

Agenda item: ADM 7

Addendum 1
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Report by the Secretary-General

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

Addendum 1, External Audit

Summary

This document presents an Addendum to the IMAC's fifth Annual Report. It is submitted to the ITU Council to fulfil the Committee's specific responsibility to advise the Council on issues arising from the audited financial statements of ITU and reports produced by the external auditor; and to support and inform the Council's consideration of the financial statements and external audit report for 2015.

Action required

The Council is invited **to endorse** the Addendum 1 to the Fifth Annual Report of IMAC.

References

Document [C16/22](#) *Fifth annual report of IMAC to the Council*;
Document [C16/40](#) *External Auditor's Report*

1 Purpose of this Addendum

1.1 In its fifth Annual Report, IMAC noted that its observations on the External Auditors' report would be covered in an Addendum to the IMAC report, following review of the External Auditors' report, when received. On 9-11 May 2016, IMAC met with the Corte dei Conti's and discussed the process of elaboration of the External Audit report, while IMAC received the External Auditors' report on 23 May 2016.

1.2 This Addendum to IMAC's fifth Annual Report is therefore submitted to advise the Council on issues arising from the External Auditors' Report on their audit of the financial statements of ITU;

and to inform the Council's consideration of the financial statements and external audit report for 2015.

2 The External Auditors' Report for 2015: Unqualified audit opinion

2.1 The External Auditors have provided an unqualified audit opinion on the ITU's financial statements for 2015, with an emphasis of matter on the financial position showing a negative net asset of CHF -343.2 million, mainly due to the actuarial liabilities relating to long-term employee benefits. The emphasis of matter does not modify the unqualified audit opinion but draws attention to a matter that in the External Auditors' judgement is of such importance that it is fundamental to users' understanding of the financial statements. The External Auditors' long-form audit report provides a comprehensive review of the financial position; and includes five (5) recommendations and two (2) suggestions for management action.

3 The External Auditors' recommendations and suggestions

3.1 The External Auditors recommend:

- i. The improvement of procedures and processes to achieve a more accurate record of assets, in particular in recognizing, labelling and capitalizing the fixed assets located in ITU (Recommendation n. 1);
- ii. The revision of the lifetimes of asset categories and depreciation according to UN practices (Recommendation n. 2);
- iii. Further improvements to the asset management framework, by assessing the status and level of utilization of assets; regularly monitoring the obsolescence of items to ensure an accurate Asset Register; and extending these processes and procedures to all ITU Departments and Regional offices (Recommendation n. 3);
- iv. That ITU Management request the actuary to use a discount rate equal to the yield on long-term Swiss government bonds, given the purpose of the valuation required by IPSAS 25 (Recommendation n. 4);
- v. The addition to the Financial Operating Report of a segment disclosure on the Regional Presence to provide details on the appropriations and actual expenditures of the regional offices (Recommendation n. 5).

3.2 The External Auditors suggest:

- i. That asset management related to disposal and donations should be further improved, by considering the optimization of procedures such as the creation of an ad-hoc committee; and by evaluating the cost/benefit of exchanging assets between Departments and Regional offices before deciding to buy a new item (Suggestion n. 1);
- ii. That ITU management continue to review the current host country agreements (HCA), with a view to formalising accepted practices and obtaining the benefits, so as to enhance ITU's role and protect its assets (Suggestion n. 2).

4 IMAC's comments and advice

4.1 Concerning the discount rates used in relation to ASHI and the Collective Medical Insurance Plan (External Auditors' Recommendation n. 4), IMAC has recommended at Recommendation 3/2016 of its report that ITU should consult further with their actuaries on the issue of the appropriate rates to be applied. In general, IMAC considers that implementation by management of the External Auditors' recommendations and suggestions would be beneficial to improved financial management and control in ITU; and the Committee will monitor management's responses to the audit recommendations in its future meetings.

4.2 Annex 1 of the External Auditors' Report provides information on the status of the implementation of audit recommendations from previous years. IMAC notes that a total of 6 recommendations from 2012 and 2014 remain on-going or partially implemented and not yet closed. Two recommendations, from 2008 and 2009, raised by the previous Swiss External Auditors remain open and affected by budgetary constraints.
