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| **Council 2018 Final meeting, Dubai, 27 October 2018** |  |
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| **Agenda item: ADM 10** | **Document C18/40-E** |
| **23 July 2018** |
| **Original: English** |
| **Report by the Secretary-General** | |
| EXTERNAL AUDIT | |

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| **Summary**  The External Auditor's report covers the audit of the financial statements for 2017.  **Action required**  The Council is invited to examine the External Auditor's report on the accounts for 2017 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* |

  
Corte dei conti

REPORT OF THE EXTERNAL AUDITOR  
  
  
**INTERNATIONAL TELECOMMUNICATION UNION  
(ITU)  
  
Audit of the Financial Statements for 2017**

**22 June 2018**

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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 informs the Council of the results of our audit.

The audit considered the ITU’s Financial Operating Report at 31 December 2017, 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 carried out the audit of the accounts for the Financial Year 2017 based on INTOSAI standards and on the IPSAS regime and in line with the additional terms of reference that form an integral part of the Union’s Financial Regulations.

We planned the working activities according to our audit strategy so as to obtain a reasonable assurance that the Financial Statements are free from material misstatement.

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

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

Thus, through the audit, we have obtained 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 in other departments, depending on the subject matter under consideration.

The result of the audit was communicated on 19 June 2018.

Pursuant to §9 of the Additional terms of reference governing the external audit, with regard to comments by the Secretary-General for inclusion in this report, the Secretary-General informed us, through his colleagues, that his comments would be sent to us. Those comments were received on 22 June 2018 and were duly incorporated in this report.

We audited the ITU financial operating report on the Organization’s accounts relating to the financial results as at 31 December 2017, presented in compliance with Article 28 of the *Financial Regulations (2010 edition)*.

A Management report referring to the accounts for the Financial Year 2017, signed by the Secretary-General and the Chief of the Financial Resources Management Department on 26 March 2018, was included in the Financial Statements and is an integral part of the audit documentation.

Furthermore, we also received the Statement of Internal Control for 2017, signed by the Secretary-General on 26 March 2018.

On 16 March 2018, Secretary-General reported to our President that a case of fraud had been detected by Management in a regional office not covered by our audit scope.

Subsequently, the Secretary-General reported that the investigation carried out by Management had concluded that the fraud, caused by a conflict of interest in the procurement area, had been perpetrated for several years; however, the impact on 2017 FS was not significant.

Based on ITU Financial Regulations and Rules, art. 28 Annex 1 (Additional terms of reference governing external audit) par. 6. c), i), and in accordance with ISA 240 and ISSAI 1240, we analysed the information provided, and came to the conclusion that the amount involved did not affect materially the 2017 accounts as a whole. Management assured that further measures are being undertaken.

As for the provisions of ISA 240, whereby “*the auditor shall communicate to those charged with governance the case of fraud and any other matters relating to fraud that are, in the auditor’s judgment, relevant to their responsibilities*” (para. 42), we recall that part of our current and past observations and subsequent suggestions and recommendations had the purpose to enhance the internal control framework with a view preventing fraud and material misstatements in the procurement area.

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 Working Group on Financial and Human Resources, Suggestions are only followed up by the External Auditor. However, in principle, the ITU Council, following advice from the Independent Management Advisory Committee (IMAC), may ask the Secretary-General to implement a “Suggestion”, where deemed necessary.

We also audited the ITU TELECOM World accounts for 2017, in accordance with Resolution 11 (Rev. Busan, 2014) resolves no. 6.

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

  
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# AUDIT CERTIFICATE

**Opinion**

We audited the financial statements of the International Telecommunication Union (ITU), which comprise the statement of financial position as at 31 December 2017, the statement of financial performance, the statement of changes in net assets, the table of cash flows and the comparison of budgeted amounts and actual amounts for the 2017 financial period, as well as notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the International Telecommunication Union (ITU) as at 31 December 2017, and its financial performance, its changes in net asset, its cash flows and its comparison of budgeted and actual amounts for the year then ended, in accordance with IPSAS and the Financial Regulations and Rules of the ITU.

**Basis for Opinion**

We conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), and the ITU Financial Regulations and Rules. In the field of financial statements audit, the ISSAIs are based directly on the International Standards on Auditing (ISAs). The Corte dei conti applies the provisions of the ISAs as far as they are consistent with the specific nature of its audits. Our responsibilities under these standards are further described in the section of our report on Auditor’s Responsibilities for the Audit of the Financial Statements. We are independent of the ITU in accordance with the ethical requirements relevant to our audit of the financial statements in the United Nations system, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other Information**

The ITU Secretary-General is responsible for the other information. The other information comprises the presentation of the “financial key indicators”, shown by the Secretary-General on his foreword to the financial operating report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion in this regard.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this. We have nothing to report in this regard.

**Responsibilities of the ITU Secretary-General and Those charged with governance for the Financial Statements**

The Secretary-General is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards (IPSAS), and for such internal control as the Secretary-General determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Secretary-General is responsible for assessing the ITU’s ability to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going concern basis of accounting unless the Secretary-General either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the ITU’s financial reporting process.

**Auditor’s Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when one exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

* Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
* Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ITU’s internal control.
* Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
* Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ITU’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the ITU to cease to continue as a going concern.
* Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion, the transactions of ITU that have come to our notice or that we have tested as part of our audit have been, in all significant respects, in accordance with the ITU Financial Regulations and Rules and its legislative authority.

In accordance with the ITU Financial Regulations and Rules (Article 28) and the additional terms of reference governing External Audit (Annex I to these Financial Regulations and Rules), we have also issued a detailed report on our audit of the ITU Financial Statements for 2017.

**Emphasis of matter**

We draw attention to the fact that the Statement of financial position shows a negative Net Asset (-482.5 MCHF), mainly due to the impact of 638.4 MCHF in actuarial liabilities relating to long-term employee benefits recorded in the financial position. Details of our analysis are included in our report. Measures are being undertaken by Management, which has assured us that it will monitor the effectiveness of these measures. Our opinion is not modified in respect of this matter.

Rome, 22 June 2018

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|  | *Angelo Buscema*  *President of the*  *Corte dei conti* |

# STRUCTURE OF THE ACCOUNTING STATEMENTS

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

* Statement of financial position – Balance sheet at 31 December 2017 with comparative figures as at 31 December 2016 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 ended 31 December 2017, with comparative figures as at 31 December 2016 showing the Surplus/Deficit for the financial year;
* Statement of changes in Net Assets for the period ended 31 December 2017, 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 ended 31 December 2017, showing the inflow and outflow of cash and cash equivalents, 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 2017 financial period;
* Notes to the financial statements providing information about accounting policies and additional information necessary for a fair presentation.

# STATEMENT OF FINANCIAL POSITION 2017

## ASSETS

1. In 2017, Assets amounted to 372.8 million Swiss Francs (MCHF), same as   
   (-0.1%) compared with the value recorded in 2016 (373 MCHF).
2. They consisted of Current assets, amounting to 271.9 MCHF, representing the 72.9% of Total Assets (in 2016, they represented 72.1%) and Non-Current Assets, amounting to 100.9 MCHF, representing 27.1% of Total Assets (27.9% in 2016). The basis for the evaluation of Assets is given in the Main Accounting Principles (Note 2).

## Current Assets

1. Total Current assets in 2017 amounted to 271.9 MCHF, representing an increase of 3.0 MCHF (+1.1%) as compared to 2016 (268.9 MCHF). Examining the movements in the sub-headings, we observe that the overall increase is due to an increase in “Cash and cash equivalents” (+26.9 MCHF), offset by a decrease in “Investments” (-33.6 MCHF); “Receivables of exchange transactions” remained at a similar amount (-0.1 MCHF), whereas “Receivables of non-exchange transactions” increased (+11.7 MCHF); “Other receivables” decreased (-1.9 MCHF), Inventories remained at about the same value (+0.1 MCHF).

## Cash and cash equivalent

1. The sub-heading “Cash and cash equivalent”, totalling 135.3 MCHF, increased by 24.8% compared to 108.4 MCHF in 2016; it included cash in hand and all the balances of ITU postal and bank current accounts as at 31 December 2017. The increase was mainly due to “Bank current accounts in CHF” (+39.8 MCHF), which made up around 69.1% of the total sub-heading, and “Bank current accounts in foreign currencies” (+14.8 MCHF), which made up around 23.9% of the total sub-heading. The increase originated from a transfer from “Investments”, due to a diversification policy introduced in 2015. A detailed breakdown of Cash and cash equivalent is shown in Note 6 of the Financial Operating Report.
2. We asked all the banks with business relations with ITU to confirm the current accounts’ balances as at 31 December 2017. We verified that the accounts balances had been properly recorded in the accounts. All variances detected in tha banks’ confirmations were explained and justified. It is worth mentioning that we did not receive direct confirmation only from two banks. We noted the constant improvement of the situation compared with the previous years and we acknowledge the efforts made by Management to enable us to receive all the confirmations, nevertheless this limited our work in this area.
3. With reference to the missing bank confirmations, Management provided us with a copy of the statements as at 31.12.2017 relating to all the above-mentioned banks, and we used them for the reconciliation.

### Updating of lists of authorized signatures at banks

1. As a result of our audit of the bank confirmations, as in previous years, we found differences between the lists of authorized signatures kept by Management at Headquarters and the lists that we received from the banks. Due to the fact that not all the confirmations had been received, we could not reach a conclusion over the signatories. We acknowledge that Management acted promptly, communicating with the banks in order to solve these discrepancies.

## Investments

1. In 2017, the sub-heading “Investments” amounted to 65.0 MCHF, a decrease of 33.6 MCHF (-51.7%) compared to 2016 (65.0 MCHF), and it included fixed-term investments with maturity of not more than 6 months from 31 December 2017. A detailed breakdown of Investments by date of maturity and the reason for the decision to decrease investments in 2017 are shown in Note 7 to the Financial Operating Report.
2. In Note 2 of the Financial Operating Report, regarding Main Accounting Principles, the specific paragraph on Financial Instruments provides information on the disclosure of Investment. In accordance with IPSAS, Note 4 provides information about the Financial risk management; in particular, all Investments are exposed to a credit risk, as well as interest rate, liquidity and market risks.

## Receivables

1. Current receivables, whether for exchange or non-exchange transactions, had a net worth of 97.1 MCHF in 2017, compared to 85.5 MCHF in 2016. They represented 35.7% of the total current assets compared to around 31.8% in 2016.
2. As stated in Note 8 to the Financial Operating Report, they represent the uncollected revenue that Member States, Sector Members and Associates are committed to paying to ITU for annual contributions, purchase of publications, satellite network filings and other invoices issued by ITU.
3. Non-current receivables, as also illustrated in Note 8, were present only for non-exchange transactions and amounted to 7.0 MCHF (7.5 MCHF in 2016). They were fully provisioned at 31 December 2017, in line with the principles described in Note 2 to the financial statements.

## Other current receivables

1. An amount of 7.5 MCHF (9.4 MCHF in 2016) is shown in the closing balance sheet under other receivables. A detailed breakdown of “other receivables” is shown in Note 10 to the Financial Operating Report. The highest amount is recorded under “accounts receivable”, which represented, primarily, the prepaid expenses related to the budget 2017.

## Inventories

1. In 2017, items related to publications, souvenirs and supplies were recorded at a net value of 0.66 MCHF, an increase of 0.11 MCHF compared to the 2016 net value of 0.55 MCHF. Inventories are detailed in Note 9 to the Financial Operating Report, which shows that the increase is mainly due to the rise in publications.

## Non-current assets

1. Non-current assets as at 31 December 2017 totalled 100.9 MCHF; they showed a reduction of 3.2 MCHF (-3.1%) compared to 2016, when they amounted to 104.1 MCHF; the decrease is due to the depreciation of the ITU’s buildings and to the decline of intangible assets.
2. This heading was composed of “Property, plant and equipment”, amounting to 99.0 MCHF, or 98.1% of total Non-current assets (in 2016 it was 101.4 MCHF, or 97.5% of total Non-current assets), by “Intangible assets”, amounting to 1.0 MCHF, or 1.0% of the total (in 2016, it was 2.6 MCHF, or 2.5%) and by “assets under construction”, which in 2016 were present as a voice of intangible assets and in 2017 amounted to 0.9 MCHF, or 0.9% of total Non-current assets). The first two sub-headings are illustrated in Notes 11 and 12 of the Financial Operating Report respectively. In Note 13 is shown the sub-heading “assets under construction”, whose amount refers only to the voice “Other under construction”.

## Property, plant and equipment

1. This heading showed a value of 99.0 MCHF, which was the net value, at 31 December 2017, of the capitalised cost minus the related depreciation for each category listed here: buildings (a net value of 97.7 MCHF was recorded in 2017; 100.6 MCHF in 2016); machinery (0.07 MCHF in 2017; same as 2016); furniture (0.05 MCHF in 2017; 0.02 MCHF in 2016); IT equipment (1.1 MCHF in 2017; 0.7 MCHF in 2016). These are illustrated in Note 11 to the Financial Operating Report.
2. IPSAS 1 requires that, in the Statement of the financial position, buildings should be recognised as assets. For the initial recognition, IPSAS 17 states that reference must be made to the costs of these items or to 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 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 2 to the Financial Operating Report “Main accounting principles”, sub paragraph “Property and equipment”, it is stated that the initial recognition of buildings was performed 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 the “historical cost”, and the depreciation was realized referring to an “*estimated useful life*” which was 100 years for the structure. The land on which ITU has a free-of-charge “right of superficies” was not considered in determining the initial value of the buildings.
5. In the first year of our mandate we issued the Recommendation n. 3/2012, related to the renegotiation of the Host State Agreement. We are following up that recommendation: an ITU/Host country Working Group, composed of representatives from the ITU, the Canton of Geneva (landowner), the Swiss Confederation and FIPOI, to discuss specifically the issue of the “droit de superficie”, was created in 2017 and held its first meeting on 15 November 2017. When the agreement has been finalised, residual book values should be adjusted accordingly.
6. In Note 11 to the Financial Statements, the buildings recognized as non-current assets were the Tower, Varembé, Extension C and Cafeteria, and Montbrillant. In respect of buildings, as stated above, the net carrying amount varied from 100.56 MCHF at 1 January 2017 to 97.7 MCHF at 31 December 2017, due to additions of 0.25 and a depreciation of 3.1 MCHF recognized during the year.
7. The Swiss Confederation grants funding for the construction of buildings for international organizations through the “Fondation des immeubles pour les organisations internationals” (FIPOI), in the form of a loan on favourable terms, i.e. a period of 50 years at an interest rate of 0%. The land is provided free of charge by the Canton of Geneva via a “*droit de superficie*” (right of superficies). The value of borrowings from the FIPOI is illustrated in Note 16 to the Financial Operating Report.

## *Union’s headquarters premises*

1. ITU Council 2016, with Decision 588 of 10 June 2016, approved the replacement of the Varembé building with a new one that would also accommodate the offices and facilities of the Tower building, retaining and refurbishing the Montbrilliant building; this measure was considered the most cost-effective option, assuming a successful sale of the Tower.
2. The whole procedure is currently ongoing, because something has still to be defined with regard to the sale of the Tower. As soon as the definitive decision regarding the demolition of the Varembé building has been taken, the depreciation of such building, as recorded in the accounts, has to be recalculated according to the residual lifetime.
3. Referring to the new premises, it is necessary that the ongoing projects and studies take into consideration the needs of the Union in the long-term period, such as the ones related to offices, conference rooms, service places, parking lots, etc.

We recommend that Management, in the evaluation process of the projects and studies for the fulfilment of the new HQ premises, consider the needs of the Union in a long-term period, also taking into account the ITU Human Resources Strategic Plan.

Comments by Secretary-General

The Management Board of the Building project has taken note of this recommendation. The on-going discussions and studies aimed at supporting the decision making process on a certain number of options related to the design, dimensioning, etc. of the new building and which are based on projections of the number of staff (regular and non-staff) which could be in service on the date of delivery of that new building.

## The Asset Register

1. We obtained and checked the lists of assets, and we carried out a physical stock-check on a sample of items recorded in the fixed asset register. Please refer to the follow-up tables for our previous recommendations and suggestions (see [annexes](#Annex1)).

## Intangible Assets

1. In 2017, Intangible Assets amounted to 1 MCHF, a decrease of 1.6 MCHF (-63.3%) compared to the value for 2016 (2.6 MCHF).
2. As stated by Management in Note 12 to the Financial Operating Report, capitalization, according to IPSAS 31, regarded: (i) internal developments related to improvements of some specific services offered to members, specifically for the access, management and archiving of ITU documentation; (ii) standard software and upgrade packages used in ITU’s operating activities.

## LIABILITIES

1. In 2017, Total Liabilities amounted to 855.3 MCHF, an increase of 63.2 MCHF (+8.0%) in comparison with the value recorded in 2016 (792.1 MCHF). They consisted of:
2. *Current Liabilities*, amounting to 149.1 MCHF, representing 17.4% of Total Liabilities (in 2016, they represented 18.6%, totalling 147.3 MCHF), and
3. *Non-Current Liabilities*, totalling 706.2 MCHF, representing 82.6% of Total Liabilities (in 2016, non-current liabilities represented 81.4%, totalling 644.8 MCHF).

## Current liabilities

1. Total Current liabilities in 2017, as seen above, amounted to 149.1 MCHF, representing an increase of 1.8 MCHF as compared with 2016 (147.3 MCHF). The increase, in overall terms, was due to the effect of the increase in “Deferred revenue” (+5.3 MCHF), “Suppliers and other creditors” (+0.5 MCHF) and “Provisions” (+0.2 MCHF), whereas there was a decrease in “Employee benefits” (-0.9 MCHF) and, especially, in “Other debts” (-3.3 MCHF). The basis for the evaluation of Current Liabilities is set out in the Accounting Principles (Note 2).

## Suppliers and other creditors

1. An amount of 9.65 MCHF (9.15 MCHF in 2016) 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, where the three sub-items “Suppliers”, “Deposits received” and “Down payments received” are listed.

## Deferred revenue

1. The sub-heading “Deferred revenue” amounted to 134.3 MCHF (129.0 MCHF in 2016). 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 for requests prepared at the end of 2017 with publication in 2018. A detailed breakdown of deferred revenues is shown in Note 15 to the Financial Operating Report.

## Provisions

1. In 2017, the sub-heading “Provisions” amounted to 1.65 MCHF (1.45 MCHF in 2016). This heading included the provision for litigation (around 1.15 MCHF) and the provision for free Satellite Network Filing (0.5 MCHF). A detailed breakdown of provisions is given in Note 18 to the Financial Operating Report.
2. Provisions for litigation varied from the initial value of 2017 (909 KCHF) to the final (31.12.2017) value of 1,135 KCHF. The provisions were actually increased by 546 KCHF, and were used for 226 KCHF.

## 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 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 2017, and as long-term (41.5 MCHF, or 5.9% of total non-current liabilities). The amounts, detailed in Note 16 to the Financial Operating Report, are also confirmed by the statement obtained from FIPOI dated 12 January 2018.

## Other Current liabilities

1. In 2017, the sub-headings “Employee benefits” and “Other debts” amounted respectively to 0.2 MCHF (1.1 MCHF in 2016) and 1.8 MCHF (5.1 MCHF in 2016). A detailed description and breakdown are shown in Notes 17.1 and 19 to the Financial Operating Report respectively.
2. In particular, short-term Employee benefits, recorded under “Current liabilities”, are related to the provision for overtime (51 KCHF, it was 60 in 2016) and the provision for accrued leave (175 KCHF, it was 1,034 in 2016). Our checks did not reveal any major issue and the provisions are substantially accurate.
3. “Other debts” recorded under “Current liabilities” include the following sub-items: “Accounts payable”, “Employees miscellaneous” (the only one that increased, from 651 KCHF in 2016 to 823 KCHF in 2017), “Goods receipt/Invoice receipt”, “UNDP”.

## Non-current liabilities

1. Total Non-current liabilities in 2017 amounted to 706.18 MCHF, representing an increase of 61.33 MCHF (+9.5%) as compared with 2016 (644.85 MCHF). The increase, in overall terms, is explained by the increase in Employee benefits (+63.2 MCHF, +11.0% compared to 2016). The basis for the evaluation of Non-current liabilities is set out in the Accounting Principles (Note 2).
2. This heading comprised long-term debts (see the paragraph on “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 638.6 MCHF in 2017, as summarised in the table below.



## Long-term employee benefits

1. As shown in the table above, in 2017, the sub-heading “Non-current liabilities” (related to long term employee benefits) were around 638.3 MCHF, an increase of 63.2 MCHF (+11.0%) as compared with 575.1 MCHF in 2016. It represented 90.4% of total Non-current liabilities and 74.6% of total liabilities. This heading included the actuarial liabilities for post–employment benefits under the After Service Health Insurance plan (ASHI) (617.2 MCHF; in 2016 it was 551.9 MCHF), a provision for estimated liabilities for the repatriation grant (12.5 MCHF; in 2016 it was 14.7 MCHF) and a provision for accrued leave (8.6 MCHF; in 2016 it was 8.5 MCHF). A detailed description and breakdown of the long-term employee benefits is shown in Note 17.2 to the Financial Operating Report.

## Employee benefits: Installation and Repatriation grants

1. As shown in the previous paragraph, the provisions recognized at 31 December 2017 for installation and repatriation grants amounted to 12.5 MCHF (14.7 MCHF in 2016) and were calculated according to the actuarial study that Management commissioned and which the actuary illustrated in its report of March 2017.

## Employee benefits: ASHI

1. In 2017, the provision for actuarial liabilities for the ASHI plan amounted to 617.2 MCHF, representing an increase of 65.3 MCHF (+11.8%) compared to 551.9 MCHF in 2016. This was mainly due to the update of the demographic assumptions base on the table provided by the United Nations and also to the small decrease of the discount rate. This calculation, based on actuarial assumptions, was performed by the actuary.

## Negative Net-assets influenced by actuarial liabilities

1. The considerable amount of the ASHI’s actuarial losses (369.7 MCHF) has a significant impact on the ITU’s Net Assets and, for this reason, as in the past years, we focused part of our audit on the correctness and reliability of the Employee Benefits values.
2. The choice of actuarial assumptions is the sole responsibility of Management. The External Auditor checks their plausibility and their consistency with IPSAS and with previous years and validates them.
3. For 2017, the choice of the Union was to adopt the new IPSAS 39 in place of the IPSAS 25. The new standard is mandatory starting from the financial year 2018, but organizations had the possibility to apply this standard in advance.
4. The main differencies between the two standards are:
5. The removal of an option that allowed an entity to defer the recognition of changes in the net defined benefit liability (the “corridor approach”);
6. The introduction of the net interest approach for defined benefit plans;
7. The amendment of certain disclosure requirements for defined benefit plans and multi-employer plans;
8. The simplification of the requirements for contributions from employees or third parties to a defined benefit plan where those contributions are applied to a simple contributory plan that is linked to service;
9. The removal of the requirements for Composite Social Security Programs.
10. These differencies have been taken into account by ITU Management and its actuary and did not influence the calculation of the actuarial liabilities at ITU.
11. As in previous years, our team made use of a group of public actuaries, who are experts in social benefits. They carried out a review of the key assumptions related to 2017, which were duly discussed with Management. We found that these assumptions were in line with economic trends and rates and were also consistent with data available at ITU at the moment of our audit, and we validated them.
12. To carry out their audit, our actuaries recalculated the valuations prepared by the actuary (AON Hewitt Consulting) 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 the actuary fully cooperated with the review. The work of our actuaries confirmed that the amounts recorded in the accounts were substantially correct.
13. We take note that, following recommendation n. 3 in our report on the 2014 Financial Statements, Management in 2016 launched a call for bids to choose a new actuary, in order to carry out the full actuarial study and also the annual IPSAS 25 (now IPSAS 39) valuations. The actuary chosen was AON Hewitt Consulting.
14. In that report, we recommended, in particular, that Management should perform a full actuarial study in the coming years: this is necessary to obtain answers, and possible solutions, to the question of adequate funding, in order to ensure that the ITU Health Insurance Scheme is not underfunded, in the long-term, on a pay-as-you-go basis.
15. The study is ongoing and it is currently at the firststage. We acknowledge that Management is fully cooperating with the External Auditor, providing us with all the documents related to the study, in order to allow us to verify, with the support of our actuaries, the analysis of the situation and the effectiveness of the proposed solution.

## Separation from the “SHIF”: contrast in the settlement

1. In our past reports, we stated that the separation from the SHIF, the health insurance scheme operated by the ILO, in which ITU participated until 2014, had not yet been fully completed, because there were disagreements between the two agencies on the sum to be paid to ITU by the SHIF, relating to two key points:
2. on the basis of the separation, claims for reimbursement could be submitted to the SHIF by ITU insured members until 31 January 2017. Obviously, after that date there was still a need for time to process reimbursements. The ILO charged ITU five months full administrative costs (up to May 31, 2015), as if all ITU members were asking for repayments from the old fund. ITU argues that there was actually a very small number of files, so the administrative costs could not be charged to ITU to that extent;
3. the second point concerns the liquidation of the SHIF guarantee fund, to whose establishment and maintenance ITU participated with a contribution of 23% of the fund: ITU had assumed that, following the principle of the proportionality of its contribution and the principles of mutuality and solidarity, ITU would be paid a percentage of the fund valuation corresponding to the percentage of contribution it had paid to the fund; ILO did not agree on this figure and offered a much lower sum.
4. Management informed us that it was not possible to reach an agreed solution with the ILO; for this reason, the two organizations entrusted the decision of the dispute to an arbitrator. The results of the arbitration, at the time of our audit, had not yet been issued.

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

1. As in previous years, an amount of 54 KCHF was 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 the transition to IPSAS. In 2017, Net Assets resulted in a negative value of -482.5 MCHF, a decrease as compared with -419.2 MCHF in 2016.
2. All the movements in Net assets are explained in various Tables and Notes in the Financial Operating Report, in particular:
3. Table II “Statement of financial performance”, which shows the deficit for the period (-17.1 MCHF).
4. Table III “Statement of changes in net assets”, showing the movements separately for each own funds, and IPSAS effects.
5. 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 26).
6. Note 2 “Main accounting principles” in the paragraph related to the “recognition of Funds”, in particular the sub-paragraph on “Allocated third party funds”, and the paragraph related to the “Reserve Account”.
7. Note 3 “Management of net assets”, which lists the movements in the Reserve Account.

# STATEMENT OF FINANCIAL PERFORMANCE 2017

1. This Statement shows 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 of the period was a deficit of   
   -17.1 MCHF.

## Revenue and Expenses

1. Total revenue amounted to 178.5 MCHF, an increase of 2 MCHF (+1.2%) as compared to 2016 (176.5 MCHF), mainly due to increases in i) Voluntary contributions (+0.4 MCHF, +3.7%), ii) Other operating revenues (+2.5 MCHF, +5.9%), including, in particular, an increase in extra-budgetary revenue related to project support, publication sales and satellite network filing. Assessed contributions, amounting to 122.4 MCHF, corresponding to 69.6% of total revenue, decreased by 0.5 MCHF (-0.4%) compared to 2016. The detailed breakdown of revenues is reported in Note 22 to the Financial Operating Report.
2. Expenses totalled 195.6 MCHF, an increase of 7.4 MCHF (+3.9%) as compared to 2016 (188.2 MCHF). Employee expenses, 148.7 MCHF, representing 76% of total expenses, increased by 1.7 MCHF (+1.2%), as reported in Note 23 to the Financial Operating Report.

## Personnel

### Rationalization of HR’s payment function

1. As part of our checks on personnel, we reviewed a number of payslips related to randomly selected staff members. Our sample included staff in the G and P categories, with both contracts of indefinite and limited duration, both in Geneva and outposted. We checked the accuracy of the amounts actually paid against the relevant remuneration package and sought evidence in personal files for any allowance granted. Our checks identified some failures in the updating of the documentation supporting the allowances. Management confirmed the existence of a backlog in updating administrative data, which would affect, according to their estimates, around one hundred members of the staff. The non-alignment of personal files to the actual situation did not allow us to verify the conditions for eligibility and establish whether there had been implications in terms of the final figures entered in the accounts.
2. More in general, we ascertained a fragmentation in the information flows concerning staff throughout ITU, whose data are entered repeatedly in the system in more than one position, with parallel archives, none of which give assurance that they are complete. Although this method of operations has not caused any major inconvenience so far, it involves laborious data reconciliation and exposes ITU to a risk of incompleteness.
3. The year 2017 saw the implementation of the new compensation package for staff in the professional and higher categories, pursuant to Decision 593, which was adopted by Council 2016 with the aim of ensuring overall cost containment. The main components of the package were: a unified single rate salary scale, changes in steps increases, changes in dependency allowances, and a reduced reimbursement of education expenses. The new package (except for the educational scheme) was introduced on 1st January 2017. However, at the time of our visit in April 2018, automated data processing had not yet been completed, and some data still had to be entered manually (this was the case, for example, for rental subsidies and subsidiary dependency allowances). For the moment, it has not yet been possible to abandon the old applications.
4. The risk of errors may even materialize at a later point in time. In fact, some anomalies appeared after implementation, leading to subsequent manual corrections, especially with regard to the correspondence between the dependency status in the payslips and the personal data concerning the actual family situation. This required subsequent regularization.

We recommend that, in order to mitigate the risk of inaccuracies, Management should:

1. implement extraordinary measures (such as an ad hoc task force) to clear the backlog in personal files within as short a time as possible;
2. rationalize the flows for data storage and management, thereby correcting the current fragmentation;
3. invest in IT resources, to eliminate any manual inputs related to the new compensation package, following a list of pre-established urgencies, and
4. enhance the salary payment function by introducing further checks on the payroll.

Comments by Secretary-General:

The recommendations are fully supported. The HRM Department has been working on a series of actions (short, mid and long term) aimed at addressing the various questions raised by the External Auditors, including:

- a reorganization of the HRM Department, completed in 2017;

- a business-processes review for evaluating the existing processes and procedures, with the view to streamline the existing ones and establishing the new ones required, e.g., for supporting the implementation of the new compensation package (more particularly the new education grant scheme);

- the completion of a comprehensive list of IT requirements, for discussion with the IS Department, for establishment of an action plan, covering the shortfalls existing into the systems, the development of new functionalities, the automation of existing manual processes, the development of additional ESS (employee self-services) functionalities, etc.;

- the review and, if necessary, redesign, of the e-filling project launched in 2010 for dematerializing the information managed by the HRM Department, with an integration of that information into a stronger and more comprehensive information management system.

### A workforce planning policy is needed

1. The finalization of the Strategic Plan for human resources, for which a draft framework was presented last year to the Council, has been postponed, following the decision to align it, in terms of content and timing, with the high-level decisions of the ITU Strategic Plan, and the Financial Plan, both of which are to be approved by the next Plenipotentiary Conference. This moved forward the definition of a comprehensive human resources plan, which can only reasonably be expected to come to light in the spring of 2019. The last Strategic Plan for human resources was approved in 2010 and covered the 2010-2015 period. There was no interim update, not even after Busan 2014. The existing Plan was deemed “not sufficient for strategically managing human resources” by the JIU (2016), which called for an in-depth evaluation to identify the action needed in terms of strategic improvements.
2. In the absence of strategic planning assumptions and directives, the management of human resources has been mainly driven by economic constraints and the imperative of reducing costs, which was set by Busan 2014.
3. Document C18/45 reports on the contribution made to general savings by each efficiency measure, as outlined in Annex 2 to Decision 5 (Rev. Busan, 2014), in the 2014-2019 period. Out of total savings of CHF 54.7 million, partly already made and partly expected for the next biennium, 35.4 CHF million (almost 65%) concern staff: this particularly refers to measures 5 and 6 of the Document (savings from attrition, redeployment of staff, reduction of the grades of vacant posts, and prioritizing staff redeployment for the implementation of new and additional activities). The voluntary separation program was also dictated by the goal of cost containment, as it was adopted to compensate for the lack of savings caused by the increase in the mandatory age of retirement.
4. Over the past five years, the principle of partial turnover (non-replacement of 1 official in 3) has produced a sharp reduction in the number of staff: the statistics show a decrease from 747 staff members in 2012 to 677 in 2017. This was also a consequence of the program for voluntary separation: 30 people left in 2017 alone; some of them held sensitive posts, for which no succession had been prepared.
5. This reduction did not affect all services in the same way. With regard to the Secretariat General, the number of staff decreased by 67 units in 5 years (from 414 in 2012 to 347 in 2017). However, it should be emphasized that, across the ITU, this issue arose not only in numerical terms, but also in qualitative ones (in relation to the organization’s operational needs).
6. This required an adjustment effort on the part of the personnel in service. Some staff members absorbed the tasks related to posts that were frozen, or even abolished. The same applied to staff who were nominated on downgraded posts, as a result of the efficiency measures, due to the fact that their duties were similar to those of the staff who had left the Union. This was accompanied by a reduction in wages: for staff in category G, it only affected the newly hired people; for staff in category P it was immediately operational, and consisted of the new compensation package, associated with a 3.8% salary cut as from February 2018. This has generated extensive litigation on staff matters.
7. In the past we highlighted the use of Special Service Agreements (SSAs) as a buffer solution to resolve critical situations, including those relating to the performance of ordinary tasks. The statistics show a considerable reduction in the use of external consultants in the last three years: from over 400 in 2015 to a total of 147 in 2017, of which 124 were employed by the General Secretariat (there were 159 in 2015). The reduction was mainly borne by the BDT (from 293 people with at least one consulting service contract in 2015 to 16 people in 2017). Although there is already a strict procedural framework for recruiting non-staff personnel, a policy is still necessary to ensure continuity to the new trend and set out the criteria for the proper use of these contracts (limitation in time, specialized non-recurring tasks, etc.). Pending the Strategic Plan for human resources, no final decision has been taken on the draft guidelines on the use of special service agreements, which was presented to the Council for information purposes in May 2017. As said in our last year’s report, departure from the current practice is likely to cause operational problems.
8. In addition, the prospect of further staff reduction in the near future (in the order of 25% of the staff over a 10-year period) may create a risk of fragility and discontinuity. However, a short and medium-term succession planning has also been postponed to a time when the comprehensive strategic plan of human resources has finally been approved.
9. This situation requires urgent action, so as not to expose the organization to the risk of not being able to successfully achieve the high standards of service required. Some offices are already at risk, such as the Bureau of Radiocommunication, where the staff reduction has left a set-up with no middle managers, and with many professional staff in the same age group. These will leave together, if the situation has not previously been governed by appropriate mitigating actions.
10. The overall picture shows a reduction led by external economic constraints, with few deliberate choices in terms of priorities: although the qualitative redistribution between P and G has been gradually implemented, in accordance with the instructions set out by Busan 2014, gender and geographical redistributions have proved to be slower, partly due to the increase in the retirement age, which is a factor that postpones change in the workforce composition over time.
11. What is really needed is a workforce planning policy, which takes control of the current situation of staff reduction with an eye to the future, and is therefore accompanied by strategic decisions regarding amongst other things recruitment, promotion and succession planning. In the future Strategic Plan for Human Resources, the decision on whether to continue or not in the staff reduction policy can no longer be postponed. In any case, it should not be left to buffer solutions, such as SSA contracts, or interns, or further requests for flexibility on the part of the existing staff.
12. A pause appears to be necessary, with a reconfiguration of the existing services and processes, so as to seek margins for efficiency gains. This should also take account of the new working conditions that will result from the construction of and the move to the new buildings.
13. In this regard, some recent initiatives are to be welcomed, such as the introduction, in April 2018, of a new electronic performance evaluation tool (e-Performance Management and Development System), which combines the periodic appraisal reports on staff on permanent, continuing and fixed-term appointments with the definition of the skills required for the good performance of the work assigned. This tool is intended, among other things, to identify the potential of each staff member and to provide opportunities for the professional development, taking into account their current job requirements and/or their future job aspirations.
14. This new tool is linked to the Competency Framework, in force since 2017, which was intended to constitute a skills and competencies inventory and to establish the needs in terms of staff training. For the moment, only the Core and Functional competencies have been identified, while the catalog of Technical competencies is still to be defined through further consultation with technical departments. It is the responsibility of the HRMD to maintain and develop the inventory.

We recommend that an intense preparatory activity be carried out in advance of the Strategic Plan for human resources, so as not to delay its implementation once it has been adopted in spring 2019. This should include: (i) a thorough skill gap analysis, with respect to internal potential of available resources, including technical skills, based on the outcome of the new assessment tool and the Competency Framework; (ii) the identification of sensitive posts and the preparation of a succession plan for the short and medium terms; (iii) a streamlining of the services and processes prior to determining the minimum size of the staff requested to fulfill the institutional functions, and (iv) the criteria for internal vs external recruitment and for the use of non-staff and short-term personnel.

Comments by Secretary-General:

The recommendation is supported. The elements listed under (i) to (iv) are integral part of the development of the HR Strategic plan to be submitted to the 2019 Council session for approval, based on the ITU Strategic plan and the Financial plan to be approved by the 2018 Plenipotentiary Conference in Dubai.

## Procurement

1. Procurement represents part of the expenses analysed in the paragraph above and accounted as “Contractual Services”, “Rental and maintenance of premises and equipment”, “Equipment and supplies”, and “Shipping, telecommunication and service expenses”.

### Automatic extension of contract awarded

1. During the audit we found that there were contracts still in force more than 5 years after the date that they had been awarded. These contracts are automatically renewed year by year, unless terminated by one of the parties involved with notice before the expire date.
2. In any case, we consider that Management should perform an evaluation of the supplier and the market price, before the expiration of the initial contract, in order to decide about extension of the contracts.

We recommend introducing a Policy/Guideline that 1) will avoid automatic extension of contracts in force; 2) will consider it necessary to perform a supplier/market evaluation, before the decision to extend a contract is taken by management.

Comments by Secretary-General:

ITU agrees that a policy should be put in place that contracts should not be automatically extended. ITU also agrees that a vendor performance evaluation should be done before a contract is extended. If the contract has extension options, it should not be necessary to carry out a market evaluation. However, if a contract is extended beyond its extension options, a market evaluation may be carried out as part of the justification for such an extension.

### Procurement of contracts involving estimated expenses of less than 20 KCHF

1. Currently procurement of contracts involving estimated expenses of less than 20 KCHF is ruled by SO 14/06, part 2, letter C, point 2.1.1. According to SO 14/06, part 2, letter C, point 2.2 b), contracts involving estimated expenses of equal to or more than 50 KCHF should be submitted to the Contracts Committee by the PROC, after a competitive process.
2. In addition, according to SO 14/06, part 2, letter C, point 2.2 e) there is a threshold of 50 KCHF, above which new contracts proposed within twelve months of the date on which the earliest contract was entered into, should be reviewed by the Contracts Committee.
3. During the audit we have detected that, in some cases, suppliers received hundreds of Purchase Orders of less than 20 KCHF during the last five years.
4. In at least one case the cumulative amount of these Purchase Orders for one year was even more than 100 KCHF, meaning that, according to the procedure currently in force (SO 14/06 part 2, letter C, point 2.2.2) an “*international competitive process for the contract*” should have been carried out and a recommendation by the Contracts Committee should have been obtained.
5. Therefore, the ITU rules and procedures on procurement, currently in force, have not been properly applied or bypassed with the risk that requesting Units/Bureaux split requirements of Purchase Orders/Contracts, and the related financial amounts, in order to avoid that ITU procurement rules and procedures are correctly applied.

We recommend that Management improve controls on Purchase Orders/Contracts repeatedly awarded to the same supplier in order reduce the risk that ITU procurement rules and procedures being bypassed or not correctly applied.

Comments by Secretary-General:

ITU agrees that controls be introduced to reduce the risk of ITU procurement rules and procedures being bypassed.

### Monitoring of Purchase Orders/Contracts awarded in case of waiver of competition

1. During the audit we detected that currently PROC is not monitoring (manually or automatically) Purchase Orders/Contracts (number and related cumulative amount) awarded in case of waiver of competition.

We recommend Management to update the ITU SRM software to allow the monitoring of Purchase Orders/contracts executed in case of waiver of competition.

Comments by Secretary-General:

ITU agrees that if technically possible, the basis of award (waiver or competition), should be recorded in the SRM system.

### Enhancing the transparency of the low value procurement process

1. During our audit we detected that there were no Guidelines covering all aspects of the procurement for procurements below 20 KCHF.
2. In some cases, we also found that only one supplier had been invited to send an offer and also that there was no evidence what steps had been performed by ITU staff to decide the selection of the best quotation.

We recommend that PROC should prepare Guidelines covering all aspects of the procurement process below 20 KCHF to be communicated to the staff concerned. For instance, the Guidelines should consider the following: 1) which are the minimum elements of the requisitions; 2) how potential suppliers shall be identified; 3) that bidding is required and a minimum number of quotations is sought, unless properly justified by the client/requisitioner and previously approved by PROC; 4) how the evaluation of the quotations shall be performed; 5) how the Purchase Order/Contract shall be awarded.

Comments by Secretary-General:

ITU agrees that a policy be put in place which covers all aspects of procurement below CHF 20k. ITU agrees that bidding (unless duly justified) shall typically be carried out for cases above a certain minimum threshold which is yet to be established.

1. We have also observed that the procurement process below 20 KCHF was not always well documented. For example, it is not always possible to understand how potential suppliers have been selected. It is also not possible to understand how the Request for Quotation was sent, whether quotations (if any) were received within the deadline and whether there was any e-mail correspondence.

We recommend that all procurement process (from the tender dossier to the contract awarded) should be properly documented so as to ensure accountability, transparency and auditability.

Comments by Secretary-General:

ITU agrees that all procurement processes shall be properly documented.

### Declaration of absence of conflict of interest for low value procurement procedure

1. During our audit we have found that in case of procurement below CHF 20k staff (client/requisitioner) involved in the procurement process are not providing any Declaration of Absence of conflict of interest (DACI).

We recommend that a Declaration of Absence of conflict of interest (DACI) should be signed by the staff involved in the procurement process stating that they do not have any conflict of interest that may affect the procurement process.

Comments by Secretary-General:

ITU agrees that some key staff involved in a procurement process shall sign a DACI.

### United Nations Supplier Code of Conduct

1. SO 14/06 does not make any reference that tender documentation should refer to the UN Supplier Code of Conduct. However, when ITU starts a procurement process, there is a tender dossier with reference to the UN Supplier Code of Conduct, explaining that prospective vendors accept that any submission sent to ITU constitutes an agreement to abide by the UN Supplier Code of Conduct.
2. Instead, for Purchase Orders/Contracts which are issued through a procurement procedure, there is no confirmation requested from suppliers to abide by the UN Supplier Code of Conduct.

We recommend that for any procurement a written confirmation statement should be obtained from the supplier confirming that the company adheres to the UN Supplier Code of Conduct.

Comments by Secretary-General:

ITU agrees with this recommendation and intends to have all vendors registered in the United Nations Global Marketplace (UNGM). As part of this registration process a vendor confirms to having read and understood the UN Supplier Code of Conduct.

## Ethics Framework

1. The Ethics Officer’s position was established with Resolution 1308, which was approved by the Council (C09/121, para. 3.21) in December 2009. The position of Ethics Officer, filled in November 2016, has now become vacant again, since the end of April 2018.
2. In 2017, the Ethics Officer issued some documents: Guidelines in Financial Disclosures, Guidelines on gifts at Telecom World 2017 and Guidance Notes on “Ethical aspects of certain campaign activities prior to the 2018 Plenipotentiary Conference”. On the other hand, Code of Ethics and Policy on Protection Against Retaliation have not been updated since 2011. A Staff Oath-Taking Ceremony has been introduced.
3. Considering that the post had been vacant for a long time (see also IMAC Recommendation n. 4/2014, which stated that “*IMAC recommends that ITU appoint an ethics officer as a matter of key priority*”) and that the brief presence of an Ethics Officer did not allow a full review of the ethics-related provisions in the legal framework, actions should be taken to consider potential updates and enhancements (see our Recommendation n. 12/2016).

We suggest that ITU Secretariat should start as soon as possible a selection procedure for the position of Ethics Officer and that, on a temporary and interim base, appoint a P Staff with the needed skills until the selection procedure has been completed.

Comments by the Secretary-General

The advertisement is being finalized in collaboration with WMO. Potential short-term candidates for an ad interim period have been identified and are being evaluated.

## Publications sales

1. Revenue from the sales of Publications totaled 19.6 MCHF in 2017, recording an increase from the previous year (19.0 MCHF) and exceeding the budgeted amount of 18.5 MCHF for 2017 by over 1 MCHF. A majority of this revenue is derived from sales of maritime-related publications (including Ship Stations Coast Stations).
2. In 2017, improvements in the distribution of ITU Publications have been achieved. ITU added seven new resellers of the maritime-related publications and agreements have been concluded with OECD and UN Publications, which has allowed for the digital presence of ITU titles on Amazon, iBook and other platforms. New measures for anticounterfeit controls have been developed and successfully put in place.

# STATEMENT OF CHANGES IN NET ASSETS FOR THE PERIOD WHICH ENDED ON 31 DECEMBER 2017

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.

# TABLE OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2017

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 2017, the ITU reported a cash flow from operating activities of -15.4 MCHF, negative and decreasing from the value recorded in 2016, which totalled +0.7 MCHF. A negative cash flow was also reported from finance activities (-0.8 MCHF), represented by the repayment of FIPOI loan. Net cash flows from investment activities (31.8 MCHF) showed a negative variation from 2016 (45.6 MCHF), mainly due to the decrease in investment.
3. The net result in cash and cash equivalents showed an increase of 26.9 MCHF in 2017, from 108.4 MCHF at the beginning of the year to 135.3 MCHF at the end of the year. We checked the underlying entries by selecting samples from some accounts. The result was that all chosen transactions were properly backed by supporting documentation. The Cash Flow Statement is thus verified and confirmed.

# COMPARISON OF BUDGETED AMOUNTS AND ACTUAL AMOUNTS FOR THE 2017 FINANCIAL PERIOD

1. Table V “Comparison of budgeted amounts and actual amounts for the 2017 financial period” is drawn up in compliance with IPSAS 24, which requires that this comparison, arising from execution of the budget itself, should be included in the Financial Statements. The Standard also provides for the disclosure of the reasons concerning the material differences occurring between budget and actual amounts.
2. Table V also includes an 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 reflected in the Financial Operating Report.

# STAFF SUPERANNUATION AND BENEVOLENT FUNDS

1. Two Funds are reported in Annex A3 of the Financial Operating Report: the “*Reserve and Complement Fund*” (with Total Assets amounting to 6.3 MCHF, no substancial variations from 2016) and the “*Assistance fund*” (with Total Assets amounting in 2017 to around 0.3 MCHF, same as 2016).
2. For the “*Reserve and Complement Fund*” in the Liabilities, an actuarial provision of 54 KCHF is recorded under the item “*Employee benefits*”, in line with an actuarial valuation performed in 2010.
3. As stated in Note 2 of the Financial Operating Report, these funds “are the set of funds that guarantee the pensions of employees who were in service prior to 1 January 1960, the date on which ITU became affiliated to the United Nations Joint Staff Pension Fund. In 2017, the Reserve and Complement Fund paid out 24 retirement pensions and 22 survivor’s pensions; and the Assistance Fund served to assist staff members and pensioners in difficult financial situations”.

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

1. In Note 20 to the Financial Operating Report there is the breakdown of these two categories of non-current Liabilities: “Allocated third-party funds” and “Third-party funds in process of allocation”. The table showed also the ITU own funds allocated to extra-budgetary projects.
2. 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*”.
3. In Annex A4 of the Financial Operating Report, there is one project related to UNDP activity. Annex A5 of the Financial Operating Report showed the Trust Fund projects, financed by the Special Fund for Technical Cooperation (SFTC) – designed to meet the needs of developing countries requesting urgent assistance and based on voluntary contributions – and, partly, by a withdrawal from ICT-DF, authorized by a decision of the ICT-DF Steering Committee. Other projects are funded with specific voluntary contributions (exposed in Annex A6) and regulated by agreements with donors. Annex A7 lists projects related to ICT-DF.
4. As shown in the above-mentioned table under Note 20, ITU own funds allocated to projects decreased in 2017 to 7.0 MCHF from the 2016 value of 7.7 MCHF. On the other hand, third-party funds allocated to projects in 2017 decreased to 23.0 MCHF from 23.6 MCHF in 2016.
5. There was only a slight decrease in third party, due to two factors: (i) the increase of the external contributions (10.2 MCHF in 2017, as compared to 5.4 MCHF in 2016); (ii) the implementation of earmarked projects reached a level similar to the previous years (e.g., 10.8 MCHF in 2017, 10.5 MCHF in 2016).
6. The decrease of the amount of ITU own funds allocated for projects was mostly due, as Management referred, to intensifying efforts in implementing various projects in 2017. Third-party funds awaiting allocations decreased in 2017 to 3.3 MCHF (they were 3.8 MCHF in 2016).

# THE INTERNAL AUDIT UNIT (IAU)

1. This part of our report briefly looks at the relationship between the External Auditor and the Internal Audit Unit.
2. We acknowledge the cooperation received from the IAU’s staff members, who are also tasked with providing logistical support to the External Auditor. IAU is sharing its audit reports with the External Auditor, as well as its audit plans.
3. As required by best practices, we continue to monitor the IAU’s activity.

# FOLLOW UP TO PREVIOUS RECOMMENDATIONS AND SUGGESTIONS

1. [Annex I](#Annex1) collects all our previous recommendations and the comments received from ITU Management at the time of the delivery of the Report. [Annex II](#Annex2) shows the follow-up to all our suggestions.
2. The recommendations that are evaluated as “closed” will not be included again in next year’s Audit Report, unless they need an annual follow-up.

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

|  | **Recommendation raised by Italian court of Auditors** | **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. 1/2016** | Considering the retirement projection for the next ten years and the risk of discontinuity potentially involved, we recommend that Management should adopt a formal succession planning strategy, to be integrated in the HR Strategic Plan. This strategy should specify critical roles and positions against ITU objectives and needs, and set out plans for the immediate future (transfer of knowledge) and for the longer term (based, amongst other things, on the inventory of skills provided in the recent Competency framework to identify the internal potential to take over). | HRMD will consult the Bureau and GS Departments to develop a succession planning strategy aimed at preserving institutional knowledge and ensuring continuity in the delivery of the mandate of the Union. | **Update as of April 2018:**  The HRMD service responsible for this action being deeply involved in the implementation of the new e-PMDS (performance management and development system), confirms that the recommendation will be implemented in the first quarter of 2018 | Ongoing |
| **Rec. 2/2016** | ***Absence of “key guidelines” in the Financial Regulations and Financial Rules***  We therefore recommend that Management should submit to the Council a proposal for amending the Financial Regulations and Financial Rules in order to be consistent with the procurement principles found in Service Order which shall be aligned. | ITU takes note of this recommendation and shall consider preparing a proposal for Council. | **Update as of April 2018:**  An amendment to the Financial Regulations and Financial Rules is presented to this session of the CWG-FHR to reflect this recommendation. | Ongoing |
| **Rec. 3/2016** | ***The United Nations Global Marketplace***  We acknowledge that ITU regularly publishes all the tenders above CHF 50’000 on UNGM, however, in order to enhance the level of transparency of the procurement process, and, overall, in order to achieve the objective envisaged by the mandate of the United Nations General Assembly, we recommend that it should also regularly publish all the tenders (for goods and services) below CHF 50’000. | ITU takes notes of this recommendation and affirms that the purpose of publishing on the UNGM is to allow for international competition, which is a requirement for tenders above CHF 100’000 as per the current Service Order. It is the current practice to also publish tenders above CHF 50’000 (and below CHF 100’000) on UNGM. At times when the circumstances so require, international competition may also be sought for lower value tenders. | **Update as of April 2018:**  In progress.  The Procurement Manual is in progress of being drafted. | Ongoing |
| **Rec. 4/2016** | We share the Internal Auditor’s view and recommend the adoption of: **A***)* a Procurement manual covering all the steps of the procurement process according to the UN best practices on the subject and, also; **B**) implementation measures with policies and procedures that should serve as guidance to all staff members involved in the various stage of the procurement process. | ITU accepts this recommendation. A Procurement Manual is currently being prepared which will cover all steps of the procurement process and provide guidance on policies and procedures to all staff involved in the various steps of the procurement process. | **Update as of April 2018:**  In progress.  The Procurement Manual is in progress of being drafted. | Ongoing |
| **Rec. 5/2016** | We therefore recommend that ITU introduce a written procedure to be followed by ITU’s staff for procurement cases below CHF 20.000. | ITU accepts this recommendation. This will be included in the new Procurement Manual. | **Update as of April 2018:**  In progress.  The Procurement Manual is in progress of being drafted. | Ongoing |
| **Rec. 6/2016** | ***Enhancing the transparency of the procurement process***  We acknowledge that ITU Procurement Management publishes regularly all the contract award notices on UNGM, however, in order to enhance the level of transparency of the procurement process, we recommend that ITU should: **A**) inform individually all participating bidders as soon as the procurement process has been concluded or cancelled; **B**) arrange, if requested, a briefing with the unsuccessful/excluded bidders that participated in the procurement process, in order to give them the possibility to better compete for future solicitations; **C**) inform, during the briefing, vendors that were unsuccessful, on the reasons of why their bid was not successful. | It is the current practice of ITU to send letters of regrets (e-mail for below CHF 50’000) to all unsuccessful vendors informing that their bid has not been retained. The bid document invites vendors to request information about the assessment of their bid. ITU accepts the recommendation to also inform vendors in the letter of regret that they may request for information about the assessment of their bid and that this shall be included in the new Procurement Manual. | **Update as of April 2018:**  In progress.  The Procurement Manual is in progress of being drafted. | Ongoing |
| **Rec. 7/2016** | We recommend that ITU should ensure that clear pass/fail (or compliant/non-compliant) criteria are applied consistently for all ITBs. | It is the current practice of ITU to apply clear pass/pass fail criteria for all ITBs, which are determined prior to the issuance of the ITB. This practice shall be included in the new Procurement Manual. | **Update as of April 2018:**  In progress.  The Procurement Manual is in progress of being drafted. | Ongoing |
| **Rec. 8/2016** | ***Enhancing the role of the Appraisal Committee***  We recommend that, in order to conduct the procurement process in a fair and transparent manner and taking into consideration best value for money: **A**) the Appraisal Committee should, during the evaluation process, apply the evaluation criteria and method as pre-defined in the solicitation document/tender dossier. In addition, we consider inappropriate the criteria set out in the RFP that “*bidders availability in mid November (2012) will be an important criteria of selection*” because it could restrict competition by limiting the participation of other vendors in the procurement process (in fact, in the procurement audited, the contract was only signed in February 2013); **B**) the Appraisal Committee should prepare clear Evaluation reports summarizing technical and commercial points in the bids, in order to have a clear ranking of the bid recommended for the contract according to the criteria set out in the tender file; **C**) in the event of exceptions from the principle of automatical rejection of late offers received, SO 14/06 should clearly state in which cases these exceptions apply. | It is the current practice of ITU to establish the evaluation criteria and evaluation methodology prior to the issuance of any tender and that the resulting evaluation reports clearly present the points awarded to each bidder and their individual ranking. This practice shall be included in the new Procurement Manual. | **Update as of April 2018:**  In progress.  The Procurement Manual is in progress of being drafted. | Ongoing |
| **Rec. 9/2016** | ***Enhancing the mandatory technical assessment***  We recommend, as envisaged in the UN best practices, that for RFPs, only proposals meeting the mandatory and minimum requirements (or points) should be considered for commercial evaluation and commercial bids from vendors considered not to be technically compliant with the tender specifications should not be evaluated. | It is the current practice of ITU to only evaluate the commercial proposals of vendors which are technically compliant. This practice shall be included in the new Procurement Manual. | **Update as of April 2018:**  In progress.  The Procurement Manual is in progress of being drafted. | Ongoing |
| **Rec. 10/2016** | ***Monitoring the vendor performance***  We share the Internal Auditor’s view and we recommend setting up a vendor’s performance evaluation in order to monitor its performance and measures actual contract achievements with regards to quality, delivery, timeliness, cost control, compliance with terms of reference (TOR) or statement of work (SOW), as well as all other performance indicators established in the contract. | ITU accepts this recommendation. A policy on vendor performance management shall be included in the new Procurement Manual. | **Update as of April 2018:**  In progress.  The Procurement Manual is in progress of being drafted. | Ongoing |
| **Rec. 11/2016** | We recommend that Management should adopt a policy on Procurement Ethics, Fraud and Corrupt Practices and that it should provide a definition of “conflict of interest” at ITU. | ITU accepts this recommendation and will prepare such a policy for adoption. | **Update as of April 2018:**  Drafting has progressed on a policy against Fraud, Corruption and other Proscribed Practices. This policy is expected to include a definition of conflict of interest. The draft policy is undergoing internal consultations. | Ongoing |
| **Rec. 12/2016** | ***Ethics Framework***  Through the Ethics Office, a comprehensive review of the ethics-related provisions in the legal framework is underway. Further to this review, we recommend that Management update, enhance and fully comply the legal provisions for ethics-related matters, particularly in key areas such as procurement and HR Recruitment (see also Recommendation n. 11). This should be informed by reference to best practices in the UN system as appropriate to the specific needs and circumstances of ITU. | ITU accepts this recommendation, which is consistent with the overall ethics strategy that is being pursued by Management and the Ethics Office. | **Update as of April 2018:**  The above-referenced draft policy against Fraud, Corruption and other Proscribed Practices is expected to address some of the elements identified in this recommendation. The final draft of this policy has been submitted for comment to the Independent Management Advisory Committee at its March 2018 meeting, and is being finalized for issuance. In addition, the Ethics Office has issued Guidance Notes to apply the existing legal framework to certain specific situations and has been working with other offices to finalize a mandatory ethics e-learning programme. Other aspects of the legal framework on ethics-related issues are also being considered for enhancement, particularly once the aforementioned policy has been finalized. | Ongoing |
| **Rec. 1/2015** | ***The accuracy of the Asset Register need to be improved***  In this regard, we recommend that Management increase its efforts to recognize, label and capitalize the fixed assets located at ITU, in order to have a more accurate record of assets, through procedures and processes that will bolster coordination between different Departments. | The Secretariat will pursue the efforts already made to ensure that all assets are recorded in the respective databases. | **Update as of end April 2017**  Improvements were made by a close collaboration between the different Departments in terms of consistency of data in the two SAP modules intended for asset accounting and equipment management at headquarters and the regional offices. In addition, a Service Order on inventory and protection of ITU equipment has been issued.  **Update as of April 2018:**  The different data in SAP equipment system and the SAP module for asset management are now synchronized. However, the matching of data is a permanent and regular exercise that will continue to be done by the concerned departments. | Ongoing |
| **Rec. 2/2015** | ***A revision of the depreciation’s coefficients is needed***  In this regard, we recommend that Management should review the different categories’ lifetimes and their related depreciations according to UN practices. Where categories are updated, an adjustment of net book value will be needed. | The secretariat will further analyse this recommendation and its potential consequences. | **Update as of end April 2017**  A study on the useful life was carried out in relation to other international organizations based in Geneva. The possible change in some categories’ lifetime is under consideration and the decision to implement this recommendation is related to the construction of the new ITU building  **Update as of April 2018:**  None | Ongoing |
| **Rec. 3/2015** | ***A “Fixed assets management” merits further implementation***  We consider that the asset management framework needs further improvement, therefore we recommend that Management should: i) consider the feasibility of assessing the status and the level of utilization of assets; ii) monitor regularly the obsolescence of items, also with a view to assessing the accuracy of the Asset Register; iii) extend these processes and procedures to all ITU Departments and Regional offices. | The secretariat will further analyse this recommendation and make report on the findings and conclusions to the external auditors. | **Update as of end April 2017**  A detailed study was undertaken in 2016 concerning the level of utilization of assets under the responsibility of the ITU staff, which made it possible to identify the obsolete equipment in a significant way in order to update the accounting records. New procedures are being prepared for the management of equipment and its protection at headquarters and regional offices.  **Update as of April 2018:**  A detailed study was finalized in 2017 concerning the asset under the responsibility of the ITU staff. A new Service Order No. 17/10 has been published in September 2017 in order to define conditions of purchase, replacement and reassignment of IT equipment as well as the delivery and recovery process. | Closed |
| **Rec. 4/2015** | Given the purpose of the valuation required by IPSAS 25 and the directions provided in paragraph 92 to 94 thereof, we recommend that, in the years to come, Management should ask the actuary to use a discount rate equal to the yield on long-term Swiss government bonds. | Management notes this recommendation and will discuss the matter with the appointed actuary to determine the most appropriate approach, taking into consideration the best practices of the UN organisations | **Update as of end April 2017**  A new actuary has been chosen further to a Call for bids. This topic was discussed with them taking into consideration the recommendation made by the UN ASHI working group and submitted to the General Assembly in December. This recommendation is based on the work of the UN IPSAS task Force, which agreed, in principle, that a thirty-year yield curve for high-quality corporate bonds would be identified each year for each of the three currencies in which health insurance benefits are most commonly paid: US Dollar; Euro; and Swiss Francs.  **Update as of April 2018:**  In line with the recommendation of harmonization discussed among the UN IPSAS Task Force, the use of a thirty-year yield curve for high-quality corporate bonds in Swiss Francs has been used for the 2017 valuation. | Ongoing |
| **Rec. 3/2014** | We recommend Management to perform a full actuarial review study, to evaluate when the ITU 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 n. 6/2012 and n. 3/2013, which are to be considered closed. | It is taken note of this recommendation. A full actuarial study will be performed according to the recommendation. | As recommended a full actuarial study will be performed at the end of 2016 based on the data and results provided by the Collective Medical Insurance Plan (CMIP).  **Update as of end-January 2016:** The requirement of this study will be included in the main actuary study related to IPSAS 25 (Rec 2/2014)  **Update as of end April 2017:** New actuaries have been chosen to perform a full actuarial study of the Health Insurance Scheme.The result of the full study will be known mid 2017  **Update as of December 2017:**  Discussions with the actuary have already started, and the final result of the full actuarial study should be sent to ITU beginning of next year to be presented to the next Council through the After-Service Health Insurance (ASHI) liability document.  **Update as of April 2018:**  A final discussion to present the result of different scenario will take place during may 2018. | Ongoing |
| **Rec. 4/2014** | 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 | 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. | The Management follows this recommendation and monitors carefully the different drivers to ensure ITU’s good financial health.  **Update as of end April 2017:** The management still monitors carefully the drivers and will review and adjust it based on the results of the global actuarial study performed at the end of 2016.Each year ITU Management presents the situation of the After-Service Health Insurance (ASHI) liability. ITU will continue to focus on cost containment with the service provider and has proposed an increase in the percentage of contributions for the CMIP members and for ITU in the 2016-2017 budget in order to ensure the financing of health insurance on a pay-as-you-go basis. Furthermore, ITU will continue to fund the ASHI reserve as far as possible according to the budgetary surpluses.  **Update as of December 2017:**  As part of the full actuarial study, all the drivers are carefully studied and monitored. Their long term impact will be calculated through the different assumptions. In addition, ITU will continue to fund the ASHI reserve depending on the budgetary results  **Update as of April 2018:**  ITU will continue to fund the ASHI reserve depending on the budgetary results and also through the decided budget allocation.  Based on the result of the full actuarial study the ITU will review the main drivers to ensure the sustainability of the plan. | 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.  **Update as of end-January 2016:** The work of the CWG on options for the Union's HQ premises over the long term is still on-going. A second meeting was held on 28 September 2015.  **Update as of end April 2017:** The Council, by its Decision 588, decided to replace ITU’s Varembé building by a new construction that would also include the offices and facilities of the Tower building and complement the Montbrillant Building. In this context, the “droit de superficie” currently enjoyed by the ITU until 2079 for all of its buildings will have to be renegotiated with the Swiss authorities. However, the ITU has already obtained the insurances from the Swiss authorities that the conditions presently granted to the ITU cannot be revised downwards and that the 2079 deadline will not, in any event, be questioned. A working group composed of representatives from the ITU, the Canton of Geneva (landowner), the Swiss Confederation and FIPOI will be set up in early 2017 to discuss specifically the issue of the “droit de superficie”.  **Update as of April 2018:**  The ITU/Host country Working Group on “Droit de superficie” held its first meeting on 15 November 2017. Discussions focused on the following elements:  1) The parcel distribution, which upon agreement, should not be impacted by the construction of the new building;  2) A presentation by the representatives of the host Country of the “Droit de superficie” applicable under the recent new Swiss legislation.  The ITU has already obtained the confirmation that the current duration of the “Droit de superficie” would not be called into question (due in 2079) despite the new regulation which limits the duration of the right to a maximum of 50 years.  The ITU has also received confirmation that essential elements of the right, such as, for example, its free of charge rent would not be called into question.  3) A template for “Droit de superficie” contract has been drawn up by the Host Country. This template will be sent quickly to the ITU for review and comments. The Host Country representatives confirmed that they were open to enter into discussions on the provisions of the template.  4) The draft of “Droit de superficie” contract should ideally be finalized by October 2018 | 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.  **Update as of end-January 2016:** The level of the identification of the assets which have not been found will be known by the completion of the physical inventory on 31 December 2015.  **Update as of end April 2017:** The situation of recovered assets had improved as at 31 December 2016 compared to 2014 and previous years. The same effort was made during 2016. By way of comparison, the value of the assets not found on 31 December 2012 was 392’744 CHF, compared to 22,024 CHF on 31 December 2016  **Update as of April 2018:**  The value of assets not found as on 31 December 2017 amounted to 29’792 CHF, of which CH 3’901 CHF is from the 2016 period.  Research will continue in 2018 fiscal year to recover as many misplaced assets as possible. | Ongoing |
| **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.  **Update as of end-January 2016:** The digitalization is ongoing. HRMD is undertaking a fundamental review of all its procedures and document flow in view of creating a centralized, structured and secure electronic information management infrastructure to support the delivery of HR services.  **Update as of end April 2017:** The project is still underway. As forecasted, one staff of the HRM Dept. is working on this project.  **Update as of April 2018:**  Preparatory work for the migration of the data has been completed. However, further discussions are needed with the IS Department for the implementation of a robust information management architecture and system, including the possibility of a linkage with the SAP-HR ERP system. | Ongoing |

# Annex II – Follow-up to suggestions in our previous reports

|  | **Suggestion presented by Italian court of Auditors** | **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** |
| --- | --- | --- | --- | --- |
| **Sugg. 1/2016** | ***Financial responsibility***  We therefore suggest considering the possibility of establishing a procedure for recovering any amounts that the ILOAT might condemn ITU to pay to a staff member because of a serious misconduct to another staff member. | We agree with this suggestion. ITU Management will draw the attention of officials at all levels on the possible consequences, in particular as far as potential financial responsibility is concerned, of serious misconduct towards another official and will take appropriate measures within its regulatory framework. | **Update as of April 2018:**  ITU management has taken note of this suggestion. We propose to close this suggestion**.** | Closed |
| **Sugg. 2/2016** | ***Adoption of a Procurement Manual and a codified procedure at ITU***  Furthermore we suggest that ITU should revise the threshold for soliciting a minimum of three quotations to guarantee the sound financial management of the process. | ITU agrees with this suggestion. This will be included in the new Procurement Manual. | **Update as of April 2018:**  In progress.  The Procurement Manual is in progress of being drafted. | Ongoing |
| **Sugg. 3/2016** | ***Disclosing the budget available for providing guidance on offers***  When ITU decides to start a procurements process allocating limited resources for buying goods or services, in order to increase competition and avoid the automatical exclusion of vendors, we suggest that it discloses, where appropriate, the maximum budget available. | ITU agrees with this suggestion and will when appropriate, disclose the maximum budget. | **Update as of April 2018:**  ITU continually agrees with this suggestion and will when appropriate, disclose the maximum budget. It can further be noted that this will be included in the Procurement Manual that is being prepared. | Closed |
| **Sugg. 4/2016** | ***Publications***  In order to reduce publications costs and at the same time increasing revenues from this source of funding, we therefore suggest that greater efforts should be made to increase the sales percentage of publications in digital formats. | ITU agrees with the suggestion and confirms that this objective is being carried-out, in order to cut unnecessary costs. | **Update as of April 2018:**  Among ITU’s four bestselling titles, which together represent 90% of total annual revenue from ITU Publications, two are now exclusively available in digital format (List IV and List V).  No more hard-copies are produced, which has significantly cut costs.  With regards to the other two bestsellers (the two-volume Maritime Manual and the four-volume set of Radio Regulations) ITU has been more carefully monitoring hard-copy production quantities based on expressed customer preference.  Despite being made available concurrently in digital format, they remain highly requested by the purchasing market in the more traditional hard-copy formats. | Closed |
| **Sugg. 1/2015** | ***Write-off of assets***  We also suggest that asset management related to disposal and donations should be further improved, in particular through the optimization of procedures, for instance by creating an ad-hoc Committee. It might also be useful to consider, subject to a cost/benefit evaluation, the possibility of exchanging assets between Departments and Regional offices, before deciding to buy a new item. | The secretariat will consider the feasibility level of this suggestion and will consider several options such as internal committee, electronic workflow or equivalent internal processes. | **Update as of end April 2017:** A significant part in 2016 was devoted, in collaboration with the IS Department and users, to carry out in-depth checks in order to update the accounting records and carry out the necessary scrapping.  Efforts are also being made to encourage the exchange and lending of intra-departmental and intra-sectoral assets.  **Update as of April 2018:**  Rigorous monitoring is applied to optimize the management of the rational use of ITU equipement between different Departments. | Closed |
| **Sugg. 2/2015** | ***Host Country Agreements for Field Offices***  We therefore suggest that ITU Management continue to review the current host country agreements, with the aim of formalising the “accepted practices” and the benefits obtained by the HCA, in order to enhance its role and protect its assets. | Suggestion No. 2 is acceptable and in practice its implementation has been ongoing for several years and will continue in the future.  Thus, a specific agreement for the Area Office in Honduras where there was no concrete agreement, was concluded in 2013.  Similarly, a formal agreement for the Area Office in Indonesia (for which no formal agreement currently exists) should be signed in the near future; the draft agreement was the subject of an agreement in principle on the part of both parties with the exception of one paragraph which remains pending due to internal consultations within the Government of Indonesia. A review of the Host Country Agreement currently in force for the regional office in Bangkok may also be finalized soon. Finally, the negotiations for the conclusion of a host country agreement for the Area Office in Chile are also under way.  The aim of the ongoing negotiations for the field offices where there is no formal host country agreement, is to codify existing practice through an agreement with the host countries concerned. | **Update as of end April 2017:** A formal agreement for the Area Office in Indonesia (for which there was no formal agreement) has been signed in April 2017 after 8 years of negotiations A revision of the Host Country Agreement currently in force for the regional office in Bangkok may also be finalized soon. Finally, the negotiations for the conclusion of a host country agreement for the Area Office in Chile are also under way.  **Update as of April 2018:**  None | Ongoing |
| **Sugg. 1/2014** | *Low value assets (LVA)*  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. | 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). | The implementation of this suggestion is still under evaluation  **Update as of end April 2017:** The decision will be made on the basis of the outcome of the accounting impact that is currently being studied.  **Update as of April 2018:**  The implementation of this suggestion is still under evaluation while noting that the value of CHF 15.2 million, representing the cumulative amount of LVA fixed assets, has not substantially increased since the 1ST January 2010 | Ongoing |
| **Sugg. 3/2014** | 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. | 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. | The Management follows this suggestion; as soon as the full actuarial study will be completed, its results will be considered to define appropriates drivers to efficiently address the ASHI situation.  **Update as of end April 2017:** The results of the full actuarial study will be known mid 2017. Based on the results of the study, the management will defined drivers to efficiently monitor the ASHI situation.  **Update as of April 2018:**  ITU will continue to fund the ASHI reserve depending on the budgetary results and also through the decided budget allocation.  Based on the result of the full actuarial study the ITU will review the main drivers to ensure the sustainability of the plan. | Ongoing |
| **Sugg. 7/2014** | We suggest Management 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. | 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. | a) Promulgation of a policy on the use of Special Service Agreement (SSA) contractors is still work in progress. The new policy will cover the following elements:  - A revised definition of the SSA contractor;  - Identification of the different categories of tasks which a SSA contracts can be issued taking into consideration the core/non-core functions dimension, project related tasks and high level expertise needed for specific researches  - Establishment of a unified recruitment process across the Union;  - Establishment of a remuneration grid and ranges covering different needs;  - Clear guidelines on delivery timelines including;  - Clear guidelines on the duration including limitations and conditions for extension and renewal of such contracts;  - Re-definition of associated social benefits and other entitlements (travel costs, DSA for non-local, etc.);  - The definition of an assessment tool of the deliverables.  b) It is also important to note that to the delivery of interns and SSA contractors is under the supervision of appointed staff, to help preserve institutional.  **Update as of end April 2017:** A draft has been established and is submitted for information to the Council 2017, pending its consideration through the normal internal consultative process  **Update as of April 2018:**  The internal consultative process has to be completed. However, there is an on-going discussion on whether the processing of individual contractors requests should continue to be processed by HRMD as individual contracts or it ti should be processed by the Procurement service through the services procurement procedures. The completion of the establishement of the policy has been put on hold by HRMD until a decision is made in this regard. | Ongoing |

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