Agenda item: ADM 7	**Document C16/22-E**
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Report by the Secretary-General

FIFTH ANNUAL REPORT OF THE
INDEPENDENT MANAGEMENT ADVISORY COMMITTEE (IMAC)

I have the honour to transmit to the Member States of the Council a report from the Chairperson of the Independent Management Advisory Committee (IMAC). This report will be complemented by an addendum relating to External Audit, after the IMAC meeting of 9-11 May 2016.

Houlin ZHAO
Secretary-General

FIFTH ANNUAL REPORT OF THE
INDEPENDENT MANAGEMENT ADVISORY COMMITTEE (IMAC)

Summary

This document presents the annual report of the Independent Management Advisory Committee (IMAC) to the ITU Council. It contains conclusions and recommendations for the Council's consideration in the areas of internal audit function, risk management and internal controls, financial statements, accounting, external audit and evaluation, in compliance with IMAC's terms of reference.

This fifth annual report by IMAC to the ITU Council provides an update on the Committee's coverage and activity since May 2015 and presents specific recommendations intended to improve the oversight, internal control and governance arrangements to better meet the organisation's current needs.

IMAC is inviting the Council to approve its recommendations in order to further encourage effective response and timely action in the interests of enhanced accountability.

Action required

The Council is invited **to approve** the IMAC report and its recommendations.

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References

Resolution 162 (Rev. Busan, 2014); Council Decision 565; Documents C12/44 (First annual report of IMAC to the Council), C13/65 + Corr. 1 (Second annual report of IMAC to the Council), C14/22 + Add.1 (Third annual report of IMAC to the Council) and C15/22 + Add.1-2 (Fourth annual report of IMAC to the Council).

1   Introduction

1.1   IMAC serves in an expert advisory capacity to assist the Council and the Secretary-General in exercising their governance responsibilities for financial reporting, internal control arrangements, risk management and governance processes, and other audit-related matters mandated by the IMAC Terms of Reference. IMAC therefore assists in enhancing transparency, strengthening accountability and supporting good governance. IMAC does not carry out audit, nor duplicate any executive or audit functions, internal or external, but helps to ensure the best use of audit and other resources within the ITU's overall assurance framework.

1.2   The Committee welcomed in 2016 two new members appointed by Council, Ms. Aline Vienneau (Canada) and Mr. Kamlesh Vikamsey (India), (replacing Mr. Thomas Repasch and Mr. Eric Adda), who were given a one-day orientation session by ITU management and the Chair of IMAC.

1.3   The current composition of IMAC comprises the following members:

- Dr. Beate Degen (Chairperson)

- Mr. Abdessalam El Harouchy

- Mr. Graham Miller

- Ms. Aline Vienneau

- Mr. Kamlesh Vikamsey

1.4   Since IMAC's fourth annual report (Document C15/22 + Add.1-2) and subsequent supplementary Addenda 1 and 2 submitted to the Council in 2015, IMAC met on 20-21 October 2015, 24-25 February 2016 and 9-11 May 2016. The findings of the October, February and May meetings have been consolidated in this fifth annual report to the Council. Reports of the Committee's meetings and its annual reports, as well as other key documents, are available to the ITU membership on IMAC's area of the ITU public website, accessible via ITU Council.

1.5   IMAC meetings attendance: Dr. Degen, Mr. El Harouchy and Mr. Miller attended all meetings; Ms. Vienneau and Mr. Vikamsey, as of their appointment, attended both meetings held in 2016; and Mr. Repasch, before leaving the Committee, attended the meeting in October 2015. Mr. Eric Adda was unable to attend the meeting in October 2015.

1.6   Since its last annual report to the Council in 2015, IMAC engaged with all areas of its responsibilities, including internal audit; risk management; internal control; evaluation; the audited financial statements and financial reporting; and external audit.

1.7   In order to further improve its communication with stakeholders, IMAC met with the Chairman of the Council Working Group on Financial and Human Resources (CWG-FHR), the Chairman of the Council Working Group on options for the Union's HQ premises over the long term (CWG-HQP), and attended the CWG-FHR meetings in October 2015 and February 2016, for matters relating to the Committee's areas of responsibility. In the course of its meetings, IMAC held substantive discussions with the Secretary-General and Deputy Secretary-General, the Strategic Planning and Membership Department, the Financial Resources Management Department, the Internal Auditor, the External Auditor and other management representatives as appropriate.

2   Follow-up of IMAC's fourth annual report to the Council in 2015 and status of IMAC recommendations

2.1   To assist the Council on the follow-up of action taken in response to IMAC's recommendations, IMAC reviewed the implementation status of its previous recommendations: 4 of IMAC's 6 recommendations from 2015 have been implemented; 6 of the 9 recommendations from 2014; 7 of the 8 recommendations from 2013; and 5 of the 6 recommendations from 2012.

2.2   The Committee noted the progress made on the implementation of its previous Recommendations. Detailed statistics on the implementation rate of the IMAC Recommendations are presented in Annex 1.

2.3   Council is kindly asked to note that in IMAC's Fourth Annual Report in 2015, the Committee drew attention to changes in its Terms of Reference that had been approved by the Plenipotentiary Conference in Busan, 2014 (PP-14). One of these changes (at paragraph 2 of the Terms of Reference) had inadvertently removed an important mandate of the Committee to advise Council on actions

taken by ITU management in response to audit recommendations. However, this responsibility is a conventional and essential provision to ensure accountability. IMAC therefore recommended that this revision should be reinstated at PP-18. In the interim, and to avoid any confusion or misunderstandings about IMAC's role, the Committee expressed its intention to continue to discharge this aspect of its role; and invited the Council to endorse IMAC's intention to proceed in this way.

3   Main issues discussed, conclusions and recommendations for 2016

Internal control

3.1   IMAC noted in its Fourth Annual Report its satisfaction with the publication of a Statement on Internal Control with the annual Financial Operating Report as part of a regular procedure within ITU.

3.2   The Committee noted that from 2015 the Statement of Internal Control is now supported by certifications from senior management to the Secretary-General that they have discharged their responsibilities over the Internal Control System.

Financial management

3.3   The Committee was informed of the negative interest rate policy applied by Swiss banks above CHF 10 million, which requires alert monitoring efforts by ITU.

3.4   The Committee reviewed the Draft Financial Operating Report. IMAC discussed with management on a number of items in the financial statements and notes and proposed several changes in presentation. The Committee discussed the actuarial assumptions behind the After Service Health Insurance (ASHI) liabilities; segment reporting; the overall financial results for 2015; as well as necessary changes to the format of the Financial Operating Report.

3.5   The Committee discussed the impact of the ASHI liabilities on the Union's financial position and encouraged management to establish a plan for funding these liabilities for the future. IMAC also encouraged management to remain alert to the wider responses of other UN organizations to the ASHI issue. An ASHI working group created at the UN level will provide recommendations to the United Nations System Chief Executives Board for Coordination (CEB) through its final report in 2018.

3.6   The External Auditor raised the issue of using Swiss bonds interest rate as a basis for the discount rate rather than corporate bonds interest rates in working out the actuarial valuation of ASHI. IMAC encouraged the management to discuss with their actuaries, the appropriate discount rate to be applied and the potential impact, if any, of the same on the ASHI liability.

3.7   The Committee also discussed the presentation of the Financial key indicators, which were included in the Financial Operating Report following a recommendation of the Council Working Group on Financial and Human Resources. The Committee is of the opinion that such information should not be part of Financial Statements. This information may be provided by the Management as part of their report.

3.8   The Committee also discussed with management the issue raised from the upcoming changes in the UN system on the age of separation, which could have financial implications to the organization if applied. As per the Financial Plan for the Union for 2016-2019, 1/3 of ITU staff who are retiring would not be replaced. Following the UN recommendation suggesting the mandatory age of retirement of 65 years, as of 2018, ITU would face a financial challenge with the staff that would have the option to stay with the organization from the age of 62 to the age of 65. Therefore, a potential gap of CHF 8.3 million has been identified (18 positions identified as non-budgeted if the employees decide to stay until the age of 65). The option for early separation has been identified, supported by a withdrawal from the Reserve Account of CHF 3 million which was approved by the Extraordinary Council session in 2015 in Busan through Decision 582. An approval of this Mandatory Age of Retirement of 65 as from 1 January 2018 is therefore needed to be decided by Council for the assumption of the elaboration of the 2018-19 biennial budget.

Recommendation 1 (2016): IMAC recommends to include the information related to the Financial key indicators in the Foreword by the Secretary-General of the Financial Operating Report, rather than in the financial statements.

Recommendation 2 (2016): IMAC recommends to include in the Management Report of the Financial Operating Report a Certification of the financial statements for the year ended 31 December 2015.

Recommendation 3 (2016): IMAC recommends that ITU further examines with their actuaries whether the Swiss bonds interest rate applies as a basis of discount rate rather than corporate bonds interest rates in working out the actuarial valuation of the ASHI liability and the potential impact, if any.

Recommendation 4 (2016): IMAC recommends that the ITU management follow the discussions of the UN working group on the ASHI issues and establish a plan for funding these liabilities for the future.

Recommendation 5 (2016): IMAC recommends the improvement of the presentation and readability of the financial statements, including considering to remove references to the IPSAS transition disclosures if not required by the standards because of lapse of time.

Risk management

3.9   IMAC reviewed and commended the progress made on the implementation of systematic risk management in ITU. The approach taken, establishing and maintaining a list of key risks, identifying risk owners responsible for the implementation of mitigation measures, and ensuring regular top management review as part of the process of monitoring implementation of the ITU Operational Plans, responds to the IMAC Recommendation 4 (2015).

3.10   IMAC considered the benefit of a risk management approach for the implementation of key projects and suggested ITU management consider a robust risk management approach at project level.

3.11   To further develop ITU's overall risk management, the establishment of a consolidated risk register at corporate level for the organization is still needed, to provide an aggregated and holistic view ensuring the correlation of risks within different areas are identified and the overarching risk

level is transparent. This corporate risk register, with nominated individuals as senior risk owners, should be managed as part of the business process with regular reviews by top management. Ultimately, as IMAC has previously recommended, the high-level risk register should be monitored at corporate level by both senior management and the governing body as an essential component of good governance.

3.12   The current risk registers include risk owners, but mostly not assigned to an individual person, but rather organisational unit. To ensure ownership and following best practice, IMAC discussed with ITU to include individuals as risk owners.

3.13   Once risk management is established at corporate level, IMAC raised the importance of ITU moving towards the development and implementation of a Statement of Risk Appetite, which is becoming increasingly important for guiding an organization at an acceptable level of risk tolerance (for example zero tolerance for fraud and compliance, and greater tolerance for innovation risks) and to establish relevant controls. The Committee offered some initial advice on this and will be available to provide further advice in the future. Thus IMAC invited ITU to prepare a draft of its Risk Management Policy and Risk Appetite Statement for discussion.

3.14   The Committee also highlighted the need for ITU to implement internal controls throughout the risk management process. Regular and automated controls in place will increase the organization's resilience to risks.

Recommendation 6 (2016): IMAC recommends that ITU develop an aggregated and holistic view of high-level key risks at corporate level.

Recommendation 7 (2016): IMAC recommends that the ITU document the controls in place in the risk management process, in order to mitigate risk and identify gaps in controls.

Recommendation 8 (2016): IMAC recommends that within the risk management system, dedicated individuals are identified as Risk Owners.

Recommendation 9 (2016): IMAC recommends that ITU give initial consideration to the preparation of a Risk Management Policy and Risk Appetite Statement.

External Audit

3.15   The Committee continued to have regular meetings with the External Auditors discussing the process of elaboration of the External Audit report.

3.16   The Committee made inquiries to the External Auditor on the process; the Auditors' independence; any significant difficulties encountered in conducting the audit; any cases of fraud or irregularities or any cases where the External Auditors' work was impeded; unadjusted errors; any limitations of scope; work outstanding; audit opinion; any missing statements; findings regarding the Regional Offices and physical inventories; whether there was a management letter and what was the content; effectiveness of the internal audit; and follow-up on the previous External Audit recommendations.

3.17   IMAC inquired about the upcoming changes in the scope and form of the Audit Report (reporting of key audit issues), which would result from changes in international auditing standards

for 2017. The Committee encouraged the External Auditors to further discuss this with the ITU management and IMAC as soon as practicable.

3.18   IMAC notes that the External Audit report was unavailable for review at the time of the 14th IMAC meeting (9-11 May 2016) and is now presented as an addendum to this report.

Internal audit

3.19   ITU's Internal Audit Unit continued to receive IMAC's attention over the last year.

3.20   IMAC took note of the progress of the internal audit activities. The Committee reviewed the results of the 2015/2016 audit reports.

3.21   In the audit related activities report, the Committee noted that the provision of time and resources for the coordination of work with the External Auditor was unused in 2015. The extent and nature of cooperation between Internal and External Auditor needs to improve, consistent with good practice arrangements.

3.22   In the future, to assist IMAC's review, it would be helpful for the Internal Audit Progress Reports to provide explanations of variances between actual and budgeted time for audits and other activities.

3.23   IMAC reviewed the progress and follow-up of the implementation of Internal Audit Recommendations and noted that while the effective follow-up of the recommendations has continued to improve, a number of recommendations are too long in progress and pending implementation, this needs to be addressed. Where management response to Audit Recommendations remains slow, IMAC considers that there needs to be an accountability mechanism for the Secretary-General to facilitate their implementation. The Committee therefore encourages the management to establish an improved process to ensure greater responsiveness and expedite the implementation of Internal Audit recommendations.

3.24   IMAC reviewed the following Internal Audit reports:

-    Audit of travel between ITU/HQ and regional/area offices

-    Review and possible reduction of grades of vacant posts

-    Treasury and Investment Processes

-    Regulatory Framework (Service Orders)

-    Software Licenses

-    Use of Paper Internally

-    Africa Regional and Area Offices

3.25   IMAC noted that some subject areas that were audited would best be examined by management, for example the audit report on the Use of Paper Internally in the Secretariat. In the Committee's view the materiality and the audit risk, as well as the costs of savings from purchasing paper, do not fully justify the decision to conduct this Audit. The Committee also noted that no management response to the Recommendations had been included in the report.

3.26   The Committee reviewed the Audit Report on Software Licenses and noted the compliance and security concerns which, from a good governance perspective, might be putting the organization at risk of cyber fraud, viruses and associated unnecessary costs. The Committee encouraged the Secretary-General and the Deputy Secretary-General to spend more time on the issue of IT security, especially since ITU should be considered to be the role model in the United Nations system. IMAC also discussed the need for ITU to implement an IT governance structure, with high-level experts who can look into and address particular issues, as well as the current policies in place. Based on this Audit Report, IMAC questioned the internal security system being state of the art. The Committee noted that these are the types of audits the Internal Audit Unit should focus on, however it notes that the report does not include a recommendation that there is a potential for major risks, and suggests the recommendations be more to the point.

3.27   IMAC reviewed the audit of Africa Regional and Area Offices (Dakar, Senegal, Yaoundé and Cameroon) and commented on the security issues. IMAC noted that the conclusion of the Audit Report is very negative, however the recommendation is classified as high not critical. IMAC also noted the constant budget overruns in the Regions commenting that management information provided on this is not sufficient, as staff costs should have been more predictable. The Committee finally noted the absence of project progress reports, and called for more transparency on how the planning and budgeting processes take place, and how the budget overruns could be explained.

3.28   IMAC noted the internal auditor's work on Treasury and Investments that took into consideration the risk related to the implementation by the Swiss National Bank of negative interest that may impact on ITU's Swiss Francs liquidities. Internal audit identified areas for improvements and risks associated with the Treasury and Investment processes in place.

3.29   IMAC reviewed the Audit Plan for 2016 and in particular, discussed the extent to which the proposed Plan was based on an (i) adequate risk assessment consistent with the organization's needs; (ii) the Recommendations provided by the external validation of the Internal Audit function; and (iii) the Recommendations previously made by IMAC and the External Auditors.

3.30   In IMAC's view, the Audit Plan still needs to indicate, with explanation, the results of the annual audit risk assessment; and evidence a much clearer and explicit linkage between the risk assessment carried out by Internal Audit and the selection of audit topics for the coming year; as well as to establish an appropriate cycle of audit coverage to address all key risk areas over an acceptable period of time, for example on the basis of a 3 or 5 year cycle.

3.31   The Committee discussed the topics proposed for 2016 and the audit time budgets allocated for work, both for direct audit work and indirect support activities.

3.32   IMAC noted that at the planning stage similar amounts of time are being allocated to the direct audit topics with little distinction. In addition, the Committee was unclear as to the rationale on which some audit topics were chosen, in terms of priority and risks. In the Committee's view there could be scope for some subject areas to be better addressed by management rather than using the limited resources of the Internal Audit function.

3.33   IMAC took note of the staffing developments that took place in the past year for the Internal Audit function. IMAC is satisfied with the level of resources allocated to Internal Audit.

Recommendation 10 (2016): IMAC recommends that future Internal Audit Plans indicate the results of the annual audit risk assessment, and evidence a clearer and explicit linkage between the risk assessment and the selection of audit topics for the coming year.

Recommendation 11 (2016): IMAC recommends the appropriate use and rigorous management of the Internal Audit resources so that direct audit work is maximized.

Recommendation 12 (2016): IMAC recommends that the relationship, interaction and exchange of information of Internal Audit with the External Auditor be formalized.

Options for the Union's HQ premises over the long term

3.34   In its Fourth Annual Report in 2015, IMAC encouraged the Council Working Group on options for the Union's HQ premises over the long term (CWG-HQP) to take forward its work and examine all realistic and coherent options for the ITU HQ premises.

3.35   IMAC engaged with the Chairman of the Council Working Group who attended two of its meetings and briefed the Committee on the progress and the outcome of the discussions.

3.36   The Committee reviewed the Report of the CWG-HQP to Council. In IMAC's view, the report presents a thorough, impartial and professional comparison of the different options. The Committee noted the timely process and the progress of the work of the group, and supports the outcome of the work. IMAC members are delighted to see that the ITU has taken up on the previous 2014 IMAC recommendation.

3.37   If Council approves the proposal of the CWG-HQP, IMAC would like to encourage the Council to establish an advisory board to oversee the project as recommended by the CWG-HQP. IMAC believes professional support in the potential sales process of the ITU Tower would provide financial benefits in selling the Tower. IMAC also mentions the potential benefits of having an expert professional negotiator, without any personal stake in the outcome, to assist ITU in this project. In addition, dedicated project and risk management for the implementation of this project will be key, involving also experts on procurement, to ensure project delivery on time and budget, regulatory compliance, and the avoidance of fraud or irregularity.

Recommendation 13 (2016): IMAC recommends that the ITU consider the benefits of seeking support from an independent professional expert in the process of assessing the market value and negotiating the sale of the ITU Tower. The Committee recommends the acquisition of dedicated internal and external project and risk management expertise for the undertaking of this project.

JIU Review of Management and Administration in the ITU

3.38   In its October 2015 meeting IMAC met with the JIU Inspectors undertaking the review of the Management and Administration of the ITU. The JIU noted that the engagement of the ITU Secretariat and the response rate to its online staff survey had attracted an outstanding participation. IMAC noted that the JIU's objective was to encourage a collegial approach to address issues and help the organization with structural and organization-wide improvements.

3.39   In the Committee's view, the JIU Review is a comprehensive and constructive report that touches a wide range of areas that are important for the ITU to address.

3.40 IMAC considered the Recommendations of the JIU Review and the respective responses of the ITU Secretariat. IMAC welcomes the JIU Recommendations and believes that their implementation will contribute to the improvement of the ITU's administrative and management processes. The JIU Recommendations in general have received a positive response from the Secretary-General, who has recorded his acceptance of the formal and informal recommendations made by the JIU.

3.41 IMAC would support the Council in endorsing the JIU Recommendations; and also suggests that Council considers the recommendation addressed to Member States, the 2018 Plenipotentiary Conference and Council (Recommendation 12 on ensuring that the role of the regional presence in achieving "One ITU" is mainstreamed in the Strategic Plan of the Union and cascaded down into operational plans).

3.42 The Committee would like to draw the Council's attention in particular to the following Recommendations:

(i) For the Secretary-General to review the framework of the management committees to ensure synergy and complementarity (Recommendation 1);

(ii) For the further development and consolidation of the core elements of accountability into a stand-alone accountability framework, for presentation and annual reporting to the Council (Recommendation 4);

(iii) The development of a comprehensive plan to improve the stability and the predictability of the financial base of the Union (Recommendation 5);

(iv) The finalization and presentation to Council of a risk management policy comprising all the elements of a systematic and comprehensive corporate risk management framework (Recommendation 6);

(v) The presentation to Council for endorsement at its 2017 session of an updated Information Technology and Information Management Strategy, encompassing all dimensions of information management, with subsequent annual reporting to the Council (Recommendation 11);

(vi) The role of the regional presence in achieving "One ITU" (Recommendation 12).

3.43 IMAC commends the Council's attention to the findings of the JIU report and believes that ITU management should bring forward a plan of action with specific timelines for the implementation of the JIU Recommendations. IMAC will monitor progress on implementation once an action plan is established.

Recommendation 14 (2016): Subject to the Council's consideration, IMAC recommends that the ITU secretariat present a Plan of Action for the implementation of the JIU Recommendations with clear timescales proposed.

Monitoring and Evaluation

3.44 IMAC commended the work accomplished on the progress on the implementation of the ITU Strategic Plan and noted the further developments in the establishment of the corporate monitoring processes and mechanisms.

3.45   With regard to evaluation, IMAC welcomes the interest of ITU to develop an Evaluation function. However, the Committee is concerned that if Internal Audit were to take over this activity that its resources would no longer be dedicated to internal audit activities.

3.46   Any development of an evaluation function will need tight resource management with appropriate timelines and structured project planning, as well as specialist resources and expertise.

4   Other matters

4.1   IMAC will next meet in autumn 2016 to coincide with the meeting of the Council Working Group on Financial and Human Resources (CWG-FHR), scheduled for 10 and 11 October 2016.

4.2   IMAC members wish to express their appreciation to Member States, the CWG-FHR, the CWG-HQP, the Secretary-General and ITU officials for their support, cooperation and positive attitude in the creation, continuance and effective functioning of the Committee.

4.3   IMAC's membership, responsibilities, terms of reference and reports are available on the IMAC area of ITU's public website: http://www.itu.int/en/council/Pages/imac.aspx.

ANNEX 1: STATISTICS ON IMPLEMENTATION OF IMAC RECOMMENDATIONS

IMAC Recommendations 2012-2015

Overall status of IMAC Recommendations 2012-2015	No.	%
Total	29	100
Implemented	22	76
In progress	7	24
Not accepted	0	0

In progress, 7, 24%   Not accepted, 0, 0%   Implemented, 22, 76%
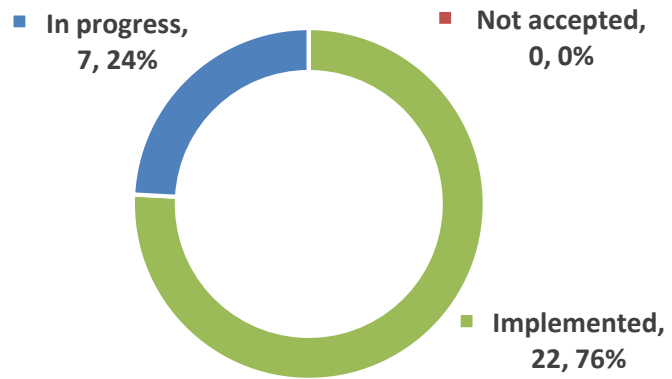
IMAC Recommendations 2015

Status of 2015 IMAC Recommendations	No.	%
Total	6	100
Implemented	4	67
In progress	2	23
Not accepted	0	0

In progress, 2, 33%   Not accepted, 0, 0%   Implemented, 4, 67%
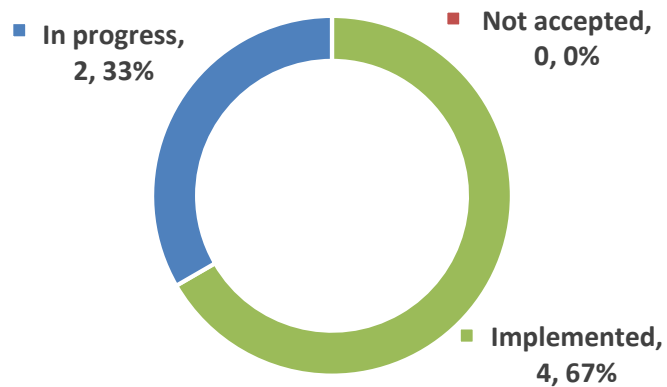
IMAC Recommendations 2014

Status of 2014 IMAC Recommendations	No.	%
Total	9	100
Implemented	6	67
In progress	3	33
Not accepted	0	0

In progress, 3, 33%   Not accepted, 0, 0%   Implemented, 6, 67%
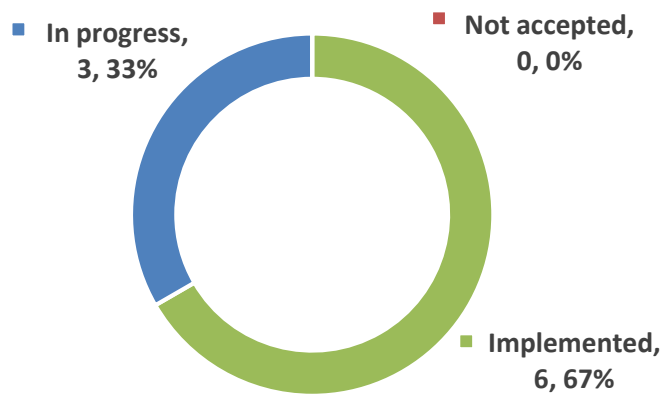
IMAC Recommendations 2013

Status of 2013 IMAC Recommendations	No.	%
Total	**8**	**100**
Implemented	7	87
In progress	1	13
Not accepted	0	0

- In progress, 1, 13%
- Not accepted, 0, 0%
- Implemented, 7, 87%
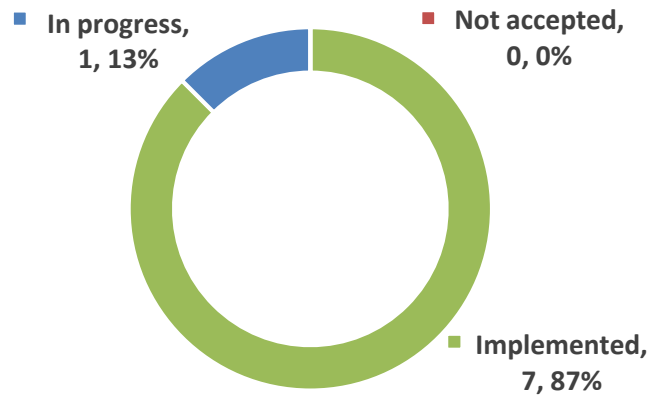
IMAC Recommendations 2012

Status of 2012 IMAC Recommendations	No.	%
Total	**6**	**100**
Implemented	5	83
In progress	1	17
Not accepted	0	0

- In progress, 1, 17%
- Not accepted, 0, 0%
- Implemented, 5, 83%