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| **Council 2022 Geneva, 21-31 March 2022** |  |
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| **Agenda item: ADM 15** | **Document C22/44-E** |
| **18 February 2022** |
| **Original: English** |
| 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 April 2021 to January 2022.  Action required  This report is transmitted to the Council **for consideration**.  \_\_\_\_\_\_\_\_\_\_\_\_  References  [*ITU Financial Regulations and Rules (2018), Article 29*](https://www.itu.int/en/council/Documents/Financial-Regulations/S-GEN-REG_RGTFIN-2018-PDF-E.pdf) |

# Introduction

1. This report is transmitted to the ITU 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 April 2021 and January 2022.
2. For the period reported on, the Internal Audit Unit, until September 2021, comprised three Professional staff – a P.5 (Head of the Unit), a P.3 (Internal Auditor), and a P2 (Junior Internal Auditor). As of October 2021, the P.4 (Senior Auditor) position was filled, and a temporary P.3 incumbent was appointed from 1 November 2021 until 31 March 2022. The vacancy for the P.3 fixed term post was published and is expected to be filled towards mid-2022. As similar in 2021, the Unit consists thus of four professional posts, of which one is vacant pending recruitment in the course of 2022.
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 for 2021, the annual audit plan was reviewed by the Independent Management Advisory Committee (IMAC) at its 28th meeting and on 29 March 2021 approved by the Secretary-General. The allotted time for investigations for 2021 was minimized as to allow IA to conduct the core of its mandate. IA’s work on investigations is based on the Internal Audit Charter stipulating also that *IA shall investigate allegations, or presumptions, of fraud or mismanagement* as well as that *Internal Audit may provide consulting services within ITU*. The time spent on such investigation work was indeed limited to finalizing earlier investigation work and/or providing limited assistance to externally sourced investigation consultants. For 2022 the incumbent of the ITU Investigator position (reporting directly to the Secretary-General) is on board.
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 has been put in place since October 2015. During the period reported on, no requests for accessing internal audit reports were received via the online mechanism.

# Objectives and conclusions of the assurance engagements

1. The objectives of the assurance engagements are 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 (high, medium, low).
2. The implementation of recommended actions is followed up by IA, as and when required. Since early 2021 a compliance dashboard is for that purpose Union-wide available and facilitates the tracking of recommendation implementation for concerned managers, yet does not relieve the IA’s responsibility to follow up on its earlier made recommendations, as per IIA Standard 2500[[4]](#footnote-4).

*The following assurance engagements have been conducted:*

***Audit inspection of ITU Employee Entitlements***

1. IA conducted an audit inspection of ITU Employee Entitlements covering the period from January 2012 to December 2019, relating particularly to Education Grants, Rental Subsidies and Spouse Allowances.
2. IA concluded, as high priority matters on a number of issues as follows:
3. The existing policies are not sufficiently detailed, clear or informative to staff. Policies specific to ITU are missing in the instance of rental subsidies. It wasrecommended that the education grant advance and claim forms for staff are reviewed to include a list of requirements in relation to supporting documentation expected to be submitted by the staff member. It was also recommended that the policy relating to education grant advances is reviewed and that a Policy and guidance for rental subsidies should contain information in line with the ICSC thresholds and guidance. Furthermore, in an updated policy document for dependency allowances consideration should be given to (i) spouse income including all direct and indirect income including pensions, disability benefits, unemployment benefits, and benefits from investments and (ii) for staff claiming spouse allowances for their spouse earning zero income, a requirement to provide in addition to a signed declaration form, proof of zero income from the applicable national tax system.
4. HRMD Staff are not clear on their responsibilities resulting in overlooked tasks and unclear ownership. It was recommended that the structure and division of labor as well as clarified the procedures and roles and responsibilities of the respective HRMD teams be reviewed and finetuned.
5. Red flags / fraudulent / misstatements in entitlements claims submissions by staff are not always identified leading to inadequate fraud awareness/mitigation. It was recommended that task rotation is utilised to prevent one employee from having complete control over a function and that regular fraud awareness training and knowledge sharing for HRMD staff involved in processing entitlements is organized.
6. Checking / processing entitlements and eligibility of entitlements is not correctly processed leading to inadequate and ineffective internal controls. It was recommended that education grant entitlements settled within the last 5-10 years (prior to the changes in 2017) are reviewed and any other errors than the ones identified in this inspection regarding admissible expenses are considered for rectification. Furthermore, it was recommended that dependency status requests are made on an annual basis (or more frequently as required) and in a consistent manner, and that payments for dependency allowances be made only on confirmed, substantiated and up to date information provided by Staff. Lastly it was recommended that a requirement is enforced that all supporting documents, calculation work papers and any other documentation used by HRMD to approve eligibility of and calculate amounts relating to allowances are maintained in a complete, accessible filing system.
7. HRMD Management agreed with many of the recommendations, indicating disagreement for some since these proposed actions were already ongoing management practices. IA does not believe that these ongoing management practices have proven to be contributing to providing assurance to the Secretary-General with respect to the governance, risk management and effectiveness of controls relevant to the processing of employee entitlements.

***Audit of Programs, Projects and Supplementary Activities funded by Voluntary contributions and Funds in Trust***

1. IA conducted an audit of Programs, Projects and Supplementary Activities (*PPSA*) funded by Voluntary contributions (*VC*) and Funds in Trust (*FiT*) covering the period from January 2016 to December 2020. The audit scope did not include BDT projects (already audited during 2019/2020) and ITU Telecom World.
2. IA concluded, as critical (a. below) and high priority (b. below) matters on a number of issues as follows:
3. While it is important to engage with new donors and partners to contribute to the realization of *PPSA* goals, there is a risk that ITU is exposed to new donors from private sector whose interests may not align with those of ITU. It is therefore essential that due diligence checks are conducted and documented before accepting contribution from new donors. It was therefore recommended that formal due diligence for new donors/partners is coordinated between the respective managers. Management of the Strategic Planning and Membership Department specifically commented that it could take on a cross-ITU coordination role for due diligence and has started to work on that already.
4. With respect to the distinction between *VC* and *FiT*, and the definition of activities, *FiT* and VC have been used in a range of ways, from funding regular budget and extrabudgetary activities, to being a flexible accounting mechanism to allow the use of funds regardless of the programme objectives, the activities, or the allocated budgets. There is also an unclear definition / understanding of the roles and responsibilities and insufficient organizational structure and clarity in the roles and responsibilities may impede ITU from achieving its objectives through *PPSA*. It was recommended that a detailed Policy guidance surrounding *VC* and *FiT* is adopted and that the roles and responsibilities related to the administrative and operational management and controls are clarified.

Also, without adequate project methodology, the intended project results are at risk of not being achieved. Moreover, failure to address vulnerabilities in project design and subsequent implementation challenges may adversely affect achievement of the Project’s objectives. It was recommended that adequate project management guidelines are developed and adopted. IA also found that on occasions the standard templates for *VC*, *FiT* or sponsorships are not consistently used and that there is a risk with respect to the selection and management of consultants. With respect to *PPSA* risk assessment, there is an absence of specific or ‘live’ risk identification / assessment / monitoring. Risk assessments appear to be generic in some project agreements. The absence of risk management process may negatively impact the implementation of *PPSA*s. Furthermore, for some *PPSA*s reviewed it was difficult to locate background information and IA found that the information and communication tools related to *PPSA*s under the scope of the audit are ineffective and cannot be considered as able to fully support *PPSA*s objectives. It was recommended that adequate documentation and communication tools that better support the information access and flow of *PPSA* are identified and implemented (including a central corporate repository of documents and information related to *PPSA*).

Finally, IA noted that the internal controls in relation to financial and asset management, expert travel and fellowships of *PPSA*s under the scope of the audit are partially effective. Internal controls in relation to consultants are ineffective. As IA already recommended with critical priority during a previous audit assignment to strengthen the controls over SSAs, IA reiterated the recommendation for considering the urgent and essential need of procedures and practices for the Union to handle adequately the recruitment and managements of SSAs. It was also recommended that controls are strengthened over the various areas above and that remaining funds related to closed projects are cleared.

1. Management agreed to the recommendations and indicated to be committed to implement them promptly.

# Consulting services by Internal Audit

***Forensic audit***

1. Council 2019 adopted [Decision 613](https://www.itu.int/md/S19-CL-C-0130/en) instructing the Secretary-General to conduct a forensic audit. An external enterprise specialized in financial crime investigations was contracted in January 2021 and conducted the forensic audit work with IA as the Secretariat’s focal point. The consultant PwC presented its forensic audit report to the 2021 Virtual Consultation of Councillors and stated that a final report would be available in September 2021 which would supplement the findings in the report on the initial examination. The final forensic audit report by PwC, was presented during the 14th meeting of the Council Working Group on Financial and Human Resources (CWG-FHR), held virtually on 20 and 21 September 2021. It was concluded that “*the Secretariat would update the next meeting of CWG-FHR on the follow-up of the actions”*. IA coordinated and prepared the Secretariat’s summary document ([CWG-FHR-15/3](https://www.itu.int/md/S22-CWGFHR15-C-0003/en)) containing the status of implementation of PwC’s proposed actions, for the 15th meeting of CWG-FHR held virtually on 11 and 12 January 2022.

# Follow-up of internal audit recommendations

1. Throughout the period reported on, IA 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 (as at 31 January 2022) are as follows:

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| **Year** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **Total** |
| Number of audit reports/notes | 2 | 0 | 4 | 4 | 7 | 4 | 6 | 4 | 2 | 2 | 2 | **37** |
| Rec. – Total | 17 | - | 113 | 55 | 34 | 22 | 35 | 26 | 15 | 9 | 19 | **345** |
| In Progress | 0 | - | 4 | 2 | 0 | 6 | 13 | 10 | 3 | 4 | 13 | **55** |
| Delayed | 3 | - | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4 | **7** |
| Closed | 14 | - | 109 | 53 | 34 | 16 | 22 | 16 | 12 | 5 | 2 | **283** |
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| % of rec. In Progress | 0% | - | 4% | 4% | 0% | 27% | 37% | 38% | 20% | 44% | 68% | **16%** |
| % of rec. Delayed | 18% | - | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 21% | **2%** |
| % of rec. Closed | 82% | - | 96% | 96% | 100% | 73% | 63% | 62% | 80% | 56% | 11% | **82%** |

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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. 2500. A1 – The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. [↑](#footnote-ref-4)