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| **Report by the Secretary-General** | |
| EXTERNAL AUDIT | |

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| **Summary**  The External Auditor's report cover the audit of the financial statements for 2014.  **Action required**  The Council is invited to examine the External Auditor's report on the accounts for 2014 and to **approve** the accounts as audited.  \_\_\_\_\_\_\_\_\_\_\_\_  **References**  [*Financial Regulations (2010 edition)*](http://www.itu.int/council/finregs/Regl_Fin_10e.pdf)*: Article 28 and additional terms of reference* |

  
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REPORT OF THE EXTERNAL AUDITOR

**INTERNATIONAL  
TELECOMMUNICATION UNION  
(ITU)**

**Audit of the Financial Statements for 2014  
18.05.2015**

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# INTRODUCTION

The legal basis for the audit carried out by the External Auditor is set out in Article 28 of the Financial Regulations (2010 edition) and the Additional terms of reference.

This report presents to the Council the results of our audits.

We examined the ITU’s Financial Operating Report at 31 December 2014 and the budgetary accounts and their consistency.

The financial periods are governed by the Constitution and Convention of the International Telecommunication Union, and by the ITU’s *Financial Regulations and Financial Rules* in accordance with the International Public Sector Accounting Standards (IPSAS).

We audited the accounts for the Financial Year 2014 on the basis of the INTOSAI standards and the IPSAS regime and in accordance with the additional terms of reference that form an integral part of the Union’s Financial Regulations.

We planned the work according to our audit strategy, so as to obtain a reasonable assurance that the Financial Statements were free from material misstatement.

We evaluated the accounting principles and the relevant estimates made by Management and we assessed the adequacy of the presentation of the information in the Financial Statements.

We tested a number of transactions and the relevant documentation on a sample basis, and we obtained sufficient and reliable evidence in relation to the accounts and disclosures in the Financial Statements.

We have obtained, through the audit, a sufficient basis for the opinion given below.

During the audit all questions were clarified and discussed with the officials responsible.

The team had regular discussions with Mr. Alassane Ba, Chief of ITU’s Financial Resources Management Department, and with members of his staff or staff in other departments, depending on the subject matter under consideration.

The result of the audit was communicated on 30 April 2015.

Pursuant to §9 of the Additional terms of reference governing external audit, with regard to the comments by the Secretary-General for inclusion in this report, the Secretary-General informed us, through his colleagues, during the final discussion on 4 May 2015 that his comments would be sent on to us. Those comments were received on 6 May 2015 and have been duly incorporated in this report.

We audited the ITU’s Financial Operating Report on the accounts held by the Organization relating to the financial results as at 31 December 2014, presented in compliance with Article 28 of the *Financial Regulations (2010 edition)*.

A Letter of Representation referring to the accounts for the Financial Year 2014, signed by the Secretary-General and the Chief of the Financial Resources Management Department, was included in the Financial Statements and it is an integral part of the audit documentation.

Furthermore, we also received the Statement of Internal Control for 2014, signed by the Secretary-General on 30 April 2015.

We have highlighted the results of our audit activity as “Recommendations” and “Suggestions”. Whilst Recommendations fall under the follow-up process carried out by the Council’s Working Group on Financial and Human Resources, Suggestions are only followed up by the External Auditor. In principle, the ITU Council, directly or indirectly following advice from the Independent Management Advisory Committee (IMAC), may request the Secretary-General to implement a “Suggestion”, where deemed necessary. Where an issue is outside the Management’s remit, we have drawn the Council’s attention to the matter.

We also audited the ITU TELECOM World accounts for 2014, according to Resolution 11 (Guadalajara 2010) resolves no. 6..

Finally, we wish to express our appreciation for the courtesy and the availability shown by all the ITU officials whom we asked for information and documents.



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# AUDIT CERTIFICATE

**Independent Auditor’s Report**

We audited the financial statements as at 31 December 2014 of the International Telecommunication Union (ITU). They comprise, for the year then ended, the statement of financial position, the statement of financial performance, the statement of changes in net assets, the comparison of budgeted and actual amounts and the cash-flow statement for the year ending on that date, as well as a summary of the main accounting policies and other explanatory notes.

**Responsibility of the ITU Secretary-General for the financial statements**

The Secretary-General is responsible for the preparation and fair presentation of the financial statements in accordance with the International Public Sector Accounting Standards (IPSAS). Furthermore, the Secretary-General is also responsible for the transparency of and accessibility to the financial statements, as well as for establishing and maintaining sustainable accounting, internal control and separate internal audit systems, including measures to prevent and detect fraud and significant errors.

**Responsibility of the auditor**

Our responsibility is to express an opinion on the ITU’s financial statements based on our audit, which we conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAI), and the Financial Regulations and Financial Rules of the ITU. The ISSAI standards require that we comply with ethical requirements, and plan and perform the audit in such a way as to obtain reasonable assurance about the amounts and the disclosure in the financial statements.

The selected procedure depends on the auditor’s judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or errors. In making this risk assessment, the auditor considers the internal control system relating to the entity’s preparation and fair presentation of the financial statements, in order to design audit procedures that are appropriate to the circumstances, but not with the aim of expressing an opinion on the efficiency and effectiveness of the entity’s internal control. The audit also includes an assessment of the appropriateness of the accounting policies adopted and of whether the accounting estimates made by the Secretary-General are reasonable, as well as an appraisal of the overall presentation of the financial statements.

We ascertained that the financial statements had been prepared in accordance with the stated accounting policies and that these policies had been applied on a basis which was consistent with those applied for the preceding financial period. We also ascertained that the transactions complied with the Financial Regulations and Rules of the ITU.

According to Article 28 of the Financial Regulations and Rules of the ITU and the Additional terms of reference governing External Audit (Annex I to these Financial Regulations and Financial Rules), we have produced a detailed report on our audit of the ITU’s Financial Statements for 2014.

We believe that the audit evidence we have obtained provides a sufficient and appropriate basis for our audit opinion.

**Emphasis of matter**

The Statement of Financial Position shows a negative Net Asset (-386.0 MCHF), mainly due to the impact of the actuarial liabilities related to long-term employee benefits, recorded in the Statement of Financial Position at 534.4 MCHF. Details of our analysis are included in the report. Measures are being undertaken by the Management which has assured us that it will monitor their effectiveness.

**Opinion**

In our opinion, the ITU’s Financial Statements for 2014 present fairly, in all material respects, the financial position of the International Telecommunication Union as at 31 December 2014, as well as, for the year then ended, the financial performance, the changes in net assets, the cash flows and the comparison of budget and actual amounts, in accordance with IPSAS and the Financial Regulations and Financial Rules of the ITU.

Rome, 7 May 2015



# STRUCTURE OF THE ACCOUNTING STATEMENTS

1. The Financial Statements of ITU, prepared and presented in compliance with IPSAS 1, include the following elements:

* Statement of financial position – Balance sheet at 31 December 2014 with comparative figures as at 31 December 2013 showing Assets (divided into Current and Non-current assets), Liabilities (divided into Current and Non-current liabilities) and Net assets;
* Statement of financial performance for the period which ended on 31 December 2014 with comparative figures as at 31 December 2013 showing the Surplus/Deficit for the financial year;
* Statement of Changes in Net Assets for the period which ended on 31 December 2014, showing the value of the Net assets including the surplus or deficit for the Financial Year as well as losses directly recorded in Net assets without impacting the Statement of Financial Performance;
* Table of cash flows for the period closed on 31 December 2014, showing the inflow and outflow of cash and cash equivalents, purposely regarding the operational, investments and financing transactions and the treasury totals at the end of the Financial Year;
* Comparison of budgeted amounts and actual amounts for the 2014 financial period;
* Notes to the financial statements providing information about accounting policies and additional information necessary for a fair presentation.

# STATEMENT OF FINANCIAL POSITION 2014

## ASSETS

1. In 2014, the Assets amounted to 370.3 million Swiss Francs (MCHF), representing an increase of 14.3 MCHF (+4.0%) in comparison with the value recorded in 2013 (356.0 MCHF).
2. These consisted of Current assets, amounting to 258.8 MCHF, representing 69.9% of Total Assets (slightly more than in 2013, 67.7%), and of Non-current Assets, equivalent to 111.5 MCHF, representing 30.1% of Total Assets (32.3% in 2013).

## Current Assets

1. Total current assets in 2014 amounted to 258.8 MCHF, an increase of 17.7 MCHF (+7.3%) as compared with2013 (241.1MCHF). The increase, in overall terms, is due to Cash and cash equivalent (+15.8 MCHF), Receivables of exchange transactions (+1.0 MCHF) and Contributions receivable (+2.4 MCHF), whereas Investments (-1.2 MCHF), Inventories (-0.2 MCHF) and other receivables (-0.1 MCHF) decreased. The basis for the evaluation of current assets is set out in the Main Accounting Principles (Note 3).

## Cash and cash equivalent

1. The sub-heading “Cash and cash equivalent”, totalling 75.4 MCHF, increased by15.8 MCHF (+26.5%), compared to 59.6 MCHF in 2013, and it included cash in hand and all the balances of the ITU’s postal and bank current accounts as at 31 December 2014. The above-mentioned increase is mainly due to “Bank current accounts in CHF” (+16.7 MCHF), which accounted for around 75.7% of the total sub-heading. The increase is partially mitigated by the decrease in the sub-heading “bank current accounts in foreign currency” (-1.0 MCHF). A detailed breakdown of Cash and cash equivalent is shown in Note 7 of the Financial Operating Report.
2. We asked all the banks having business relations with the ITU to confirm the current account balances as at 31 December 2014. We verified that the account’s balances were properly recorded in the accounts. All variances detected were explained and justified. It is worthwhile mentioning that we did not receive direct confirmation from 8 banks, although the ITU’s Management did make all possible efforts for us to obtain them.
3. With reference to the missing bank confirmations, the Management sent us a copy of the statements as at 31.12.2014 related to all the above-mentioned banks, and we used these for the reconciliation.

## Investments

1. The sub-heading “Investments”, amounted to 87.1 MCHF in 2014, a decrease of 1.2 MCHF (-1.3%) compared to 88.2 MCHF in 2013, and it included fixed-term investments with a maturity of not more than 6 months from the 31 December 2014. A detailed breakdown of Investments by date of maturity is shown in Note 8 to the Financial Operating Report. The Note also mentions restricted investments allocated to extra-budgetary projects amounting to 23.1 MCHF in 2014, compared to 22.8 MCHF in 2013.
2. In Note 3 to the 2014 Financial Operating Report, regarding Main Accounting Principles, the specific paragraph on Financial Instruments provides information on the disclosure of Investments. According to IPSAS, Note 5 provides information about financial risk management, in particular all the Investments are exposed to a credit risk, as well as interest rates, liquidity, currency and market risks.
3. In Fixed-term investments we noted that, in 2014, there were no significant variations in composition by currency, between those with a maturity date at the end of 2014 and those a maturity date at the end of 2013; specifically, there was a slight decrease in investments in USD. We consider this to be consistent with the declared effort to manage and control currency risk exposures within acceptable parameters, as in Note 5.

## Receivables

1. Current receivables, whether for exchange or non-exchange transactions, represent a net value of 86.8 MCHF in 2014, compared to 83.4 MCHF in 2013. They amounted to 33.5% on the total current assets, compared to around 34.6% in 2013. They represent, as stated in Note 9 to the Financial Operating Report the uncollected revenue that Member States, Sector Members and Associates have committed to pay to ITU for annual contributions, the purchase of publications, satellite network filings or other invoices issued by ITU.
2. Non-current receivables, also illustrated by the Management in Note 9, including both exchange and non-exchange transactions, amounted to 17.5 MCHF (9.4 MCHF in 2013). They were fully provisioned at 31 December 2014, in line with the principles described in Note 3 to the Financial Statements. Additional explanations are provided in Note 9 “Receivables”.

## Other current receivables

1. An amount of 8.8 MCHF (9.0 MCHF in 2013) is shown in the closing balance sheet under other receivables. A detailed breakdown of “other receivables” is shown in Note 11 to the Financial Operating Report.

## Inventories

1. In 2014, items related to publications, souvenirs and supplies were recorded at a net value of 0.7 MCHF, with a decrease of 0.1 MCHF compared to 2013 (net value of 0.8 MCHF). Inventories are detailed in Note 10 to the Financial Operating Report.
2. We acquired and checked the lists of assets, comparing them with those of the previous year. No major problems were identified, which might have had an impact on the accounts at the closing date (31.12.2014).

## Non-current assets

1. Non-current assets as at 31 December 2014 totalled 111.5 MCHF; they decreased by 3.4 MCHF (-3.0%), compared to 2013, when they amounted to 115.0 MCHF, mainly due to the depreciation of the ITU’s buildings. The basis for the evaluation of Non-current assets is set out in the Accounting Principles (Note 3).
2. The heading comprises “Property, plant and equipment”, amounting to 107.4 MCHF and making up 96.3% of total non-current assets (in 2013 it was 112.1 MCHF, or 97.5% of total non-current assets) and “intangible assets”, amounting to 4.1 MCHF, or 3.7% of the total (in 2013, it was 2.9 MCHF, or 2.5%). They are illustrated in Notes 12 and 13 to the Financial Operating Report respectively.

## Property, plant and equipment

1. This heading showed a value of 107.4 MCHF, which is the net value, at 31 December 2014, of the capitalised cost minus the related depreciation for each categories listed below: buildings (a net value of 105.4 MCHF was recorded in 2014; 112.1 MCHF in 2013); machinery (0.1 MCHF in 2014; 0.2 MCHF in 2013); furniture (0.4 MCHF in 2014; 0.5 MCHF in 2013); IT equipment (0.5 MCHF in 2014; 1.9 MCHF in 2013). In total, depreciation amounted to 44.9 MCHF in 2014 and 42.1 MCHF in 2013. In 2014, there was also an amount of 1.0 MCHF for assets under construction (0.8 MCHF in 2013). These are illustrated in Note 12 to the Financial Operating Report.
2. According to IPSAS 1, it is required that buildings should be recognized as assets in the Statement of financial position. For the initial recognition, IPSAS 17 indicates that one should refer to the costs of these items or a reliable fair value. Depreciation is charged systematically over the asset’s useful life, and the depreciation method must reflect the pattern in which the asset’s future economic benefits or service potential is expected to be consumed by the entity. The residual value must be reviewed at least annually and must equal the amount the entity would receive currently if the asset were already of the age and condition expected at the end of its useful life. Land and buildings are separable assets and are accounted for separately, even when they are acquired together.
3. According to Annex II to the ITU’s Financial Regulations, the External Auditor has to express whether “procedures satisfactory to the External Auditor have been applied to the recording of all assets, liabilities, surpluses and deficits”.
4. In Note 3 to the Financial Operating Report “Main Accounting Principles”, sub-paragraph “Property, Plant and Equipment”, it is stated that the initial recognition of buildings was done at the “*intrinsic value*” “*on the basis of the study conducted by an external consultancy*”, in order to define the IPSAS opening balance sheet value. This was considered a “historical cost”, and the depreciation was calculated with reference to an “*estimated useful life*”, which, for the structure, was100 years. Land, on which the ITU has a free “*droit de superficie*”, was not taken into consideration for determining the initial value of the buildings.
5. In Note 12 to the Financial Statements, the buildings recognized as non-current assets were Tower, Varembé, Extension C and Cafeteria, and Montbrillant. In relation to buildings, as already stated above, the net carrying amount varied from 108.6 MCHF at 1 January 2014 to 105.4 MCHF at 31 December 2014 (where, during the previous year, they had varied from 112.0 MCHF at 1 January 2013 to 108.6 MCHF at 31 December 2013), due to reclassifications of 0.1 MCHF and the depreciation of 3.4 MCHF recognized during the year.
6. The Swiss Confederation grants funding for the construction of buildings for international organizations through the “Fondation des immeubles pour les organisations internationales” (FIPOI) in the form of loans on favourable terms, i.e. a period of 50 years at an interest rate of 0%, while the land is provided free of charge by the State of Geneva by mean of the “*droit de superficie*”. The value of borrowings from FIPOI is illustrated in Note 16 to the 2014 Financial Operating Report.

### Low value assets (LVA)

1. Low Value Assets (LVA) that were not disclosed in the Notes to the 2013 Financial Statements, have been recorded this year in the table provided in Note 12 to the Financial Operating Report. The ITU’s policy is that assets under the threshold of 5 kCHF are subject to full depreciation in the year. LVA are recorded at 15.2 MCHF for 2014 (15.4 in 2013). They represent around 10% of the total Property, Plant and Equipment (PPE) cost. Overall, 6.2 MCHF referred to IT equipment.
2. Due to the considerable amount disclosed for all LVA (10% of the cost of PPE), and the relative weight of some categories compared to others (IT, as mentioned above), Management might consider reviewing the threshold level and the disclosure of items’ categories (e.g. IT equipment, vehicles, machinery, etc.).

In this regard, we suggest Management to consider reviewing the LVA threshold , in particular specifying the different categories of items and their depreciation according to their useful life.

Comments by the Secretary-General

This suggestion will be investigated in order to analyse the impact of introducing differentiated thresholds according to the category of fixed assets. It is to be noted that the value of CHF 15.2 million represents the cumulative amount of LVA captured in the fixed assets model since the introduction of the IPSAS (including the pre-IPSAS implementation balance).

### Write-off of lost or stolen items

1. We checked the procedure for writing off Information Technology (IT) equipment and, in the data provided, we found a list of items lost or stolen, prepared by the Information Services (IS) Department and approved by the “Financial Resources Management Department” (FRMD)/Assets. Management provided us with supporting documentation for the relevant write-off, however, we noted that lost or stolen items were only backed by self-declarations or by notes to ITU security, and such cases were not reported to the local Police. There was also a case where a former official failed to return computer equipment..
2. Management assured us that, in the future, if pieces of equipment (for example, a Smartphone or a Laptop) were lost or stolen outside the ITU Headquarters, the person to whom the items has been assigned will be required to report the matter to the Police, and any items not returned would be charged to the person responsible.

We consider that lost or stolen items deserve a separate and specific procedure before being written off, and, although we acknowledge that a procedure is in force, we recommend Management to reinforce the existing one for this specific issue.

Comments by the Secretary-General

The existing procedure will be amended accordingly in 2015.

## Intangible Assets

1. In 2014, Intangible Assets amounted to 4.1 MCHF and had increased by 1.2 MCHF (+42.5%) compared to the value of 2013 (2.9 MCHF).
2. As stated by the Management in Note 13 to the Financial Operating Report, according to IPSAS 31, capitalization regarded internal developments related to the improvement of some specific services offered to members, specifically for access to and the management and archiving of ITU documentation.

## LIABILITIES

1. In 2014, Liabilities amounted to 756.3 MCHF and had increased by 201.8 MCHF (+49.2) in comparison with the value recorded in 2013 (552.2 MCHF).
2. They consisted of Current liabilities, amounting to 144.4 MCHF, representing 19.1% of Total Liabilities (in 2013, 25.7%), and of Non-Current Liabilities, amounting to 611.9 MCHF, representing 80.9% of Total Liabilities (in 2013, 74.3%).

## Current liabilities

1. Total Current liabilities in 2014 amounted to 144.4 MCHF, representing an increase of 2.3 MCHF (+1.6 %) as compared with 2013 (142.1 MCHF). The increase, in overall terms, is due to the effect, on the one hand, of the increase of “Deferred revenue” (+1.5 MCHF) and “Other debts” (+1.4 MCHF) and, on the other hand, the decrease of the heading “Suppliers and other creditors” (-0.5 MCHF). The basis for the evaluation of Current Liabilities is set out in the Accounting Principles (Note 3).

## Suppliers and other creditors

1. An amount of 9.2 MCHF (9.7 MCHF in 2013) is shown in the closing balance sheet under “Suppliers and other creditors”. A detailed breakdown is shown in Note 14 to the Financial Operating Report.

## Deferred revenue

1. The sub-heading “Deferred revenue” amounted to 129.5 MCHF in 2014, an increase of 1.5 MCHF (1.2%), as compared with 128.0 MCHF in 2013. The majority of this amount comes from contributions from the ITU’s membership (Member States, Sector Members, Associates) and from revenue for Satellite Network Filing not yet finalized at the end of 2014. A detailed breakdown of Deferred revenues is shown in Note 15 to the Financial Operating Report.

## Provisions

1. In 2014, the sub-heading “Provisions” amounted to 0.8 MCHF, showing a decrease of 0.1 MCHF (-5.8%) compared to 0.9 MCHF in 2013. This heading included the provision for litigations (0.3 MCHF) and the provision for free Satellite Network Filing (0.5 MCHF).
2. We reviewed the reports issued by the ITU’s legal advisor and we consider the amount provisioned for possible loss in litigations to be substantially correct.

## Borrowings and financial debts

1. The amount related to the ITU’s capital borrowed from FIPOI for the construction and renovation of some of its premises was correctly recorded as short-term (1.5 MCHF, or 1.0% of total Current Liabilities), corresponding to the instalment to be repaid to FIPOI by ITU in 2014, and as long-term (45.3 MCHF, or 7.4% of total non-current liabilities). The amounts, detailed in Note 16 to the Financial Operating Report are also confirmed by the statement dated 18 March 2015, obtained from FIPOI.

## Other Current liabilities

1. In 2014, the sub-headings “Employee benefits” and “Other debts”, in 2014 amounted respectively to 0.5 MCHF (0.5 MCHF in 2013) and 3.0 MCHF (1.6 MCHF in 2013). A detailed description and breakdown are shown respectively in Notes 17.1 and 19 to the Financial Operating Report.
2. In particular, short-term Employee benefits, recorded under “Current liabilities”, are related to the provision for overtime (0.06 MCHF in 2014) and the provision for accrued leave (0.4 MCHF in 2014). Our checks did not reveal any major issue and the provisions are substantially accurate.

## Non-current liabilities

1. Total Non-current liabilities in 2014 amounted to 612.0 MCHF, presenting an increase of 201.8 MCHF (+49.2%) as compared with 2013 (410.1 MCHF). The increase, in overall terms, is explained by the increase in Employee benefits (+199.3 MCHF, +59.5%). The basis for the evaluation of Non-current liabilities is set out in the Accounting Principles (Note 3).
2. This heading comprised long-term debts (see paragraph “Borrowings”), third-party funds, allocated or in the process of allocation, liabilities for the ITU Health Insurance Scheme and provisions covering obligations of uncertain amount and timing mainly related to post-employment benefits.

## Summary of employee benefits

1. Employee benefits are disclosed in the Financial Statements under “Current liabilities” and under “Non-current liabilities”, totalling a value of 534.8 MCHF, as summarised in the table below.



## Long term employee benefits

1. As shown in the table, in 2014, the sub-heading “Long term employee benefits” amounted to 534.4 MCHF, up by 199.3 MCHF (+59.5%), as compared with 335.1 MCHF in 2013. It represented 87.3% of total Non-current liabilities and 70.7% of total liabilities. This heading included the actuarial liabilities for post–employment benefits under the After Service Health Insurance plan (ASHI) (512.7 MCHF; in 2013, it was 314.1 MCHF), a provision for estimated liabilities for the repatriation grant (12.4 MCHF; in 2013, it was 11.8 MCHF) and a provision for accrued leave (9.3 MCHF; in 2013, it was 9.1 MCHF). A detailed description and breakdown of the employee benefits is shown in Note 17.2 to the Financial Operating Report.

## Employee Benefits: Installation and Repatriation grants

1. The provisions recognized at 31 December 2014 for installation and repatriation grants amounted to 12.4 MCHF (11.8 MCHF in 2013) and were calculated according to the actuarial study commissioned from Management to CPA Conseil. We note that CPA Conseil, in its report dated 16 February 2015, calculated an amount of 8,208 kCHF for “Indemnité de rapatriement” and 3,937 kCHF for “Frais de rapatriement”. The total amount was 12,145 kCHF, different from that recognized in the Financial Operating Report (12,357 kCHF).

## Employee benefits: ASHI

1. In 2014, the provision for actuarial liabilities for the ASHI plan amounted to 512.7 MCHF with an increase of 198.6 MCHF (+63.2%) compared to 314.1 MCHF in 2013. This increase is mainly due to the changes in the discount rate (which decreased to 1.51% in 2014, it had been 2.76% in 2013) and also to the conversion of USD medical claim costs in CHF, due to the change in the plan’s operational currency. The calculation, based on actuarial assumptions, was performed by the actuary AON Hewitt Consulting.

## Negative value of the ITU’s Net-assets is heavily influenced by actuarial liabilities

1. The considerable amount of the ASHI actuarial losses (312.7 MCHF) has a significant impact on the Net Asset of the ITU and, for this reason, we focused part of our audit on the correctness and reliability of the Employee Benefits’ values.
2. In order to obtain assurance on the amount recorded in the accounts, which has increased by 187.4 MCHF, we added to our audit team a group of public sector’s actuaries, expert in social benefits, to reperform the actuarial valuation.
3. Our methodologies for auditing actuarial liabilities and our audit strategies, in case a UN Agency has a Negative Net-Asset due to actuarial losses, were reported at the UN Panel of External Auditors, where we were facilitators on the subjects “Employee Benefits: effect of IPSAS 25 on Net Assets” (2012) and “Auditing the Auditee’s expert” (2013). Our methodologies were communicated to the Management.

## Transition to the “CMIP”

1. It is to be considered that, during 2014, the ITU departed from the ILO/ITU Staff Health Insurance Fund (SHIF) that was jointly managed with ILO. The ITU introduced a new staff health insurance scheme, the Collective Medical Insurance Plan (CMIP) insured and administered by Cigna/Vanbreda International.
2. Given that the change in the staff insurance scheme took place on 1 May 2014, it is too early to measure the impact of the new scheme. The calculation of the ITU’s residual guarantee Fund has not yet been finalized, pending the closing of the SHIF accounts. We will therefore monitor the impact of the change to the new scheme in the coming years.

### Tender procedure is needed to select the actuary

1. It is worthwhile mentioning that the ASHI was evaluated by an actuary, AON Hewitt, chosen by both the ITU and ILO, to perform the actuarial valuation for the SHIF. Due to the fact that 2014 was a mixed year, with four months in the SHIF plan and eight months in the CMIP, AON Hewitt was kept on as the actuary. On the other hand, we note that the actuary CPA Conseil, performing the repatriation liability valuation, has been the same for over five years.
2. In any case, we consider that, for the next year, the ITU will have an opportunity to select its own actuary, and possibly just one actuary to perform the valuations related to all employee benefits.
4. We recommend Management to start a tender procedure to select the actuary for performing the IPSAS 25 related actuarial valuations.

Comments by the Secretary-General

Procurement rules are and will be scrupulously followed when proceeding to the tender for the IPSAS 25 actuarial valuations.

### According to the ITU’s assumptions, the value of liabilities is substantially correct

1. The choice of actuarial assumptions is the sole responsibility of Management. The External Auditor checks their plausibility and their consistency with IPSAS 25 and with previous years and validates them.
2. Our actuaries carried out a review on the key assumptions related to 2014, which were discussed with Management. The assumptions are in line with economic trends and rates and consistent with data available at ITU at the moment of our audit, and we validated them.
3. To carry out their audit, our actuaries recalculated the valuations prepared by the two actuaries (CPA Conseil and AON) chosen by ITU; they also performed an in-depth analysis of all actuarial valuations and assumptions in order to review their plausibility and the algorithms used. Management and actuaries fully cooperated with the review.
4. The work of our actuaries confirmed that the amounts recorded in the accounts were substantially correct; however, apart from the key assumptions related to economic variations, which need to be reviewed every year, it might be considered appropriate, in the future, to reconsider the relevance of other assumptions.
5. We suggest Management to review at the end of year 2015 whether some assumptions might merit further revision.

Comments by the Secretary-General

It is taken note of this suggestion and all assumption will be reviewed accordingly for the financial period 2015 related valuations.

### A full actuarial review study is needed.

1. In our report on the Financial Statements for 2013, we recommended Management to perform a full actuarial review study in the coming years: it is necessary to get answers, and possible solutions, to the question of adequate funding, in order to ensure that the ITU Health Insurance Scheme is not underfunded on a pay-as-you-go basis.
2. However, at the moment, we think that it would be neither meaningful nor convenient to perform a full actuarial study before the finalization of the separation from the SHIF and before enough data is available under the CMIP to provide a realistic view of funding needs, probably not before the end of 2016.
3. We recommend Management to perform a full actuarial review study, to evaluate when the ITU’s financial health, in the long-term scenario, might be compromised by the provisions of the Health Insurance Scheme. However, considering that the transition to the new scheme is still in progress, this study has to be performed after the separation from the SHIF and after sufficient data is available under the CMIP, not before the end of 2016. This recommendation replaces the previous recommendations Nos. 6/2012 and  3/2013, which are considered to be closed.

Comments by the Secretary-General:

It is taken note of this recommendation. A full actuarial study will be performed according to the recommendation.

### Liabilities and Negative net assets: comparisons within the UN system are not possible

1. We highlight the fact that, within the UN system, it is not always possible to harmonize most of the key assumptions used in relation to ASHI. This is explained by the different characteristics of each Agency, such as the specificities of each medical plan and the number, composition, and geographical location of plan members (retirees and staff).
2. We are aware that, in the absence of any unequivocal and specific indication on the discount rate in IPSAS 25, within the UN system, several Agencies make reference to different yield curves (for instances related to AA Corporate Bonds, developed by different operators or to Government Bonds). Therefore it is difficult to carry out a direct comparison of the current situation of ITU’s actuarial liabilities with the liabilities of other Agencies in the UN system. Consequently, the underfunding of Agencies within the UN cannot be compared either.
3. Given the fact that, as stated above, it is not possible to compare the ITU’s actuarial liabilities directly with those of other United Nations organizations and Specialized Agencies, we draw the Council’s attention to the fact that it is not advisable to draw conclusions from a direct comparative analysis between the ITU ASHI obligation underfunding and the situation in other UN Agencies.

### Future underfunding at ITU: defining possible “drivers” for reducing it.

1. The underfunding of employee benefits liabilities is mainly due to the increasing ASHI actuarial liability.
2. In our opinion, remedial measures are necessary; we observe that there are mainly five “drivers” to fund the liabilities and consequently to offset negative Net assets:

|  |  |  |
| --- | --- | --- |
| **Drivers’ categories** | **Initiative** | **Decision in the remit of:** |
| **Drivers for funding the liability:** |
| 1. Level of Member States’ Contributions |  | Plenipotentiary Conference and Council |
| 1. Level of internal savings, through a reduction of specific expenses related to personnel and operations, with resulting savings allocated to the ASHI reserve account; | Management | Council |
| 1. Level of revenues other than the regular budget | Management | Council |
| **Drivers for managing the liability:** |  |  |
| 1. Level of Plan members contributions to the Health Insurance Scheme; | Management | Secretary-General |
| 1. Benefits guaranteed by the current Health Insurance Scheme; | Management | Secretary-General |

1. As remedial measures are needed, these drivers might be considered by the Council: we recommend Management to monitor these drivers to ensure adequate pay-as-you-go and long-term funding.

Comments by the Secretary-General

The funding of the health Insurance on a pay-as-you-go basis as well as of the ASHI actuarial liability is of upmost concern for the Union and is carefully monitored. The drivers mentioned here above have been, among others, taken into account while planning the transition to the CMIP and producing the 2014-2015 budget, the 2016-2019 financial plan as well as the 2016-2017 budget, which will be presented during Council 2015. The continuous monitoring of the CMIP results with regular pro-active communication with all the stakeholders and timely proposed adjustments and decisions will enable the funding on a pay-as-you-go-basis.

### Avoiding future underfunding at ITU: a thorough understanding of all the “drivers”

1. We take note that several measures have been considered by the ITU’s Management to face the underfunding related to the ASHI; we refer to, and welcome, document C15/46-E of 1 April 2015 (report by the Secretary-General to the Council), which details the ASHI situation as of 31.12.2014 and the actions taken to date.
2. We welcome the decision to participate in a dedicated Working Group on ASHI established under the United Nations system, which has the task of analysing the situation of the various United Nations organizations and studying options to harmonize the valuation of the obligation, manage the different schemes and identify solutions for funding the related ASHI liability.
3. The “drivers” mentioned in the paragraph 68 could be refined by using several “sub-drivers” to be used to define various possible scenarios with different impacts on the underfunding of the ASHI liability.
4. We suggest Management, as needed, to define a comprehensive set of drivers and sub-drivers, and use the most relevant drivers to efficiently monitor and address the ASHI situation.

Comments by the Secretary-General

The monitoring of the CMIP is currently done with the purpose to enable early identification of adjustments to ensure funding on the pay-as-you-go basis. The above mentioned drivers are taken into account in order to identify the relevant adjustments, The ASHI liability will be funded according to the available resources on a long-term basis taking into account budgetary constraints.

## SHIF audited by the Supreme Audit Institution of Canada: no major issues reported

1. It should be mentioned that the SHIF Fund Financial statements were audited by the Supreme Audit Institution of Canada (Office of the Auditor General of Canada – Bureau du vérificateur général du Canada). We had regular exchanges of information with the External Auditor, not only about the correctness of figures, but also about their plausibility. We also discussed the audit methodology to be applied to the different key assumptions used by ITU and ILO in the actuarial study. The Canadian external auditors did not report to us any major issues related to SHIF.

## Employee benefits: Staff Superannuation and Benevolent Funds (ITU closed Pension Funds)

1. As in previous years, an amount of 90’000 CHF is recorded in the accounts at closure; it relates to benefit obligations in the form of pensions payable to former staff members under the Staff Superannuation and Benevolent Funds (see also related paragraph 120).

## NET ASSETS

1. Net assets comprised allocated and unallocated own funds, extra-budgetary funds, the non-budgetary result, the surplus/deficit for the financial year and the effects of transition to IPSAS. In 2014, Net Assets resulted in a negative value of -386.0 MCHF, with an increase compared to -196.2 MCHF in 2013.
2. All the movements in Net assets are explained in various Tables and Notes of the Financial Operating Report, in particular:
   1. Table II “Statement of financial performance”, which shows the deficit for the period (-5.5 MCHF).
   2. Table III “Statement of changes in net assets” showing the movements separately for each own fund, and IPSAS effects.
   3. Table V “Comparison of budgeted amounts and actual amounts”, which also discloses the accounting reconciliation between budget out-turns (actual amount) and amounts recognized in the Financial Statements (in this regard, see also Note 25).
   4. Note 3 “Main accounting principles” in the paragraph related to “recognition of Funds”, in particular the sub-paragraph on “Allocated own funds”, and in the paragraph related to “Reserve Account”.
   5. Note 4 “Management of net assets”, which lists the movements in the Reserve Account and the reconciliation between “own funds allocated to the organization” – as in Table III – and the Reserve Account.

# STATEMENT OF FINANCIAL PERFORMANCE 2014

1. This Statement showed the Organization’s operating and financial revenue and expenses classified, disclosed and presented on a consistent basis in order to explain the year’s net deficit or surplus. The result for the period was a deficit of -5.5 MCHF.

## Revenue and Expenses

1. Total revenue amounted to 180.1 MCHF with a considerable decrease of -16.9 MCHF (-8.6%), as compared with 2013 (197.0 MCHF), chiefly due to a decrease in i) Voluntary contributions (-5.6 MCHF, -32.1%), ii) other operating revenues (-4.8 MCHF, -10.8%), in particular a decrease in extra-budgetary revenue related to project support and iii) finance revenue (-6.4 MCHF, -88.6%), mainly generated by unrealized exchange-rate gains (-6.3 MCHF), as reported in Note 22. Assessed contributions, amounting to 126.8 MCHF, which represented 70.4% of total revenue, decreased only slightly (-0.2 MCHF, -0.10%) from 2013, as reported in Note 21 to the Financial Operating Report.
2. Expenses totalled 185.6 MCHF with a decrease of 8.5 MCHF (-4.4%), as compared with 2013 (194.1 MCHF). Employee expenses, 143.7 MCHF, which represented 77.4% of total expenses, decreased by 2.65 MCHF (-1.8 %), as reported in Note 23 to the Financial Operating Report. The decrease in employee expenses is mainly related to the sub-heading “Salaries and allowances” (-1.4 MCHF).

## Publications

1. In relations to ‘Publications’, the following rules and documents should be considered:
2. Annex 2 to Decision 5 (Rev. Busan, 2014) - Measures for reducing expenditure;
3. Decision 12 (Rev. Busan, 2014) - Free online access to ITU publications;
4. Resolution 66 (Rev. Guadalajara, 2010) - Documents and publications of the Union;
5. Resolution 91 (Rev. Guadalajara, 2010) - Cost recovery for some ITU products and services).
6. The bulk of sales (90% of the total, for an amount of 17.91 MCHF) were derived from Maritime publications. The remaining 10% came from non-Maritime publications, including the Radio Regulations publication.
7. SFAO examined this issue in their 2010 report and, in Recommendation No. 1 , which reiterated in 2011, they stated that “ITU makes the necessary corrections in regard to valuation of inventories and adapts its IT system accordingly, in order to ensure correct valuation of inventories in line with IPSAS”. The Management implemented this recommendation by preparing an internal policy for the valuation of inventories that was submitted to SFAO in November 2011. This policy determined rules for the valuation of inventories of publications, with depreciation calculated linearly.
8. SFAO and the Management agreed on the need to conduct a study on whether the costs of publications should also include direct and/or indirect staff costs.
9. Furthermore, on this issue, the Internal Audit Unit recommended:

* adopting a clear definition of the cost of the development of a Publication,
* redefining the concept of “Mark-up”,
* determining an adequate course of action to comply with Resolution 91 (Rev. Guadalajara 2010), which “instructs the Secretary-General,… 3) to determine the cost structure of each product and service for cost recovery;…”; and
* implementing a proposed costing method for the ITU’s Publications.

1. We followed up this issue, although the rationale of the recommendation was not clear, also considering that no adjustment and/or correction had been proposed by SFAO in this regard.
2. Currently, the implementation of the recommendations coordinated by FRMD, together with the IS Department and C&P (Conferences and Publications) Department is still in progress, but the target is to finalize it before the end of June 2015.

## Document Processing Service

1. A new “ITU Document Processing Service (DPS)” was scheduled to be adopted on 1 May 2015 and is currently used by the three Sectors to capture the cost of producing Publications.
2. New guidelines have been communicated and are in operational use. New “doc series” have been introduced to provide an overview of the costs of publications. Business-related decisions (e.g. which “doc series” to use for different publications, and what cost center to use) are coordinated within each sector.
3. Further analysis has been planned in order to evaluate the go-live of the publication costing according to IPSAS. We will monitor this as it develops.

### Resellers

1. Over 90% of sales of ITU publications are made through 86 resellers the world over. Resellers have a discount of 20% on the ITU official selling price while a 15% of discount is offered to Members of ITU. We audited a sample of reseller agreements.
2. Among resellers, almost 50% are located in Europe (42 out of 86) and very few in other Regions (e.g., only 2 in South America and in Africa).
3. We suggest Management to start an internal analysis on whether distribution could be furtherly enhanced through an increase in reseller presence in more Regions.

Comments by the Secretary-General

Recruiting new resellers is an on-going process to build sales incomes. Sales & Marketing Division has added 26 new resellers in the last 5 years (there were 59 resellers in year 2010). We shall continue to seek new resellers in regions that are currently under-represented.

1. Considering that orders from resellers were limited and strictly related to guaranteed sales, with the aim of avoiding remainders, a “return policy” was authorized in 2014 following a trial period. Resellers can return up to 5% of unsold items for each Maritime publication ordered. A credit is granted to the resellers as a deduction of the cost for future orders.

Management explained that, through this “return policy”, a higher percentage than 5% could enhance the reselling activity, therefore we suggest to consider, after the end of a first trial period of one year, to assess if this 5% policy has had the expected impact.

Comments by the Secretary-General

The 'Return Policy' for ITU publications was introduced for the first time in 2014. The rate of return has been intentionally kept at a low 5% to minimize overstock by resellers resulting in higher cost to ITU. The first returns of publications in April 2015 have been around 1% only reflecting a cautious approach by resellers. We will continue to monitor returns in future and if needed we shall consider increasing it gradually.

## Inspector Pack

1. A new Inspector Pack was developed by the ITU for local authorities to ensure enforcement for Maritime publications that must be carried on board ships. Management expects a positive impact on selling, due to this initiative, and we will follow up the results next year.

### Free online access to ITU publications

1. Decision 12 (Rev. Busan, 2014) provides free online access to a list of publications for which paper copies continue to be produced and sold. As a consequence, Management informed us that online access to ITU publications might affect revenues for publications.

We suggest Management to monitor the trend in sales of hard copies and analyse it in order to have elements to support decisions for further actions on that matter.

Comments by the Secretary General

A close watch is kept on sales performances of all publications that have been granted free online access to general public. Analysis of each publication is carried-out continually to assess impact on revenues to enable us to take corrective measures. One such current publication is the Radio Reg 2012 which will complete it's 4 years life-cycle in 2016 following which we will assess impact and take appropriate action.

## Personnel

1. We carried out detailed sample testing on a number of randomly selected payrolls, covering staff members of various grades (General Service, Professional and Higher categories). Some payrolls concerned regular staff hired on a permanent/continuing basis, and others concerned staff holding fixed-term appointments for a period of one year or more. We also considered temporary staff appointed for shorter periods (short-term staff) and consultants employed under Special Service Agreements (SSAs). For all the positions selected, the duty station was Geneva. We checked the accuracy and correctness of the payrolls in relation to the established rules and procedures. We also verified, for each payroll in the sample, the supporting documentation found in the personal files, to ascertain whether the entitlements and allowances granted to individual staff members and officials had a basis documented in the files. We did not detect any errors or major weaknesses as the result of our tests, so we consider that we have obtained reasonable assurance that the values recorded in the accounts are correct.

### The structure of the workforce is moving towards greater instability

1. While the number of staff is relatively stable (from 731 in 2008 to 738 in 2014, with a peak of 747 in 2012), the statistics on the structure of the workforce show that the ITU is increasingly turning to contracts of short duration (greater use of Special Service Agreements (SSA) contractors and interns), compared to the appointments held by the regular staff on a more stable, indefinite or time-limited basis (permanent/continuing or fixed-term staff). The number of experts under SSA has considerably increased both at HQ and in the field (from 44 in 2010 to 127 in 2014 at HQ; from 94 in 2010 to 166 in 2014 for field consultants). This more than offsets the decrease in the number of short-term staff (which fell from 107 in 2010 to 42 in 2014), determined by the more stringent rules introduced in 2009, such as the compulsory interruption and limited duration of this type of contracts.
2. As a result, the use of SSA contractors has changed: they are not only employed where a special expertise is not held within the organization, but they are also used as simple consultants or even as substitutes for ordinary administrative work. In addition, internships have been extensively used in recent years, reaching the number of 106 in 2012, decreasing to 91 in 2013 and to 45 in 2014. At the same time, the projected retirement of regular staff shows that 120 positions will become vacant in the next 5 years, and over 250 positions in the next 10 years.
3. Though the greater flexibility provided by Special Service Agreements and internships is functional to manage costs in times of economic crisis, it should be emphasized that the changing structure of the workforce, associated with expected retirement of the regular staff, may create, in the medium term, a risk of loss of knowledge and potential discontinuity.

We suggestManagement to analyse the implications in terms of loss of relevant experience potentially resulting from the rapid rotation of people and from the expected retirements, and to establish strategic priorities for future staff requirements in the medium term.

Comments by the Secretary General:

Management takes note of the suggestion. Additionally a policy on the use of Special Service Agreement contractors is to be promulgated to ensure that this workforce is used appropriately and in the best interest of the Union.

## Procurement

1. Procurement is an area where an organization can achieve significant savings and improvements, thus releasing resources for investment in program and field activities. In procurement, the division responsible needs a high-level commitment in order to adopt best practices and to address specific issues, such as better supply chain management, which will generate a higher value for money. In 2014, the ITU’s procurement related expenses amount to 44’352’671 CHF (Purchase Orders: 8’948’743 CHF, Limit item Purchase Orders: 3’668’503 CHF, and other contractual payments 31’735’425 CHF). This represents 24.6 % of the Union’s revenue and 23.9 % of the Union’s total expenses.
2. This year we started to audit the ITU’s procurement activities concerning the procedures and practices in place in the field and their compliance with the relevant regulatory framework.

* Financial Regulations and Financial Rules (2010 Edition)
* Service Order 14/06 concerning Rules and Procedures governing the Placement of Contracts (13 February 2014)
* Basic Rules for Procurement of Equipment for ITU Technical Cooperation and Assistance Projects (approved by the Administrative Council in 1968) and the Manual of Administrative Procedures for the application of these Basic Rules (established by the Secretary General in 1968 and updated in 1987 and 1991)
* Service Order No. 06/06 concerning the creation and structure of the new Procurement Service (6 April 2006).

1. The above-mentioned regulations and rules clearly define the segregation of responsibilities as well as the procedure for the placement of contracts. The procedures are linked to the estimated expenses concerned by the relevant contract.
2. The responsibility for dealing with all the ITU’s purchasing activities , excluding Special Service Agreements, duty travel and library procurements is assigned to the Procurement Division acting within the Financial Resources Management Department.
3. In the current biennium, the Procurement Division has 10 budgeted posts; one of these posts is frozen. It is composed of 9 staff members: the Head and 8 staff, 5 of whom belong to the Professional category and 3 to the General Service category. At present 6 out of 9 staff member have a continuous contract, two have a fixed-term contract of one or two years, and one has a temporary contract. A vacancy notice for replacing the temporary contract by a fixed-term one is under preparation.
4. Our preliminary examination of the procedures in place was based on an interview with the Head of Division and on a survey of the actual processes followed for a small sample of procurements files selected on a random basis.
5. The legal framework and the operational framework for purchase orders based on the Suppliers Relation Management (SRM) application, as well as the operational framework for the establishment of contracts outside SRM was clearly explained.
6. This audit took into consideration procurement files concerning both technical cooperation and assistance projects and services requested at HQ level.
7. We ascertained that the processes complied with the governing rules for the selected sample of procurement files. This year’s assessment of the regularity of the procurement processes was carried out on a small sample of contracts. We will continue auditing the subject matter in the following years, taking into account a higher number of procurement files.

# STATEMENT OF CHANGES IN NET ASSETS FOR THE PERIOD CLOSED ON 31 DECEMBER 2014

1. Table III “Statement of changes in net assets” represents not only the movements of cumulated allocated and non-allocated own funds, and IPSAS effects, but also movements for each own fund, as reported in Note 4.
2. We noted that 4 MCHF had been withdrawn from the Reserve Account in the financial year 2014 to increase the ASHI fund, in line with Secretary-General comments to our last year Report (Rec. 6/2013); moreover, a further 1 MCHF was allocated from the 2014 budgetary surplus, in compliance with the ITU’s Financial Regulations and Financial Rules.

# TABLE OF CASH FLOWS FOR THE PERIOD CLOSED ON 31 DECEMBER 2014

1. The Table of cash flows identifies the sources of cash inflows, the items on which cash was spent during the reporting period, and the cash balance as at the reporting date.
2. In 2014, the ITU reported a cash flow from operating activities of +9.1 MCHF, positive in comparison with 2013, when it was -9.1 MCHF. As in 2014, in 2013 a negative cash flow was reported from finance activities (-1.5 MCHF), represented by the repayment of the FIPOI loan. Net cash flows from investment activities (-1.6 MCHF) showed an improvement as compared with 2013, when the value was -19.6 MCHF.
3. The net result in cash and cash equivalents showed an increase of 15.8 MCHF in 2014. We checked the underlying entries by selecting samples from some accounts. The result was that all selected transactions were properly backed by supporting documentation. The Cash Flow Statement is therefore verified and confirmed.

# COMPARISON OF BUDGETED AMOUNTS AND ACTUAL AMOUNTS FOR THE 2014 FINANCIAL PERIOD

1. Table V “Comparison of budgeted amounts and actual amounts for the 2014 financial period” is meant to comply with IPSAS 24, which requires that this comparison, arising from execution of the budget itself, should be included in the Financial Statements. This Standard also envisages the disclosure of the reasons concerning any material differences between budget and actual amounts,
2. Table V also shows the accounting reconciliation of the differences between the budget out-turn (actual amounts) and the amounts recognized in the accounting statement. Further details are provided in Note 25 to the Financial Operating Report and we also refer to the Secretary-General’s comments in the Financial Operating Report.

# STAFF SUPERANNUATION AND BENEVOLENT FUNDS

1. Three Funds are reported in Annex B2 of the Financial Operating Report , the “*Reserve and Complement Fund*” (with Total Assets amounting to 6.3 MCHF), the “*Provident Fund*” (with Total Assets amounting to around 1.5 MCHF) and the “*Assistance fund*” (with Total Assets amounting to around 0.2 MCHF), without substantial variations from last year.
2. In the liabilities, the “*Reserve and Complement Fund*” and the “*Provident Fund*” show two actuarial provisions of 54 kCHF and 36 kCHF under the item “*Employee benefits*”, , in line with an actuarial expertise performed in 2010.

# UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP), INFORMATION COMMUNICATION TECHNOLOGY DEVELOPMENT FUND (ICT-DF), and TRUST FUNDS

1. Rule 5 in Annex 2 of the Financial Regulations provides that “a separate account for each voluntary contribution or trust fund shall be opened in a special account of the Union”.
2. In Annex B3 of the Financial Operating Report, two projects are currently listed as being related to UNDP activity. Annex B4 of the Financial Operating Report shows the Trust Fund projects. Some of them are financed by a withdrawal from ICT-DF, authorized by a decision of the ICT-DF Steering Committee. Other projects are funded with specific contributions (shown on Annex B5) and regulated by agreements with donors. Annex B6 lists projects related to ICT-DF.
3. The ITU’s own funds allocated to projects decreased in 2014 to 5.7 MCHF from the 2013 value of 6.7 MCHF. On the other hand, third-part funds allocated to projects in 2014 increased to 30 MCHF from 26.1 MCHF in 2013, due to new agreements signed in 2014.
4. The amount of the ITU’s own funds allocated for projects was increased by the transfer of 2 MCHF from ICTDF. Unallocated third-part funds increased in 2014 from 2.1 MCHF to 2.2 MCHF.

# INTERNAL AUDITOR EVALUATION

1. In our last year’s report we performed an assessment of the ITU’s Internal Audit Unit (IAU), as part of the tasks of the External Auditor under the International Standards, and also following a recommendation by IMAC (the Independent Management Advisory Committee). The follow-up to our recommendations and suggestions related to this chapter is included in the annexed tables.
2. However, we must also point out that, in late 2014 – early 2015, in accordance with the International Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors (IIA), the IAU carried out a self-assessment with an independent external validation. We refer to document C15/INF/11-E of 13 April 2015.
3. We had interviews with the External Validator; we take note of the results of the self-assessment and of the recommendations made by the External Validator; we find that they are in line with our recommendations and suggestions and also with the IMAC recommendations.
4. With relation to the External Validator’s recommendation 1.2, third bullet, we highlight that independence, scope and objectives of an External Auditor differ from the ones of the Internal Auditor. We will therefore enhance, when feasible, the cooperation between EA and IA “*so as to minimize duplication of work and ensure good cooperation and exchange of information*”, in the ITU’s interest.

# MEETING WITH IMAC

1. After the final contradictory meeting with the Management, as we do every year, we met the Independent Management Advisory Committee (IMAC) in order to present the results of our audit and the draft of our report. This was also deemed as desirable by the IMAC in the Report of the 9th meeting of the Committee.
2. The meeting was held on 5 May 2015; the main issues discussed were directly related to our report and they concerned: *i)* differences between recommendations and suggestions and their follow-up process; *ii)* ASHI liabilities; *iii)* Low Value Assets; *iv)* Internal Audit Unit self-assessment with external validation.
3. The exchange of view, held in a spirit of transparency and cooperation, was very fruitful.

# FOLLOW UP OF PREVIOUS RECOMMENDATIONS AND SUGGESTIONS

1. Annex I brings together all our previous recommendations and the comments received from the ITU’s Management when the Report was delivered. Annex II shows all the recommendations issued by our predecessors of the SFAO and the comments received from the ITU’s Management at the time of the delivery of the Report. Annex III shows the follow-up given to all our suggestions.
2. The recommendations that are assessed as “closed” in Annexes I and II will not be included again in next year’s Audit Report, unless they need an annual follow-up.

# ANNEX 1 – Follow-up of recommendations in our previous reports

|  | **Recommendation raised by the Italian Corte dei conti** | **Comments received from Secretary-General at the time of the issuance of the report** | **Status as reported by ITU Management** | **Status on actions taken by Management as evaluated by the Italian Corte dei conti** |
| --- | --- | --- | --- | --- |
| **Rec. 1/2013** | ***Updating of lists of authorized signatures at banks***  With regard to field offices’ accounts, we recommend that the Management make efforts to better review and to update signature powers at banks, as appropriate in accordance with ITU Financial Regulations, and to better monitor by Headquarters any changes to bank signature authority, e.g. in case of addition of a signer or in case of deletion of any individual that is no longer authorized. | A reminder has been sent by FRMD to all field offices regarding the importance of the continuous update of the list of staff with signature power declared at banks. Field offices have been instructed to signal to FRMD any staff change having an impact on signatures lists in order to ensure the correct update and maintenance of these lists. | The field offices have been instructed to communicate any staffing changes impacting the list of bank signatories on a continuous basis. In November 2014, in order to prepare the 2014 external audit of the Union, a reminder was sent by the Chief of FRMD to all field offices in order to ensure that any necessary updates would be communicated to banks before end of 2014. This process will be conducted every year-end. | Ongoing  Although we acknowledge the efforts by Management, some lists have not yet been updated |
| **Rec. 2/2013** | ***Closing and opening of new accounts’ procedure***  Considering that in the Financial Regulations in any procedure of selecting of banks, opening of accounts, funds’ deposit, closure of accounts, the Secretary-General’s authorization is required, we recommend the Management to ensure that a stricter procedure including the mentioned authorization be followed in any case of closing or of establishing of a financial relationship with banks. | The Secretary-General has formally delegated the authorization of opening and closing bank accounts to the Chief of FRMD in 2014. | The procedure is strictly enforced. This recommendation is considered as implemented. This will be confirmed with the External Auditor during 2014 financial period audit. | Closed |
| **Rec. 3/2013**  **Rec. 6/2012** | ***Financial health is assured in the short-term, but remedial measures are necessary***  We renew the recommendation n. 6/2012 to the Management to be assisted by a full actuarial review study, to evaluate when the ITU financial health might be compromised, in the long-term scenario, by the provisions of the Health Insurance Scheme; we take into account that the transition to the new scheme (a new scenario) is in progress; therefore, we recommend Management that the full actuarial review study take place after the conclusion of the transition, in 2016. | A full actuarial study will be performed in 2016 according to the recommendation. | The actuarial study will be commissioned in 2016 as recommended.  ITU has transferred its insurance plan from the Staff Health Insurance Fund (SHIF) to Cigna-van Breda on 1st May 2014. A full actuarial study will take place in 2016. Corrective measures have already been taken and will be monitored and adjusted in order to ensure the financing on a pay as you go basis as well as the funding of the ASHI obligation on a long-term basis.  Thus, the ITU contribution to the SHIF has been increased from 3.31% to 3.91% for the 2014-2015 budget. The ASHI reserve has been created and CHF 2 million transferred into it from the budgetary surplus 2013. Moreover, according to Res. 1359, CHF 4 million from ITU Reserve Account have been allocated to a reserve for ASHI long-term funding. Furthermore, the draft Financial Plan for 2016-2019 will include further corrective measures in order to ensure the long-term funding of the ASHI obligation. It is to be further noted that the increase of the discount rate used in the 2013 actuarial valuation impacted the net assets positively and significantly as the actuarial gains amounted to CHF 26.5 million. | Closed  See new recommendation related to ASHI in Recommendation n. 3/2014 |
| **Rec. 4/2013** | **UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP), ICT-DF, and TRUST FUNDS**  […] we recommend Management to define shared guidelines regarding the accounting and reporting for extra-budgetary funds in order to simplify the reconciliation of Financial Operating Report Annexes with Note 20. | The accounting and reporting procedures will be documented in order to ensure know-how sharing and the production of audit documentation enabling the efficient reconciliation of extra-budgetary figures. | The documentation has been submitted to the External Auditor during the 2014 financial period audit. | Closed |
| **Rec. 5/2013** | ***Although the ERM has not yet been implemented, a risk based plan is necessary***  Although we are aware that it might be problematic to perform a risk assessment without an ERM, we recommend the Internal Auditor to enhance the process for producing a “risk-based” audit plan starting from the risk register and from a risk analysis (to be performed yearly). | In line with the recommendation also made by the IMAC, Internal Audit will enhance the planning process and will present in the audit plan elements of the risk analysis and priorities. | The 2015 audit plan was drawn up whilst relying, to the extent possible, on risk information obtained through discussions with senior managers, complemented by the reflection and outcome of discussions at PP-14. The 2015 audit plan contains these risk elements and also touches upon medium term planning items. | Ongoing |
| **Rec. 1/2012** | ***Dual signatories should be required for amounts above CHF 5’000***  Although we understood from Management about the feasibility of implementing dual signatures in field offices, for example in a field office only a P official could be present, we recommend Management to ensure dual signatories in financial operations with banks for amounts above 5’000 CHF whenever possible, and, in case the responsible officials on the field operates on an ITU’s bank account alone, he should receive an ex-ante authorization from Management. | These procedures are applied whenever possible. For Field offices where dual signature is not possible due to specific constraints (legal constraints for some Countries for bank signatures), specific authorizations and monitoring will be applied. | The procedures are applied according to the Secretary-General’s comment.  Furthermore, a review of the authorized signatures has been conducted and the Officers in charge of the Field offices have been reminded to report actively any staff changes impacting the authorized signatories. Moreover, the FRMD internal note on the delegation of signature has been updated to reflect latest changes in staff as well as the 5’000 USD threshold for Field offices. | Ongoing |
| **Rec. 2/2012** | ***Cash-in-hand at field offices***  We consider the difference that we found due to reconciliation issue, as non-material in terms of value. Nevertheless we recommend Management to strengthen controls over the cash-in-hand, also having as a reference the recommendation made by Internal Audit in its reports related to the ITU Regional Presence. | Cash reconciliation is currently done on a monthly basis in field offices. Any counting within a month will result in reconciliation issues due to this fact. Financial Resources Management Department (FRMD) will ensure that a review of the current process is done in 2013. Recent internal audit reports have already identified these issues as well as internal control procedures to mitigate the related risks. Management has already agreed with these recommendations and further action will be taken in 2013. | All Field offices are using the standardized report. Guidelines regarding the utilisation of petty cash will be produced by BDT/ADM with the support of FRMD according to the recommendation of the Internal Auditor report SG-SGO/IA/14-18 by June 2015. | Ongoing |
| **Rec. 3/2012** | ***“Droit de superficie”***  Considering that it is important and in ITU’s interest to extend the “droit de superficie” granted to ITU by the State of Geneva since 1967, we recommend Management to start, as soon as possible, the negotiations in this respect with the competent Host Country Authorities. | In January 2013, the Legal Adviser has already successfully contacted the Host Country competent Authorities in order to initiate a negotiation process. | The competent Host Country Authorities welcomed the request from ITU in principle and confirmed their interest as well as the fact that further developments will be triggered by decisions related to the replacement of the Varembé building, which are currently still under discussion.  PP-14 decided the creation of a Council Working Group. The CWG will, with the support of the Secretariat, examine the status of HQ premises of the Union and continue to analyse the options so far submitted and any other proposal by Member States, for prudent treatment of the premises into the long-term future, in order to prepare a recommendation for Council. The first meeting of the CWG took place on 28 January 2015. | Ongoing |
| **Rec. 4/2012** | ***Assets’ recording in the register***  […] we have performed a physical stock checking of some fixed assets categories, such as a sample of items of furniture and IT equipment and we have traced them into the accounts. We observed that the ITU responsible in Facilities Management Division (HRMD Department) have not found some of the assets during the physical stock checking at year end (around 0.73% of the acquisition value of the assets concerned). We are aware that controls have detected part of these assets not found at year end, however we recommend Management to continue its research and to write-off the item that will not be found during 2013. | I will instruct FRMD to coordinate with the Facilities Management Division to ensure the continuation of efforts in 2013 and will clarify the existence and treatment of the items not captured in the stock checking. | The process of the identification and localisation and/or write-off of the assets not found during the stock checking has been initiated in past years and is progressing according to plan.  **At the end of 2014** the value of non-found assets has been significantly reduced by 83% of the 2012 value. | Ongoing |
| **Rec. 9/2012** | ***Possibilities to offset Negative Net Assets***  We acknowledge the fact that Management is tackling some of the points, for instance, there is the intention to increase the level of ITU contributions to SHIF (3.91%) as proposed in the draft budget and we recommend constantly evaluating if actions taken are indeed structural measures, aimed at decreasing the level of underfunding. | I take note of this recommendation and inform you that a process to perform a full actuarial review and define different scenarios is in progress to evaluate corrective measures for diminishing the unfunded ASHI obligation. | A full actuarial study will be performed in 2016 as stated in Recommendation No. 3/2013. Moreover, ITU completed the transition to a new Health Insurance Scheme with Cigna-Van Breda introducing a deductible to contain costs. Furthermore, the percentage of contribution will be adapted according to needs and the ASHI reserve will be funded on a long-term basis upon Council decision. | Closed  See Recommendation n. 3/2014 related to ASHI actuarial review. |
| **Rec. 10/2012** | ***Digitalisation of personnel dossiers***  Although our analysis of the correspondence of the data inserted in the IT System with personnel dossiers did not revealed any major issue, we recommend the Management to start to evaluate the cost-effectiveness to digitalise personnel dossiers, not only in order to prevent that an accidental event might bring to loose fundamental data, but also to allow a direct interface of personnel dossiers with SAP HR. | I take note of this recommendation and inform you that HRMD is exploring this possibility. | The Detailed Blueprint (DBBP) of the e-Staff Personal File (digital filing) System was established on 19 April 2013.  This DBBP comprises the HRAD (E&B Service) business process and mapping of the structure of the staff member (hard) personal file. The system is linked to the SAP-ERP\_HCM.  **Update as per end of January 2015:** The first phase of creating the tool is completed. The e-Staff Personal File (digital filing) System is now operational.  The next phase of the exercise concerning HRAD (E&B Service) focuses mainly on two different tendencies which are :  1) Reduction of previous storage places (cupboards and computerized directories) to reorient Archive document flows toward the new e-filling system.  2) Reduction of numbers of paper documents by revised working methods (repetition, overlap, unnecessary printing, etc…). There will always be paper documents as the original signed documents must be kept for legal reasons and to certify the accuracy of information recorded in the SAP- ERP\_HCM. | Ongoing |
| **Rec. 11/2012** | ***STAFF Superannuation and Benevolent Fund***  Last year our predecessors, the SFAO, declared that “it has not proved necessary to conduct a new actuarial study. Given that the commitments in question are relatively minor, the 2010 study is sufficient”. Therefore, in line with our predecessors, and in view of the not relevant value of these provisions in comparison with the value of the Assets, we recommend to have an actuarial review every 5 years. | I take note of this recommendation and have instructed FRMD to conduct in 2015 a new actuarial study for the old Pension Fund. | The actuarial study will be commissioned in 2015 as recommended. | Closed  See Recommendation n. 2/2014 |

# Annex II – Follow-up of recommendations issued by SFAO

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| **Report** | **Recommendation raised By Swiss Auditors** | **Comments received from Secretary-General at the time of the issuance of the Swiss report** | **Status as reported by ITU Management related to Swiss Auditors’ report** | **Status as reported by ITU Management** | **Status on actions taken by Management as evaluated by the Italian Corte dei conti** |
| **Rec. 2/2008**  **Rec. 3/2009** | Transactions carried out manually outside the SAP environment are sources of error and dysfunction and generate additional tasks which may not be reflected in the job descriptions of the staff concerned. These tasks, conducted without any real backup, lead to delays.  I once again invite ITU to move as quickly as possible to integrate the BCS project management tool into the SAP software.  Accordingly, I invite ITU:  – To make a decision on possibly incorporating into the Grant Management (GM) module all projects that are not operationally and financially closed, to enable correct calculation and distribution of interest on investments in connection with projects.  – To define the main technical cooperation processes and assign corresponding responsibilities.  – To implement the necessary training measures for efficient use of the new SAP environment in the technical cooperation area. | The two recommendations 1/2008 and 2/2009 are closely linked. In 2011 the Financial Resources Management Department, the Telecommunication Development Bureau (BDT) and the Information Services Department conducted a study into whether it would be necessary to introduce a second accounting system in USD, with the support of consultants. This study concluded that training in the GM module should be stepped up, so as to make maximum use of the specificities of this module.  Some progress has been made as regards the administrative management of projects. All projects on which there has been no action for several years have been closed and any remaining funds placed in a suspense account (for the reimbursement of donors, use in other projects, etc.). Donors are contacted to decide the subsequent use of these funds.  As regards the SAP GM system, a study or gap analysis was conducted in 2011 in order to determine the development requirements that would allow for the optimal and adapted use of the system. | SAP Grant Management (GM) was implemented by ITU in January 2010 for the financial management of technical cooperation projects. The related financial processes have been reviewed in 2011 and are in the process of being optimized and the users retrained. | This process is still under progress due to budgetary constraints. | Ongoing |

# Annex III – Follow-up of suggestions in our previous reports

|  | **Suggestion presented by the Italian Corte dei conti** | **Comments received from Secretary-General at the time of the issuance of the report** | **Status as reported by ITU Management** | **Status on actions taken**  **by Management as evaluated by the Italian Corte dei conti** |
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| **Sugg. 1/2013** | Although we acknowledge the efforts and the results of these inventorial activities, we noted that CHF 110’286 of unfound assets were scrapped without being found beforehand. Due to the obsolete nature and the low value of these assets not found and scrapped, this treatment can be accepted for 2013. However, going forward, any asset not localised to be written-off should be signalled as “not found” in the write-off request form as implemented by Assets management Unit. | Starting in 2014, the Asset Management Unit has amended the write-off request form with a field enabling to declare as “not found” the asset written-off. It is to be noted that the assets not found and scrapped were of an age such as not to have any residual net book value. | The guideline regarding the write-off of assets is implemented. This suggestion is considered as closed pending confirmation by the external auditor. | Closed |
| **Sugg. 2/2013** | With regard to the refund of medical services, we suggest to the Management to perform a study for evaluating the effect of a sensitive reduction of services not strictly related to health care. | I take note of this suggestion and inform you that Management will follow-up with the new claims administrator on the study mentioned. | The new Health Insurance scheme has been in place for less than one year and is carefully monitored in order to analyse the first effects of the CMIP implementation. So far a deductible has been instituted as well as a stronger costs containment. Further measures to monitor the costs will be considered and introduced according to the plan performance. | Ongoing |
| **Sugg. 3/2013** | We suggest Management, without reducing the quality of health service, to consider a threshold on expenditure for health services benchmarking them with reasonable and customary expenses, in order to ensure the sustainability of the cost of the new scheme. | I take note of this suggestion and inform you that Management will explore feasible threshold options with the new claims administrator. | The new Health Insurance scheme has been in place for less than one year and is carefully monitored in order to analyse the first effects of the CMIP implementation. So far a deductible has been instituted as well as a stronger costs containment. Further measures to monitor the costs will be considered and introduced according to the plan performance. | Ongoing |
| **Sugg. 4/2013** | UNDP  In order to reduce the risk of errors, we suggest to consider amendments and improvements of the above mentioned procedures. | In 2014 some old transactions were indeed cleared and discrepancies on the projects caused by the procedure for transfer of balances suggested in the 2010 closure was replaced by the new one adopted end of 2013. This enabled us to properly record project opening balances in 2014. | A documentation of the process has been produced. This suggestion will be considered as closed pending confirmation by the external auditor. | Closed |
| **Sugg. 5/2013** | We suggest to IAU to adopt a multi-year audit plan, on a rolling cycle, based on a risk assessment exercise. | Internal Audit will endeavor to extend the audit planning to a multi-annual basis. | February 2015: in progress - the 2015 audit plan contains these risk elements and also touches upon medium term planning items. | Ongoing |
| **Sugg. 6/2013** | Following our previous recommendation n. 5, linking activity with risk is in our opinion important. Although we have observed in the 2014 AWP a higher number of audits planned at the level of Headquarters, we suggest IAU to specify to Secretary-General and to IMAC during the AWP’s approval exercise, if the number of audits planned is sufficient to cover major risks identified. | Internal Audit will aim to communicate to the Secretary-General and the IMAC whether any gaps in audit coverage would have been identified. | February 2015: pending – further work will be undertaken for the 2016 audit plan. | Ongoing |
| **Sugg. 7/2013** | Following our previous suggestion n. 5, considering that it might be difficult to cover all risks identified in a given year, we suggest IA to present in a multi-annual work plan a number of audits sufficient to cover, in a given term, major risks identified. | Internal Audit will endeavor to extend the audit planning to a multi-annual basis taking into account the audit coverage of major risks identified by Internal Audit. | February 2015: pending – further work will be undertaken for the 2016 audit plan. | Ongoing |
| **Sugg. 8/2013** | Although we acknowledge the existence of a detailed time monitoring system, we suggest the IAU to link it with all the possible tasks foreseen in an AWP and in a Multi-annual Work Plan (see suggestion n. 7), in order to give more elements and information to the SG for deciding in the future on the adequacy of resources in IAU. | Internal Audit will be given instruction to continue monitoring its time and report on a regular basis progress made versus the AWP. | February 2015: In progress – despite the budget concerns of the ITU for 2016-2017, a P2 Junior Internal Auditor (fixed term) position was created in early 2015 to complement the resources (and also respond to IMAC‘s recommendation). | Ongoing |
| **Sugg. 9/2013** | We suggest, in the spirit of enhancing autonomy of the IAU, that Head of the IAU introduces, if needed, already in the AWP approval process, indication of the amount needed for hiring specific professional expertise. In this way the Secretary-General, and indirectly IMAC, might approve or not the budgeted amount and then the IAU might handle directly the sum provided for contractual services, if needed during the year, following the ITU procedure for commitments. | During the annual audit planning exercise, or whenever required in the course of the year, the need for specific expertise will be identified by the Head, IAU. This will allow the Secretary-General to make resources available, within the overall budget of the Union. |  | Closed |
| **Sugg. 1/2012** | Availability of financial reporting for field offices  It is worthwhile mentioning that all the banks account operational in field offices are reconciled and supervised by ITU Management on a periodical base. However, due to the fact that amounts are not inserted directly in the accounts by the field officials, entry of all the movements in the IT accounting system (SAP) is performed periodically at the level of Headquarters. Management is aware of this issue, therefore we suggest to continue the efforts for implementing a suitable financial reporting at level of field offices. | I take note of this suggestion and inform you that a significant part of the identified issues related to financial reporting will in principle be solved by training field offices relevant employees. | As accounting remained centralized at Head Quarters, the focus has been on standardizing the field offices financial reporting. This has been finalized in January 2015. | Ongoing |
| **Sugg. 3/2012** | Provisions  We have revised the reports issued by the ITU legal advisor and we consider the amount provisioned for possible loss in litigations substantially correct. Moreover, the ITU legal advisor reported us that a litigation process has an average time of two years and a half before its settling at ILO Tribunal. Therefore, according to the possible time of settling, we suggest for the coming years to reclassify under non-current assets the amount provisioned for litigation. | I take note of this suggestion and confirm that this will be taken into account in 2013. | For reporting purposes, we request the option to not change the reporting of this specific item. Al relevant information is submitted to the External auditor in a timely manner for the financial period audit. | Closed |
| **Sugg. 4/2012** | Possibilities to offset Negative Net Assets  As remedial measures are necessary, these drivers [as mentioned in par. 92] have to be considered by the Council: whereas the first driver is not within the Management’s remit, we suggest Management to address the other drivers. | I take note of this suggestion and this will be taken into account noting that some of the drivers listed in the suggestion are sensitive and will need to be addressed at a United Nations level to ensure a common approach of the issue. | We refer to the comment made for the Rec. 3/2013 | Closed  See new Recommendation n. 4/2014 |