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| **Council 2018 Geneva,** |  |
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| **Agenda item: ADM 12** | **Document C18/44-E** |
| **8 March 2018** |
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| Report by the Secretary-General | |
| REPORT OF THE INTERNAL AUDITOR ON INTERNAL AUDIT ACTIVITIES | |

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| Summary  This report covers the internal audit activities for the period from March 2017 to March 2018.  Action required  This report is transmitted to the Council **for consideration**.  \_\_\_\_\_\_\_\_\_\_\_\_  References  *ITU Financial Regulations and Rules (2010), Article 29* |

# Introduction

1. This report is transmitted to the Council and responds to Article 29 of the Financial Regulations (2010). In accordance with the ITU Internal Audit charter,[[1]](#footnote-1) this report is submitted to the Secretary-General and presented to the Council for consideration. The current report covers activities from the period between March 2017 and March 2018.
2. For the period reported on, the Internal Audit Unit comprised two Professional staff – a P.5 (Head of the Unit) and a P.2 (Junior Internal Auditor) until the incumbent of the vacant P3 position (Internal Auditor) took up his functions on 1 September 2017. A General Services staff (Audit Assistant) was working in the Unit on a full-time basis. Thus, currently the Unit consists of three professional posts and one General Services post.
3. Internal Audit (IA) confirms that it conducts its audits in accordance with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics established by the Institute of Internal Auditors (IIA),[[2]](#footnote-2) as well as with the provisions of the ITU Internal Audit Charter.[[3]](#footnote-3) In addition, IA confirms that, for the period reported on, its staff had no managerial authority over, nor responsibility for any of the activities audited and did not perform accounting or operational functions within ITU.

# Orientation and scope of the internal audit activities

1. In line with the IA Charter, the proposed IA plan for 2017 was reviewed by the Independent Management Advisory Committee (IMAC) in March 2017 and subsequently approved by the Secretary-General. It was also communicated to the External Auditor in an effort to promote efficiency and coordination. The orientation of the audit work was mainly towards the areas of *assurance engagements.* For 2017 two audits were carried forward partly into 2018 whilst one audit was not conducted because in July 2017, the Secretary-General asked for an additional topic to be audited (which meant that a shift in audit planning priorities had to take place). In addition to assurance engagements, the Internal Audit Charter stipulates also that *IA shall investigate allegations, or presumptions, of fraud or mismanagement* as well as that *Internal Audit may provide consulting services within ITU*.
2. IA systematically shares copies of internal audit reports with the ITU External Auditor and with the IMAC. In accordance with ITU Financial Regulation 29.5, final internal audit reports can be made available to Member States or their designated representatives. A facilitated mechanism for accessing internal audit reports is in place since October 2015. During the period reported on, two requests for accessing internal audit reports were received (and responded to) via the online mechanism.

# Objectives and conclusions of the assurance engagements

1. The objectives of the assurance engagements were to assess: (i) the governance aspects of the Union’s operations audited; (ii) the risk management practices; and (iii) the effectiveness of (internal) controls. The priority of the recommendations resulting from the audit work is classified according to the impact and likelihood of the deficiency (critical, high, medium, low).

Based on the various assurance engagements performed, IA concluded that, overall, there is a need to improve governance and risk management of the processes reviewed and to render the controls more effective in the various areas audited. Improvement in these areas would allow IA to provide to the Secretary-General reasonable assurance that there is adequate governance and risk management, and that controls are effective. Recommendations made to management are being actioned, with the support of the Secretary-General, and this will further strengthen ITU to fulfil its mandate.

1. The implementation of recommended actions is followed up by IA, as and when required (see also paragraph on follow-up further in this report).

*The following assurance engagements have been conducted:*

***Corporate Fraud Risk Assessment***

The 2016 JIU report on “fraud prevention, detection and response in UN Organizations” highlighted a number of deficiencies in the area, and some of those were applicable to ITU. The fraud risk assessment was geared towards improving communication and awareness of fraud and identifying where an Organization is most vulnerable to fraud and which activities/processes put it at greatest risk.

1. The main objectives of the assessment (conducted in 2016 and finalized in the course of 2017) were to:

* Identify inherent fraud risk factors and potential fraud schemes
* Assess the likelihood and impact of the risks
* Determine fraud risk tolerance levels
* Mapping fraud risks to relevant controls
* Propose risk mitigation measures – in proportion to the risk

1. The Fraud Risk Assessment report underlines the areas (i) in which the Union is either considered to be exposed to some fraud risk or (ii) that contribute to increasing the likelihood of fraud occurring. The likelihood of fraud occurring in the areas identified and the significance of this has been noted where applicable.
2. The final report sent to the Secretary-General contains the comments from managers concerned and a clear attribution of roles (for implementation of the recommendations).

***Audit of Gender Equality and Mainstreaming (GEM)***

1. IA conducted a review of the GEM for the period from 2013 to 2016. The main objectives of the audit were to (i) assess ITU’s institutional framework for enhancing GEM, (ii) assess staff awareness and understanding of GEM policies, gender programmes, projects and gender knowledge-building activities in the Union, (iii) assess the achievement of gender equality in the Union as manifested by number of male and female staff, members of formal and informal groups such as task forces, statutory committees, etc. in the Union, (iv) identify and evaluate good practices on gender initiatives in ITU and potential gaps that limit gender mainstreaming at all levels of the Union, and (v) assess and evaluate the status of ITU in implementing the UN-SWAP performance indicators.
2. IA concluded, as high priority matters on a number of issues as follows:

* The existing institutional framework for GEM is not adequate. This framework comprises the Governing Bodies Resolutions on gender, the GEM policy, the Gender Task Force (GTF) and the associated accountability structure. It was recommended that the possibility to centralize gender equality and mainstreaming responsibilities in a specifically dedicated staff post/function, directly under the SG’s authority and within existing budgetary resources be explored (in e.g. a Senior Corporate Gender/Diversity Officer position).
* Furthermore it was concluded that risks associated with awareness of GEM policies, programmes are not adequately managed. It was thus recommended that newly arrived staff receive a particular awareness training on GEM and its policy at ITU and that GEM is included in the job description of relevant staff members and/or that it becomes part of the competencies in the periodical performance appraisal as well as a periodic objective, when applicable, for the incumbent of specific posts.
* Another conclusion of the audit is that female and male staff are not represented equally in the staffing and groups of the Union. Women are underrepresented in higher categories while men are underrepresented in lower job categories. It was recommended that composition of Statutory Committees is reviewed to include more female staff (as *principal* members of such Committees) and that a plan with timeline targets to achieve gender parity in the workforce both general service and professional/higher categories is prepared.
* A fourth high priority issue concluded is that the effectiveness of controls in implementing and reporting on Resolution 70 and UN-SWAP is assessed as not adequate. It was recommended that an action plan for gender equality and mainstreaming is prepared and submitted to the Coordination Committee (CoCo) for approval.

Recommendations were accepted by the respective managers.

1. Overall, IA is of the opinion that the governance, risk management processes, and internal controls are not adequate enough and lack in certain areas effectiveness. There are good practices on gender in ITU that demonstrate a culture sufficiently willing to embrace GEM. If the identified shortcomings were addressed, the Secretary-General could be provided with reasonable assurance that there is adequate governance and risk management with respect to GEM, and that the internal controls are effective for the implementation of GEM policy and activities.

***Audit of Financial Transactions Data***

1. IA conducted an audit of Financial Transactions Data for the period from 2014 to 2016. This audit reviewed financial transactions from selected general ledger accounts on categories of expenses and revenue. The objectives of the audit were (i) to assess adequacy of policies and procedures relevant to financial transactions, (ii) to assess for adequacy and reliability of internal controls relevant to the financial transactions data, (iii) to assess financial transactions’ compliance with policies and procedures and, (iv) to analyze the existing financial transactions data and review any trends and patterns.
2. In its conclusion, IA did not come up with high significance issues. The existing policies relevant to financial transactions data are assessed as largely adequate. The controls are effective as reflected by coherent patterns that imply lack of material misstatement or errors in the financial data recorded. The existing internal controls to safeguard financial data against risks such as material errors are largely adequate, although some level of risk still exists in regards to data involving manual entry processes. It is recommended that consideration is given to the introduction of an automated mechanism for the currently manual processes, such as the processing of the education grant and overtime compensation process. There is a risk of non-compliance with policies such as on limits set for overtime. At this time no recommendation was issued but IA intends to include an audit of overtime in its future audit plan in order to conduct an in-depth review on overtime for permanent and temporary staff[[4]](#footnote-4).

Recommendations were accepted by the respective managers.

1. Overall, IA provided reasonable assurance to the Secretary-General that internal controls, governance, and risk management processes are adequate and overall reasonably effective. Some improvement could be achieved in the areas of manual entry processes.

***Audit of sponsorship arrangements***

1. IA conducted an audit of Sponsorship Arrangements for the period from January 2015 to September 2017. The main purposes of the audit were (i) to assess adequacy of policies guiding the sponsorship arrangement in ITU, (ii) to assess the internal coordination of the sponsorship process, (iii) to assess amounts generated from various sponsorship forms vis a vis the benefits given to the sponsors, (iv) to assess the existing sources of sponsorship, (v) to assess the adequacy of controls and compliance with existing policies and procedures, and (vi) to assess gender equality and mainstreaming considerations in ITU sponsorship.
2. The audit established positive findings in the efforts aimed at streamlining sponsorship arrangements. The guidelines for event related sponsorship in ITU, which were issued in April 2017 (Service Order No. 17/06) were at that time of the audit in the process of being amended so as to strengthen due diligence and agreement requirements, set minimum sponsorship pricing and provide guidance for co-organizing of events. It was also positively noted that within Bureaux there are efforts geared towards better coordination of sponsorships.
3. IA concluded, as high priority matters on a number of issues, as follows:

* The audit found that the existing policies relevant to sponsorships are not adequate as they do not include all forms of sponsorship and the proposed amendments on the SO No. 17/06 are not yet approved. It was recommended that, in coordination with the Bureaux, development takes place of the policies covering all forms of sponsorships to address issues raised by the audit.
* It was also found that the coordination of sponsorship arrangement is not adequate. It was therefore recommended that CRM training for all the focal points is organized in coordination with ISD, FRMD and the Bureaux, and that measures are introduced to make sure that processing of all sponsorships is done through the CRM. It was also recommended that CRM functional specifications to be incorporated in the system are prepared in an effort to simplify resource mobilization tools and to minimize (i) training requirements and (ii) the time required to enter data and prepare reports.
* A third high priority finding was that ITU is exposed to a big reputation risk for lacking proper mechanisms -other than by the Member States- to conduct due diligence on both Sector Member (as sponsors) and non-Sector Membership. It was recommended that a mechanism is set up, preferably in the Procurement Division, for conducting due diligence on all potential sponsors (ITU members and non-members).

Recommendations were accepted by the respective managers.

1. Overall, IA is of the opinion that the governance, risk management processes and internal controls, related to sponsorship arrangements show deficiencies and need improvement. Internal Audit identified areas for improvement with respect to policies governing the sponsorship arrangements, the sponsorship coordination internally, and due diligence to be exercised for potential sponsors. If these areas were addressed, the Secretary-General could be provided with reasonable assurance that –for the sponsorship arrangements- there is adequate governance and risk management, and that controls are effective.

***Audit of access security of the ERP system***

1. IA conducted the audit on Access Security of SAP Enterprise Resource Planning Central Component (ECC) and the Customer Relationship Management (CRM) module, and more specifically for the period from January 2015 to October 2017. The objectives of the audit were to assess (i) principles, policies and frameworks for securing access to SAP ECC and the CRM Module, (ii) user account management, data and transactions security in SAP ECC and CRM Module, (iii) roles, authorizations and responsibilities in line with expected segregations of duties, and (iv) log management & monitoring and utilization of relevant reports by the users.
2. IA concluded, as high priority matters on a number of issues, as follows:

* The existing policies relevant to access security of SAP ECC and CRM module are assessed as not adequate. It was recommended that policies relevant to access security of SAP ECC and CRM are reviewed with an aim of aligning them to each other and reflect the current reality.
* The user account management and security in SAP ECC and CRM module are assessed as not adequate. It was recommended that validity period in all user accounts in SAP are implemented, in order to restrict user accounts to the employment contract dates.
* In the area of role granting and access authorization, the segregation of duties (SoD) in SAP ECC and CRM module is not adequate. It was recommended that for all critical SAP transactions (especially those used in development and system administration), authorization from users in production and those not expected to have them is reviewed and deactivated. It is also recommended that all SAP roles and authorizations in production currently allocated to staff who are not expected to have them are reviewed and deactivated, in coordination with HRMD and FRMD.

Recommendations were accepted by the respective managers.

1. Overall, IA is of the opinion that the governance, risk management processes, and internal controls related to access security of SAP ECC and CRM are not adequate and some aspects need improvement. If the identified shortcomings in the areas of policies, SAP ECC and CRM roles and authorizations, and logging of critical transaction tables were addressed, the Secretary-General could be provided with reasonable assurance that there are adequate governance, risk management processes, and internal controls related to access security of SAP ECC and CRM.

***Audit of facilities management***

1. IA conducted the audit of Facilities Management. The time period covered by the audit is from January 2015 to September 2017. The objectives of the audit were to assess (i) adequacy of policies guiding the facilities management, (ii) the execution of the maintenance plans and the energy efficiency considerations in ITU buildings, (iii) for outsourced activities, the adequacy of controls and compliance with existing policies related to security, procurement, contract management and vendors’ performance, (iv) adequacy and reliability of internal controls relevant to the financial transactions related to facilities management, and (v) gender equality and mainstreaming considerations in ITU facilities management.
2. In order to make a valuable contribution to ITU efforts in identifying opportunities across the full set of the Sustainable Development Goals (SDGs), IA established, through the audit and consistent with its scope and objectives, linkage with SDG3, SDG5, SDG7 and SDG13.
3. The audit established positive findings and practices related to facilities management, such as annual maintenance plan for HVAC and electricity, technical specification documents for HVAC installations, adequate Management of inventories and Storage areas, and certification from the United Nations Climate Secretariat. Also, in the area of procurement of goods, services and works related to facilities, IA noted good practices related to procurement of goods and services with a reduced environmental impact (i.e. purchase environmentally friendly cleaning products, and including environmental criteria for contracting gardening services).
4. IA concluded, on a number of issues, the following:

* The existing policies and procurement practices related to facilities management are not adequate. This lack of adequacy and clarity does not necessarily lead to issues related directly to ITU’s facilities management, yet it exposes the Union to high risks related to procurement. Whilst it had already been recommended during a previous audit in 2017 to fast track the preparation of an ITU Procurement Manual, the recommendation was reiterated with critical priority taking into account the urgent need of suitable procurement procedures and practices in order for the Union to handle adequately the procurement related to the construction of the new HQ Building.
* For financial transactions related to facilities management, there are cases of non-compliance with the ITU Financial Regulations and Financial Rules and related IPSAS principles for capitalization. It was recommended that the decision tree for capitalization of betterments for all renovation and maintenance expenses is adopted and documented. FRMD did not accept the recommendation and commented that the decision tree established by FRMD is being strictly followed and continues to consider that the repairs referred to are part of routine maintenance, thereby specifying that the FRMD Asset Policy and Guidelines itself explains the process of the Decision Tree.
* The existing policies & procedures relevant to facilities management and the risk management with respect to planning and tracking of maintenance activities are assessed as partially adequate. It was recommended that an integrated long-term maintenance plan and formal inspection procedures are established, that an assessment of the workload vis-à-vis the staffing resources available is conducted, that consultation takes place to incorporate service requests by IS service desk and that service recipient feedback is collected. Another issue was that the risk management related to security, safety and energy efficiency is adequate although some level of improvement exists with regard to energy efficiency (SDG7: Affordable and clean energy, and SDG13: Climate action). It was recommended that the energy reference area calculation be verified. FMD commented that it is confident in its previously issued figures and will prepare a simple summary sheet. And finally it was also concluded that gender equality and mainstreaming is not formally incorporated in facilities management (SDG5: Gender Equality). It was recommended that consultation with SPM takes place and consideration is given to (a) including gender specific needs during the planning stage, and (b) raising the gender equality and mainstreaming awareness among all stakeholders associated with facilities management.

Recommendations were accepted by the respective managers except for the on related to the IPSAS principles for capitalization.

1. Internal Audit is of the opinion that the governance, risk management processes and internal controls are partially adequate. Improvement is needed in the area of policies and procedures as well as the risk management of some aspects of the facilities management, and ITU wide with a particular emphasis on the procurement related policies and procedures. If these areas were addressed, the Secretary-General could be provided with reasonable assurance that –for facilities management- there is adequate governance and risk management, and that controls are effective.

# Investigations by Internal Audit

1. The Secretary-General requested IA in September 2017 to investigate the possible unauthorized use of the ITU logo a sponsor to an ITU event 2017. This unauthorized use did not lead to any financial loss for ITU. The Secretary-General received reports on the progress and the outcome of the investigation.

# Consulting services by Internal Audit

***Feasibility study of the ITU evaluation function***

1. The JIU, in its report “Review of management and administration in the International Telecommunication Union (ITU)” made an informal recommendation:

*179. The Inspectors are aware of the financial implications, but believe that the institutionalization of an evaluation function is a way to contribute to strategic direction setting, learning and knowledge-sharing within all the components of the Union, provided that it is equipped with professional expertise and sufficient capacity.*

1. The report of feasibility study -commissioned by IA- was presented to the ITU Management Coordination Group (MCG) in April 2017. At its 18th meeting, IMAC also considered the feasibility study, which included proposals on how ITU could best go about establishing an evaluation policy and function. The proposed evaluation policy and guidelines have been provisionally adopted by the Secretary-General and will be the framework for an evaluation trial included in the 2018 Internal Audit work plan.

***Service Level Agreements***

1. A review of *Service Level Agreements* (SLA) was conducted in order to assist Management in making informed decisions. The objective of the engagement was to determine whether the SLA processes function adequately and to what extent the objectives of the SLAs are achieved. The advisory engagement focused on the current practices and procedures.
2. IA concluded, as high priority matters on a number of issues, as follows:

* There is no adequate institutional framework in place to govern the SLAs. It was recommended that the possibility is explored for reviewing and updating the existent SLA Operational Manual in order to align it to the current organizational need. For difficultly quantifiable services this update could comprise discontinuing signing yearly SLAs and deal with the SLA as an ongoing agreement that will refer to the provider catalogue of services and remain in effect indefinitely unless certain exceptional circumstances arise that validate any change.
* The risks associated with past performance assessment are not adequately managed and there is a risk that poor performance and improvement opportunities are not being efficiently and effectively detected. It was recommended that the possibility is explored for implementing a performance assessment mechanism related to past performance using SMART performance indicators.

1. Overall, IA is of the opinion that a number of positive aspects in the SLA processes are to be recognized, yet IA is of the opinion that these are only partially functioning and also finds that the objectives of the SLAs are not fully achieved.
2. After the consulting engagement’s final report issuing by IA, it was decided not to implement the main recommendations as formulated in the reports but to apply an alternative (until the end of 2019) to address the concerns expressed by IA. Other recommendations formulated were to be considered as of the period 2020-2023.

# Implementation of IMAC recommendations pertaining to Internal Audit

1. IMAC performed regular follow-up of the recommendations with respect to the internal audit function and included progress noted in its report to the Secretary-General and in its annual report to the Council. At this stage, IA has addressed all IMAC recommendations with respect to internal audit. The status was reported to the 8th meeting of the Council working group in financial and human resources (CWG-FHR) in document CWG-FHR-8/13.

# Follow-up of internal audit recommendations

1. Throughout the period reported on, and in compliance with IIA[[5]](#footnote-5) Standard 2500, Internal Audit continued to follow up on recommendations made in previous audit reports. Further progress was noted over the last 12 months and statistics on the implementation are (at 30 September 2017):

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| **Year** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017(\*)** | **Total** |
| Number of audit reports | 2 | 0 | 4 | 4 | 7 | 4 | 4 | **25** |
| Recommendations - Total | 17 | - | 113 | 55 | 34 | 22 | 27 | **268** |
| In Progress | 0 | - | 7 | 5 | 8 | 15 | 27 | **62** |
| Delayed | 3 | - | 0 | 0 | 0 | 0 | 0 | **3** |
| Closed | 14 | - | 106 | 50 | 26 | 7 | 0 | **203** |
|  |  |  |  |  |  |  |  |  |
| % of recommendation In Progress | 0% | - | 6% | 9% | 24% | 68% | 100% | **23%** |
| % of recommendations Delayed | 18% | - | 0% | 0% | 0% | 0% | 0% | **1%** |
| % of recommendations Closed | 82% | - | 94% | 91% | 76% | 32% | 0% | **76%** |

(3) up to yearend 2017- excluding advisory reports

1. No critical or recommendations of high importance from before 2012 were left unimplemented. The recommendations still delayed from 2011 concern an internal audit of costing of ITU publications. Management informed IA (and IMAC) regularly of the progress. For 2017, some of the internal audit reports were finalized in the last quarter of the year and it would thus be difficult to have many of the recommendations already implemented in early 2018.

**Audit methodology related aspects**

1. Since 2013, Internal Audit started using *Audit Effectiveness Questionnaires* which were sent to the audited processes’ and entities’ managers, to assess the effectiveness of the audit work and identify room for improvement. This practice was continued in the period reported on in this document. Based on the five *questionnaires* sent back to Internal Audit in 2017, feedback has been very positive (average score of 4, on a scale from 1 to 5).

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1. Service Order 13/09, promulgated by the Secretary-General on 27 June 2013 [↑](#footnote-ref-1)
2. Institute of Internal Auditors, [www.theiia.org](http://www.theiia.org) [↑](#footnote-ref-2)
3. Service Order 13/09, promulgated by the Secretary-General on 27 June 2013 [↑](#footnote-ref-3)
4. This was included in the 2018 internal audit plan [↑](#footnote-ref-4)
5. Institute of Internal Auditors, [www.theiia.org](http://www.theiia.org). [↑](#footnote-ref-5)