IAOC reviewed financial reporting, the New Construction Projects, Ethics (SRP Initiative No. 17) and the WIPO Ombuds-function.

14. An overview of each of these thematic areas appears in the following sub-sections.

A. Coherence of WIPO Oversight Structures and Functional Relationships

15. Oversight is a key aspect of good governance that ensures the effective and efficient use of human, financial and other resources made available to the Organization. Prior to the reporting period, the IAOC had identified the need to establish more clearly IAOC functional relationships including the triangular relationship between the IAOC and the external and internal audit functions. To this end, in May 2011, the IAOC proposed revisions to the WIPO Internal Oversight Charter, the Terms of Reference governing External Audit and the Terms of Reference of the WIPO Independent Oversight Committee.<sup>11</sup>

16. During the reporting period, the IAOC continued its review of the Charter and the Terms of Reference. Following receipt of Secretariat comments in March 2012, the IAOC modified its original proposal and in line with a 2010 Committee recommendation "for a coordinated and independent review of the Internal Audit Charter and of the Terms of Reference of the External Auditor and of the IAOC"<sup>12</sup>, its modified proposal was independently reviewed by the External Auditor and the Director of the Internal Audit and Oversight Division (IAOD).

17. A tripartite meeting between the IAOC, the External Auditor and the Director of the IAOD took place at the IAOC's 25<sup>th</sup> session. A joint proposal for revisions was agreed, which will be submitted to the PBC for consideration at its September 2012 session.

B. Risk Management and Internal Controls

18. The IAOC considers that the strengthening of internal controls and risk management is a priority issue. An internal controls system does exist at WIPO but certain practices remain informal, *ad hoc* and unsystematic. In addition, understanding and appreciation varies across the Organization. The Secretariat is addressing the lacunae with a five phase project within SRP Initiative No. 15. In April 2012, a professional services company specializing in risk management and internal controls was contracted to assist WIPO to complete the Initiative.

19. At its 24<sup>th</sup> session, the Secretariat presented a status report on SRP Initiative No. 15 as a follow-up to a presentation made to the IAOC in 2011. The IAOC observed that the significance of risk identification had been explicitly recognized and that risk registers had been developed for a number of Organization units. The extent to which the Secretariat planned to implement risk management Organization-wide, however, was unclear.

20. At its 25<sup>th</sup> session, the IAOC advised the Director General and his team on a pragmatic approach to Enterprise Risk Management (ERM) implementation and discussed with the Assistant Director General for Administration and Management and his team the expected outcomes from the project, including establishment of an Organization-wide risk register and identification of WIPO's "risk appetite"<sup>13</sup>. In addition, the IAOC provided the Secretariat with best practice documentation and advised on certain aspects of change management within the context of SRP implementation, to which the Assistant Director General agreed.

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<sup>11</sup> Document WO/IAOC/21/2, Annex III

<sup>12</sup> Document WO/IAOC/19/2 Rev, paragraph 70

<sup>13</sup> Definition of "risk appetite" provided by the Committee of Sponsoring Organizations of the Treadway Commission (COSO): "Risk appetite is the amount of risk, on a broad level, an organization is willing to accept in pursuit of value. Each organization pursues various objectives to add value and should broadly understand the risk it is willing to undertake in doing so." (2012: page 1)

21. The IAOC will continue to monitor implementation of internal controls and risk management systems as a priority and, drawing on its collective experience and knowledge, provide expert advice as needed.

### C. Special Projects

22. The IAOC's terms of reference provide for IAOC oversight of particular activities and projects on the PBC's request.<sup>14</sup> During the reporting period, the IAOC was seized with a request from the PBC to review WIPO Governance. The IAOC also continued to review progress on the New Construction Projects and the SRP.

#### *WIPO Governance*

23. In September 2011, the PBC requested that the IAOC review WIPO governance in light of relevant documents including but not limited to documents WO/GA/38/2 and WO/PBC/18/20, and prepare a report with recommendations for an informal consultation process to be convened by the GA Chair.<sup>15</sup> The IAOC consequently introduced an item on WIPO Governance at its 23<sup>rd</sup>, 24<sup>th</sup> and 25<sup>th</sup> sessions and reviewed the documents cited and other relevant material. At its 25<sup>th</sup> session, the IAOC met with the Chair of the PBC and discussed the nature of the IAOC's report and recommendations, which were subsequently transmitted to the PBC Chair in June 2012.

#### *New Construction Projects*

24. The IAOC has been tasked with oversight of the New Administrative Building Construction Project since its inception, a role subsequently extended to include the New Conference Hall Project.

25. Throughout the reporting period, the IAOC continued to review available documentation including the quarterly progress reports prepared for the Committee. It met with the Director of the Premises Infrastructure Division and received detailed information on the total cost of construction of the new administrative building. It also received information of the sums paid to third parties on account of the delayed delivery of the new administrative building by the General Contractor and separately the total amount that will eventually be recovered from the General Contractor on account of the delayed delivery.

26. With respect to the New Conference Hall Project, the Committee decided to follow up on Management's plans to bring the total cost of construction down to the approved budget level as requested by the Selection Board, an issue that is still pending.

27. At its 23<sup>rd</sup> session, the Committee agreed that progress reports on the New Construction Projects should continue to be submitted on a quarterly basis and that an agenda item on this topic would be scheduled if needed. An item has been scheduled for the IAOC's next session in August 2012 when the IAOC will review, in particular, the status of the Projects, operational key performance indicators, follow-up on Provisions and Accruals, the use of WIPO's reserves, and outstanding issues relating to the new administrative building.

28. The IAOC has placed on record that it exercises an oversight function based on information provided to it by the Secretariat or in the reports of the Internal and External Auditors but does not perform audits of the construction projects. The IAOC has therefore exercised an oversight function on an ongoing basis but has not audited the expenditures incurred to date on the new administrative building.<sup>16</sup>

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<sup>14</sup> IAOC Terms of Reference paragraph B.2(d)

<sup>15</sup> WO/PBC/18/22, paragraph 89

<sup>16</sup> Document WO/IAOC/22/2, paragraph 25

### *Strategic Realignment Program (SRP)*

29. The IAOC continued to monitor the progress of the implementation of the SRP. As noted in paragraph 13 above, the IAOC focused on SRP Initiatives Nos. 15 and 17, reviewed in detail in Sections B and G of this Report.

#### D. Internal Audit and Oversight

30. A “very high risk” IAOC recommendation relates to the functioning of the Internal Audit and Oversight Division (IAOD).<sup>17</sup> Since its inception, the Committee has expressed its concerns on a number of issues including staff vacancies, work plans and their implementation and the less than adequate coverage of high risk areas and follow-up procedures.

31. During the reporting period, the IAOC met with the outgoing and incoming Directors of the IAOD, the Heads of the Internal Audit Section and of the Evaluation and Inspection Section, the Acting Head of the Investigation Section and a consultant internal auditor.

32. Following the recruitment of a Senior Internal Auditor in early 2012, the IAOC welcomed that all IAOD budgeted posts were filled. A recruitment process has been completed for a Head of Investigations, a Section currently managed by an Acting Head during the reporting period.

33. At its 24<sup>th</sup> session, the new Director of the IAOD presented his 2012 work plan and at its 25<sup>th</sup> session, the IAOC was pleased to receive a comprehensive status report showing that implementation was as scheduled.

34. With respect to internal audit, the IAOC received six internal audit reports on, respectively: Procurement Activities, New Construction Project Risk Registers, Development Sector Activities, Implementation of IAOC High Risk recommendations, Implementation of Information and Security Related IAOC recommendations, and Human Resources Management.

35. The Human Resources Management report raised a number of high risk issues and the IAOC believes that this report should be brought to the attention of Member States. The IAOC will monitor closely implementation of the report’s recommendations.

36. During the reporting period, the Committee also reviewed in depth the working methods of the Evaluation and Investigation Sections. With respect to Evaluation, the Committee was informed that a lack of appropriate key performance indicators was a weakness in a number of program designs. Following review of two evaluation reports, the IAOC concluded that there is a need to improve project design to ensure that the results can be properly evaluated, and that WIPO should try to obtain more buy-in from host governments to ensure sustainability.

37. In September 2011, an IAOC member attended a WIPO two-day seminar series “Learning from Existing Evaluation Practices on the Impacts and Effects of Intellectual Property on Development”. Another member will attend the next seminar series in November.

38. Concerning the Investigation function, the IAOC reviewed a draft Investigation Policy currently being finalized and provided written comments to the Director of the IAOD. Following Policy finalization, the Committee was informed that the Director of the IAOD will undertake a review of the WIPO Investigation Manual.

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<sup>17</sup> Document WO/IAOC/22/2, paragraph 4. The IAOC observed that not all areas ranked as being of high risk in IAOD’s map of WIPO’s audit universe were covered.

39. The IAOC also received from the Director of the IAOD a confidential report on the status of Investigations. The Committee was pleased to note that the backlog of cases for investigation was now under control and that the IAOD Director was confident that caseload management would not compromise other Section work plans. In this connection, the IAOC discussed with the Director of the IAOD procedures to ensure that the Investigation Section is not asked to deal with cases that fall outside of its mandate and/or which could be dealt with more effectively for all parties concerned through alternative avenues, such as the WIPO Ombuds-function. In the view of the Committee, clearer guidelines and awareness-raising on the various informal and formal resolution mechanisms at WIPO are required.

40. In sum, the IAOC believes that the progress made towards addressing deficiencies in the IAOD has been sufficient to reduce the risk ranking of the recommendation cited in paragraph 30 above. The IAOC will continue to oversee the IAOD in accordance with its Terms of Reference and looks forward to future constructive interaction.

#### E. Follow-up on Oversight Recommendations

41. Monitoring follow-up on oversight recommendations is an ongoing key responsibility for the IAOC and a standing agenda item at each of its quarterly sessions.

42. During the reporting period, the IAOC concluded a task that had become a major preoccupation for Member States, namely addressing 307 outstanding recommendations issued by the former IAOC membership. The IAOC approach was to rank each recommendation according to risk and subsequently to request a formal response from the Director General on the status of 11 very high risk recommendations and verification by the IAOD on the status of 96 high risk recommendations.

43. Following the Director General's formal response at its 22<sup>nd</sup> session, the IAOC concluded that only one very high risk recommendation, concerning the IAOD, was outstanding.<sup>18</sup>

44. The IAOD's verification report showed that 52 of the 96 high risk recommendations had been implemented.

45. Follow-up procedures were also revisited in respect of the IAOC recommendations. The IAOC agreed with the Director General that the IAOC recommendations should continue to be followed up with him and in line with Office Instruction No. 16/2010 but that they would be separately numbered and differentiated from those of the internal and external auditors. It was also agreed that the Director General would provide his comments on the IAOC recommendations at least 15 days prior to the following IAOC meeting. The comments would include a timeframe indication and implementation schedule within which such action would be completed and progress in this regard would be communicated to the Committee periodically.

46. Another issue identified by the Committee was the follow-up system itself. The IAOC reviewed the system and included in the report of its 23<sup>rd</sup> session detailed observations and comments. It also drafted and attached to the report "Proposed Guidelines and Criteria for Monitoring the Implementation of Oversight Recommendations at WIPO". At its 25<sup>th</sup> session, the Committee was pleased to note that the guidelines had been taken into account by the IAOD and that follow-up procedures had been modified accordingly.

47. A third component of the IAOC work in this area has been monitoring the implementation of all oversight recommendations on the basis of information drawn from the IAOD database.

48. As of March 31, 2012, 85 recommendations were open (as compared with 134 recommendations recorded by the IAOD as being open on January 31, 2012). The IAOC

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<sup>18</sup> Ibid

was also informed that six high risk recommendations had been closed without implementation, relating to PCT revenue and the handling of exchange rate fluctuations, IT security, and procedures for staff home leave and for corrections to payment instructions.

49. Following a preliminary review of these six high risk recommendations, the IAOC concluded that underlying reasons for closure had not been adequately documented and that the issues contained within the recommendations continued to remain of high risk, meriting further information. The Director General subsequently provided that information together with his formal acceptance of residual risk.

50. At the time of writing, 85 oversight recommendations remain open. Of these six are of very high risk and 45 of high risk. An updated report from the IAOD will be presented to the Committee for review at its 26<sup>th</sup> session in August 2012.

51. In conclusion, the IAOC notes with appreciation the significant progress made during the period to address certain long outstanding issues, and Management and the IAOD's ongoing cooperation and collaboration in this regard.

#### F. External Audit

52. During the period under review, the IAOC met with the outgoing and incoming External Auditors together with the Chief Financial Officer (Controller) and the Head of Finance Services and discussed financial reporting, in particular in the context of International Public Sector Accounting Standards (IPSAS) implemented by WIPO.

53. The External Auditor drew the IAOC's attention to the need to ensure availability of necessary skills within WIPO to sustain the efforts in implementing IPSAS, not only within Finance Services and the Budget Section but also in other key units in the Administration and Management Sector such as Procurement and the Human Resources Management Department. The IAOC urged that the Secretariat prepare a time bound program to equip all staff concerned with appropriate IPSAS based accounting skills and knowledge and skills relating to their particular functions. At its 24<sup>th</sup> session, the IAOC was informed that an IPSAS expert had been recruited.

54. At its 25<sup>th</sup> session, the Committee reviewed the WIPO Financial Statements for 2011. Management informed the Committee that the Statements were the second ones to be produced under IPSAS and that 2010-11 therefore represented the first IPSAS-compliant biennium for the Organization. The IAOC sought clarification on a number of issues including the approach adopted by WIPO to deal with foreign currency exchange differences and clarity regarding the balance indicated as Accumulated Surpluses/(Deficits) under Financial Statements Note 21 "Reserves and Fund balance". The Committee requested a breakdown of the accumulated reserves into the specific fund balances of which it was comprised. The IAOC will continue to seek further clarification on these issues at its August session.

#### G. Ethics

55. The IAOC's terms of reference provide for promotion of internal control, *inter alia*, by reviewing arrangement for checks and balances in areas such as ethics, financial disclosure, fraud prevention and misconduct.

56. SRP Initiative No. 17 provides for the establishment of a comprehensive Ethics and Integrity System at WIPO. In 2010, an Ethics Office was established under this Initiative with a mandate for: norm-setting and policy development; promotion, including development and delivery of training; advice to staff members; and implementation activities, including the declaration of interest policy (introduced in 2009) and, when developed, of the Financial Disclosure Program and the Whistleblowers Protection Policy.



57. During the reporting period, the IAOC met twice with the Chief of Staff and the Chief Ethics Officer and noted: issuance of a WIPO Code of Ethics as part of an Office Instruction; the development and circulation for comment to staff of a draft Whistleblower Protection Policy; the launching of consultations on a draft Financial Disclosure Policy; and, that consideration was being given to the introduction of an Ethics Helpline.

58. The IAOC believes that the establishment of a comprehensive Ethics and Integrity System is an integral part of change management at WIPO interlinked in particular to efforts to strengthen Organizational governance. The Committee will continue to oversee periodically the work of the Ethics Office with priority given to the finalization of policies for Whistleblower Protection and Financial Disclosure and related Policy implementation activities, as well as organizational coherence between the WIPO Ombuds-function, the Ethics Office and IAOD.

#### H. WIPO Ombuds-function

59. The WIPO Ombudsperson provides confidential, neutral, independent and informal assistance to all WIPO staff and offers an alternative to formal complaint-handling.

60. During the period under review, the IAOC benefited from a presentation at its 22<sup>nd</sup> session by the Chief of Staff and the Ombudsperson. At its 25<sup>th</sup> session, the IAOC was pleased to meet again with the Ombudsperson and receive a presentation with detailed analysis on caseload. The analysis correlated with the findings of the Human Resources Management internal audit report (see paragraph 35 above). The IAOC will meet with the Ombudsperson again in November 2012.

#### CONCLUSION

61. The IAOC wishes to highlight in particular the significant progress made during the reporting period in addressing two long-standing issues at WIPO, namely follow-up on oversight recommendations and the functioning of the IAOD. Concerning work prioritization for the next period, the IAOC will continue to monitor closely internal controls and risk management and to follow up on implementation of oversight recommendations. Special attention will also be given to financial reporting and Ethics.

62. The IAOC wishes to thank the Director General, Senior Management Team members and other WIPO staff for their availability, clarity and openness in their interactions with the IAOC, and timely provision of documents.

[End of Annex and of document]