



Internal Oversight Division

Reference: IA 2014 - 07

Audit Report

Audit of Third Party Risk
(Parts of the original report were withheld due to the sensitive and confidential nature of issues raised)

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LIST OF ACRONYMS

CRC	Contract Review Committee
DPPF	Department of Program Planning and Finance
HRMD	Human Resources Management Department
ICS	Individual Contractual Services
ICT	Information Communication and Technology
ICTD	Information Communication and Technology Department
IOD	Internal Oversight Division
IT	Information Technology
KPI	Key Performance Indicators
MoU	Memorandum of Understanding
NGO	Non-Governmental Organizations
OLC	Office of the Legal Counsel
PCT	Patent Cooperation Treaty
PCT/IS	Patent Cooperation Treaty Information Systems
PTD	Procurement and Travel Division
RMG	Risk Management Group
SDA	Service Delivery Agreement
SSCS	Safety and Security Coordination Service
UN	United Nations
UNPD	United Nations Procurement Division
UNICC	United Nations International Computing Centre
UNGM	United Nations Global Market
WIPO	World Intellectual Property Organization

EXECUTIVE SUMMARY

1. The Internal Oversight Division (IOD) conducted an audit of Third Party Risk at WIPO between August and October 2014, in line with its 2014 work plan. The main objectives of the audit were to assess governance, compliance and control processes, and risk management of third party relationships at WIPO.
2. Third party risk is still managed intuitively at WIPO and it is yet to become a systematic and formalized process.
3. Contract management practices differ across the Organization and in particular, the management of service framework agreements would need to be harmonized across WIPO Programs. Also, risks related to critical suppliers' failure need to be formally integrated in the Organization's Business Continuity Plans.
4. Third party risks would be better managed if WIPO: (1) established procedures to ensure appropriate due diligence has been carried out by personnel agencies as part of their hiring process for temporary personnel assigned to WIPO, including background and criminal records verifications if and when appropriate; and (2) request that employment agencies' personnel with access to sensitive data, sign a confidentiality statement.
5. In addition: implementing procedures and practices to improve coordination, communication and monitoring of services provided by the existing premises security supplier would serve to further enhance third party risk management in the specific areas mentioned.
6. Finally, developing a tool to effectively monitor translation suppliers, as well as planning and conducting follow-up audits of critical translation suppliers will help enhance management of related third party risks.
7. To further improve management of third party risks, the Administrative and Management Sector in consultation with IOD and the Office of the Legal Counsel (OLC), has recently integrated an audit clause in WIPO's General Conditions of Contract, and is taking steps to establish a suppliers' sanction regime for suppliers (commercial entities, professional firms, or NGOs) that are found to have engaged in specified forms of fraud and corruption.

1. BACKGROUND

8. The World Intellectual Property Organization (WIPO) enters into third party relationships when: (1) providing services to customers, (2) purchasing goods or services, and (3) working with implementation partners for program delivery among others.

9. These relationships give rise to various risks, some of which are associated with the underlying activity itself, while other potential risks arise from the involvement of the third party. Failure to prevent or mitigate these risks can expose the Organization to: litigation, financial loss, reputation damage and impairment of the Organization's ability to establish new or maintain existing relationships. In more detail, third party risks can relate to:

- a) Strategy;
- b) Operations;
- c) Information;
- d) Compliance & Legal; and
- e) Finance.

Figure 1: WIPO Interaction with Third Party



10. The above figure depicts WIPO's main third party relationships. Managing these relationships is a continuous process, with related risks being continuously monitored throughout each stage of the lifecycle of the relationship, and is relevant towards effectively and efficiently managing the use of WIPO resources and securing WIPO revenue streams. WIPO currently manages third party risks through: (1) internal control processes and systems, (2) Financial Regulations and Rules, and (3) other relevant policies, guidelines and procedures.

11. WIPO issued a Risk Management Policy (OI 34/2014) and a Risk and Internal Control Management Manual, that sets out the Organization's approach to managing key risks and internal controls in a consistent manner, in order to support the achievement of its strategic goals and expected results. Also, a new Risk Management System has just been implemented to improve the efficiency of risk management at WIPO.

12. The Risk Policy, Manual and System together with the organizational arrangements, the establishment of roles and responsibilities, processes and activities for the management of risks and internal controls, form WIPO's Risk Management Framework¹.

2. AUDIT OBJECTIVES

13. The objectives of this audit were to:

- a) Assess governance, compliance processes and risk management of third party relationships at WIPO; and
- b) Verify and assess that risks arising from third party relationships are efficiently and effectively managed at WIPO, using sample cases based on a mapping exercise of major third party risks.

3. AUDIT SCOPE AND METHODOLOGY

14. The audit scope included among others: (1) mapping the third party risk landscape at WIPO; and (2) reviewing third party risk management practices through a sample review of contracts.

15. The review was limited to third party risk management in contracting for procurement of goods and services². In that context, IOD did not undertake a full assessment of Memoranda of Understanding (MoUs), but examined the general practice relating to the use of MoUs with financial implications and their underlying third party risks.

16. The audit methodology included:

- a) Interviewing business process owners and other key stakeholders to gain a better understanding of third party risk management processes and root causes of challenges faced;
- b) Reviewing Organizational and Programs' risk registers to assess how third party risks are integrated within;
- c) Reviewing the adequacy of policies, procedures and guidelines on management of third party relationships to assess efficiency and effectiveness of key controls; and
- d) Examining, for selected high risk areas, a sample of contracts for efficient and effective third party risk management, throughout the contract lifecycle, including the tender process.

17. The audit was performed in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA).

¹ A Risk Management Group (RMG) was also established to promote a culture of responsible and effective financial and risk management in WIPO (OI.18/2014).

² Services include the use of Individual Contractual Services for program delivery.

4. AUDIT OBSERVATIONS AND RECOMMENDATIONS

18. WIPO currently considers third party risk as a subcomponent of operational risk in Programs' risk registers, and while a few Programs have identified specific third party risks in their registers, around two-thirds of Programs have identified risks that indirectly include some elements of third party risk. The current organizational risk register also implicitly refers to third party risks in key risks identified such as in: workforce management, reputation damages management, information security, information systems, and breach of confidentiality among others. In addition, third party risks have been explicitly highlighted for Programs' consideration in the course of the risk assessment meetings held as part of the 2015 work planning process, and the monitoring of these risks has been enhanced through migration from individual registers to an integrated risk management system.

19. While acknowledging the above measures taken towards improving management of risks, including third party risks, the observations and recommendations that follow would enable the Organization to further enhance the efficiency and effectiveness of third party risk management.

A. GENERAL OBSERVATIONS

(i) RISK MANAGEMENT IN PROCUREMENT ACTIVITIES

Managing the Risk of Supplier Failure

20. The Procurement and Travel Division (PTD) has taken a series of measures to improve the procurement and suppliers' management processes. These include among others: (1) introducing risk analysis in the procurement planning process; and (2) taking steps to identify strategic and critical suppliers for developing a strategic corporate procurement plan.

21. While the above initiatives are very positive, it would be necessary to proactively manage the potential risk posed by the failure of a critical or strategic supplier.

22. Moving forward, integrating the risk of critical and strategic suppliers' failure, and identifying mitigating actions in the Organization-wide Business Continuity Plan³, would be an additional step for WIPO to effectively manage this risk and reduce the associated impact to the Organization.

Assessing Overall Risk during Third Party Selection

23. To further reinforce due diligence practices carried out during the evaluation of bids, WIPO needs to strengthen suppliers' risk assessments during the selection process. Currently, evaluation matrices used to evaluate tenders include an "overall risk" category. Further refinement of the matrices through guidelines defining the specific components of overall risks would provide a more robust and consistent basis to capture and assess third party risks.

³ Business Continuity Planning is a proactive planning process that ensures amongst others, that critical services or products are delivered during a disruption. For procurements, it would include among others, measures to quickly assess the impact of a critical default supplier, and identify emergency backup solutions to enable quick response to disruptions.

24. IOD also observed that the rating of overall risk is not readily explained in bid evaluation reports that focus more on financial and technical attributes.

Sanction Regime for Suppliers

25. WIPO is currently planning to establish a sanctions regime for suppliers (commercial entities, professional firms, or NGOs) that are found to have engaged in specified forms of fraud and corruption.

26. PTD currently receives the “blacklist” from the United Nations Procurement Division (UNPD) that is reflected on the United Nations Global Market (UNGM), on a quarterly basis and compares suppliers on this list to its current active suppliers. However, as the number and volumes of procurement transactions increase, the Organization would benefit from developing its own procedures for the sanctioning of suppliers that are found, as a result of an IOD investigation, to have engaged in specified wrongdoings in connection with projects or activities involving WIPO. IOD and OLC support the Administration and Management Sector in establishing this suppliers’ sanction regime.

Recommendations

1. The Business Continuity Coordinator should closely work with Programs to integrate the risk of critical and suppliers’ failure, including appropriate mitigating actions, in the business continuity plans. (Priority: High)
2. The Procurement and Travel Division should update procurement procedures by clearly defining the components of “Overall Risk” criterion in the bidders’ evaluation matrix, and assigning more weight if and when appropriate to the “Overall Risk” criterion. (Priority: Medium)

(ii) CONTRACT TYPES

Memoranda of Understanding

27. Memoranda of Understanding (MoU) are agreements that WIPO signs with governments and other non-profit organizations for the purpose of implementing activities for program delivery. These MoUs may also include financial implications which in many cases imply procurement activities.

28. The current MoU templates do not sufficiently secure the interests and rights of the Organization, nor mitigate third party related risks when used as the basis for partnerships with significant financial implications. Also, although PTD is the designated authority for signing legally binding contracts and other similar agreements that result in financial obligations⁴, it currently has limited visibility on MoUs as it is not involved in the establishment of these agreements.

29. Absence of risk assessments prior to signing MoUs with significant financial implications, and lack of clear guidance on effective management of third party relationships may have a potential impact on the Organization’s financial resources and its reputation.

⁴ Sections 2.3 and 10.1 of WIPO Procurement Manual

30. The Administration and Management Sector reported they will conduct a review of the MoU framework, and at the time of the writing of this report, the planning stages of the review had been completed.

Audit and Investigation Clause in Contracts

31. While procurement contracts reviewed during this audit did not contain a right-to-audit clause, PTD in consultation with IOD, has recently integrated an audit clause in WIPO's General Conditions of Contract. This clause enables WIPO to among others: (1) verify accuracy and completeness of payments made to suppliers; (2) ensure that contract obligations have been met; and (3) secure suppliers' cooperation when conducting investigations relating to any aspect of awarded contracts. IOD pushed for this initiative that will further enhance existing third party risk mitigating measures.

Contracting Agencies' Personnel

32. The current documentation⁵ to guide Programs through the process for sourcing Agencies' personnel needs to be updated to reflect some existing practices in the recruitment of Agencies' personnel. For example, Program Managers can receive directly from employment agencies, a separate "Staff Recruitment Contract" to sign when contracting temporary personnel. The current guide does not provide any information on how to treat these contracts. Furthermore, the general conditions on these individual contracts differ from WIPO's General Conditions of Contract. It would therefore be useful to update the current guidelines for sourcing agencies' personnel, to avoid non-compliant practices that could potentially expose WIPO to legal risks.

Recommendations

3. The Administrative and Management Sector's review of the Memoranda of Understanding (MoU) Framework should consider: (1) integrating risk analyses for MoUs with significant financial implications, and (2) defining the role of PTD when establishing MoUs with financial implications. (Priority: High)
4. The Human Resource Management Department should update the current guidance on the use of employment agencies' personnel ("FAQs on the use of Employment Agencies for Temporary Staffing Needs") with steps to take when Programs directly receive individual "staff recruitment contracts" from employment agencies. Programs should be subsequently informed of the changes. (Priority: Medium)

(iii) MANAGING AND MONITORING CONTRACTS

Suppliers Management Tool

⁵ The FAQs on the use of Employment Agencies for Temporary Staffing Needs are guidelines available to Program on Intranet.

33. Effectively managing suppliers' performance ensures that all parties to a contract fully meet their respective obligations, while protecting the rights of the parties, and services and goods received are in accordance with the terms of the contract. The current suppliers' performance management process review highlights the following issues that need to be addressed:

- (a) While significant contracts include Key Performance Indicators (KPIs), a system to effectively monitor and evaluate suppliers' performance against KPIs is still lacking.
- (b) Section 13.4 of the new Procurement Manual provides guidance on contract amendments, extensions and renewal. Paragraph 234 of this section invites Programs to submit requests for contract renewal to PTD to review and approve. However, in practice, requests are made in diverse forms such as emails, and telephone calls which could impact the effective management and monitoring of contract renewals. Furthermore, requests for renewals, non-renewals, and extensions of strategic and critical suppliers should be supported by completed evaluations of suppliers' performance.
- (c) As from January 2014, PTD created a list to monitor ICS contracts, and a template for evaluating these ICS contractors. At the time of writing of this report, about one percent of ICS contracts have been evaluated. The reasons are that resource allocated to this task has been insufficient and Programs' buy-in has not been consistent across the board. Lack of systematic evaluation of contractors impairs effective third party performance management.

34. PTD informed IOD that a new staff has been recruited to centrally manage ICS contract and PTD plans to implement a suppliers' database to improve suppliers' performance management at WIPO.

Harmonizing Suppliers' Contract Management Practices

35. While the new Procurement Manual introduces the notion of contract management, it however lacks clarity on how to effectively manage contracts as a whole, which can result in dispersed and un-harmonized practices.

36. Where Service Framework Agreements⁶ are used, IOD observed a lack of clear ownership and collaboration among WIPO Programs using the same framework agreement. Furthermore, because no guidelines exist for managing the performance of suppliers in the framework agreement, each program has adopted its own approach.

37. The absence of clear procedures and guidelines for coordinating, communicating on, and managing these contracts, leads to ineffective and inefficient third party risk management.

Managing Access to Sensitive Areas and Confidential Data

38. WIPO uses temporary personnel for various tasks and projects. WIPO also sources Human Resources Agencies personnel to: (1) backfill staff during maternity and extended leaves; and (2) assist during unplanned peaks in workload. The review of the management of these types of contracting identified the following issues.

⁶ Service Framework Agreements are used to create a pool of suppliers following a tender, to ensure that skills and capacities are available to undertake various projects within the Organization.

39. While agencies personnel are required to sign the ICT Acceptable Use Policy, there is however no evidence that confidentiality statements have been signed by the incumbents. Because temporary personnel are given access rights to WIPO premises and information systems, it is necessary as a third party risk mitigating measure, that agency personnel accessing sensitive data also sign confidentiality statements.

40. Security measures on WIPO premises have recently been reinforced to include among others, requesting criminal records bi-annually for temporary personnel with access to sensitive areas in WIPO. IOD welcomes these additional measures, and further underlines the need for consistent use of logical and physical security measures across the Organization.

Recommendations

5. The Procurement and Travel Division (PTD) should: (1) ensure that the planned supplier database provides a platform, with specific KPIs, for assessing suppliers' performance including ICS; (2) request Programs to complete suppliers' evaluations prior to requesting for renewals, non-renewals, and extensions of critical and strategic suppliers; (3) make suppliers' evaluations mandatory prior to any final payments; and (4) collaborate with Programs, to develop clear procedures in the Procurement manual on how to manage contracts, including effective coordination and information sharing among Programs especially for framework agreements. (Priority: High)
6. The Human Resources Management Department (HRMD) should collaborate with other WIPO Programs to: (1) implement procedures/practices that provide assurance that appropriate measures have been taken by personnel agencies, as part of their hiring process for personnel assigned to WIPO, including background and criminal records verifications if and when appropriate; and (2) require that new personnel from employment agencies sign confidentiality statements prior to starting work at WIPO. (Priority: High)

B. SPECIFIC OBSERVATIONS

41. Three observations made in this part of the report were withheld due to the sensitive and confidential nature of issues raised.

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ANNEX: RISK RATING AND PRIORITY OF AUDIT RECOMMENDATIONS

The risk ratings in the tables below are driven by the combination of likelihood of occurrence of events and the financial impact or harm to the Organization's reputation, which may result if the risks materialize. The ratings for audit recommendations are based on the control environment assessed during the audit.

Table 1.1: Effectiveness of Risks/Controls and Residual Risk Rating

		Compound Risk Rating (Likelihood x Impact)			
		Low	Medium	High	Very High
Control Effectiveness	Low	Low	Medium	High	Very High
	Medium	Low	Medium	High	High
	High	Low	Low	Medium	Medium

Table 1.2: Priority of Audit Recommendations

Priority of Audit Recommendations	Residual Risk Rating
Requires Immediate Management Attention	Very High
Requires Urgent Management Attention	High
Requires Management Attention	Medium
Routine in Nature	Low

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