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| **Agenda item: ADM 1** | **Document C23/50-E** |
| **12 June 2023** |
| **Original: English** |
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| Report by the Secretary-General | |
| FINANCIAL MANAGEMENT TRANSFORMATION PLAN | |
| **Purpose**  The purpose of this document is to provide the ITU Council with a roadmap to reform financial management processes and framework, responding to Council [Resolution 1412 (C23-EXT)](https://www.itu.int/md/S22-CEXT23-C-0006/en), which resolves to request the Secretary-General to take measures to strengthen financial management and report on measures taken to the 2023 session of the Council.  **Action required by the Council**  The Council is invited to **note** the report.  **Relevant link(s) with the Strategic Plan**  Enablers: excellence in human resources and transformation excellence, resource mobilization.  **Financial implications**  Financial implications related to this plan are being considered as part of the overall transformation roadmap to achieve organizational excellence (see Document [C23/52](https://www.itu.int/md/S23-CL-C-0052/en)).  **References**  [Council Resolution 1412 (C23-EXT)](https://www.itu.int/md/S22-CEXT23-C-0006/en) Transformation roadmap to achieve organizational excellence ([C23/52](https://www.itu.int/md/S23-CL-C-0052/en)) [Resolution 151 (Rev. Bucharest, 2022)](https://www.itu.int/en/council/Documents/basic-texts-2023/RES-151-E.pdf) of the Plenipotentiary Conference, on improvement of results-based management in ITU Report on the implementation of the risk management action plan ([C20/61](https://www.itu.int/md/S20-CL-C-0061/en)) IMAC Rec. 2022/6 ([Add.1 to C22/22](https://www.itu.int/md/S22-CL-C-0022/en)) External Audit open recommendations ([C22/101](https://www.itu.int/md/S22-CL-C-0101/en)) | |

## Introduction

1. ***Why a financial transformation plan***

1.1 ITU Council Resolution 1412 (C23-EXT) considered the financial difficulties concerning the implementation of the 2022 budget and noted the need to improve the financial management that the situation has demonstrated. In the resolution, the Council resolved to instruct the Secretary-General to take measures to strengthen financial management and report on measures taken to the 2023 session of the Council.

1.2 To respond to the instructions of the Council set out in Resolution 1412 (C23-EXT), it is imperative that related financial systems, processes and financial regulations and rules of ITU be reviewed, updated and amended to reflect best practices across the United Nations system.

1.3 The visioning exercise, conducted with the active participation of more than 60 ITU staff members and the informal consultations of the Secretary-General with external ITU stakeholders, and the ITU senior management retreat considered ITU’s financial management issues in the broader context of organizational excellence, and identified numerous challenges in ITU’s financial management framework, the results of which are outlined in the overall transformation roadmap to achieve organizational excellence (see Document [C23/52](https://www.itu.int/md/S23-CL-C-0052/en)).

1.4 Based on the above, the Secretary-General has instituted a financial transformation plan to provide a roadmap to reform within the overall transformation roadmap to achieve organizational excellence.

1. ***Challenges in budget implementation***

1.5 During the past five years, budget implementation has become increasingly difficult, and cost recovery revenue has progressively decreased and been constantly under the budgeted level.

1.6 Figure 1 shows the evolution of budget implementation results from 2016 until 2022. Since 2019, the situation has progressively deteriorated, due to reduced cost recovery revenue, which does not allow ITU to implement its programme and activities as per the approved budget, as can be seen in 2020 and 2022 when expenses exceeded revenue.

**Figure 1. Revenue vs Expenses from 2016 to 2022**

(CHF 000)



1.7 Figure 2 shows the revenue evolution of the main cost recovery components, i.e. sales of publications, satellite network filings, UIFN and IIN and ITU Telecom, from 2016 to 2022. Revenues have been falling dramatically from proposed budget estimates.

**Figure 2. Cost recovery budget vs Actual from 2016 to 2022**(CHF 000)



1.8 Moreover, the zero-nominal growth that ITU has been operating at since 2006 has progressively eroded all margins in budget implementation. In addition, the 5 per cent vacancy rate applied to all posts in ITU has distorted budget implementation.

1. ***Purpose and objectives of the plan***

1.9 As outlined in the overall transformation roadmap to achieve organizational excellence, the visioning exercise made numerous suggestions and proposals to improve and strengthen ITU’s financial and performance management.

1.10 In order to ensure that the Union’s ambitious goals of universal connectivity and sustainable digital transformation are achieved, the Secretary-General has requested that ITU’s financial services undergo a review so as to optimize how financial resources are planned and prioritized across the organization. To achieve this goal, it is imperative that:

1. the financial framework be reviewed;
2. the organizational structure be fit for purpose;
3. reporting to decision-makers across the organization be actionable; and
4. a robust set of processes be put in place to ensure resources can be prioritized across the Union.

1.11 The Secretary-General also engaged an experienced external expert, seconded to ITU from the World Health Organization (WHO), to guide the development of a financial transformation plan, pursuant to the instruction contained in Resolution 1412 (C23-EXT). The aims of this process have been to:

1. Review and propose updates to the ITU’s current **financial regulations and rules** to align with the latest best practices in financial management.
2. Review the financial management **framework**, **processes** and **systems**, with a view to strengthening **results-based management (RBM), transparency,** and **availability and timeliness of financial information**.
3. Review the **organizational structure** of the financial management function to ensure it be fit for purpose with the overall organizational requirements of the transformation roadmap and to **strengthen the financial management** processes and framework.

1.12 The findings of this report are integrated into the overall transformation roadmap to achieve organizational excellence and the related timelines contained therein.

## Reform of the financial regulations and rules

1. ***Analysis of the current financial regulations and rules***

2.1 The Union’s current financial regulations and rules are being reviewed to:

1. **Ensure transparency and accountability:** regular reviews help to ensure that ITU operate transparently and be accountable for its financial activities.
2. **Strengthen risk management:** assessing financial regulations and rules is needed to identify potential risks and vulnerabilities in ITU’s financial management, which can then be addressed proactively to prevent negative consequences.
3. **Adapt to changing circumstances:** as the global environment evolves, it is necessary to update financial regulations and rules to ensure they remain relevant and effective. Regular reviews help to identify any changes needed to stay up to date with best practices.
4. **Strengthen internal controls:** a review of financial rules and regulations helps to identify weaknesses in internal control systems, leading to improvements in areas such as fraud prevention, asset management and financial reporting.
5. **Improve decision-making:** by ensuring that financial rules and regulations are up-to-date, transparent and robust, the organization’s leadership can make better-informed decisions based on accurate and reliable financial information.
6. **Enhance credibility and reputation:** ITU must be able to demonstrate that it is effectively managing its finances and adhering to best practices in financial management, which is essential to building a strong reputation and helping it to secure increased funding in line with the resource mobilization strategy and support for its future initiatives.

2.2 Overall, the implementation of a revised set of financial regulations and rules for ITU aims to ensure improved financial management, greater transparency and accountability, better risk management and enhanced credibility with stakeholders. The proposed update of the financial regulations and rules will be presented by the Secretariat for the consideration of the Council Working Group on financial and human resources.

1. ***Summary of the proposed changes and improvements***

2.3 The proposed changes and improvements to the financial regulations and rules focus on:

1. Improving the **internal control framework** to ensure effective financial administration, prudent financial management and safeguarding of assets of the organization.
2. **Streamlining the budget process** to ensure that the ITU secretariat be more flexible and adaptable to changes based on business needs and guidance from the Council.
3. Improving the **RBM** framework to optimize programmatic design, increase efficiency and effectiveness and ensure better alignment with organizational priorities.
4. Introducing a **withholding mechanism** to ensure financial stability and continuity. This mechanism acts as a safety net or contingency fund, enabling the organization to maintain its financial stability, meet unforeseen expenditures, address budget shortfalls and dynamically adapt the budget to changing needs during the biennium.
5. Improving the management of **cash and cash equivalents** to safeguard cash management, mitigating the risk of loss or misappropriation; maximizing the effective use of cash resources; ensuring transparency and accountability in the handling of cash transactions; ensuring compliance with all financial regulations, rules and policies; and ensuring uninterrupted cash flow to support ongoing operational activities.
6. Improving the concept of **fund accounting**, which allows for the grouping of revenue and expense to provide additional information for financial management decisions.
7. Streamlining the processes of recording **voluntary contributions** and **trust funds** to allow for streamlined system processes to improve efficiency and reporting.
8. Improving the **delegation of authority** to enhance accountability, responsibility and segregation of duties across the organization.
9. Strengthening the **oversight function**, in alignment with the proposal for the creation of an oversight unit (See Document [C23/53](https://www.itu.int/md/S23-CL-C-0053/en)), which will be responsible for internal audit, evaluation of the adequacy and effectiveness of the organization’s system of internal controls, financial management and use of assets, as well as investigation of misconduct and other irregular activities.
10. ***Benefits of the revised financial regulations and rules***

2.4 The following benefits are anticipated:

* **Enhanced accountability:** by improving financial regulations and rules, ITU would increase transparency and accountability in its financial management, which would further strengthen prevention of corruption, fraud and other financial irregularities.
* **Improved financial management:** clearer and more effective financial regulations and rules would help ITU to manage finances more efficiently and effectively, leading to enhanced budget planning, cost control and financial decision-making.
* **Increased trust:** by improving its financial regulations and rules, ITU aims to enhance trust among its stakeholders, including Member States, donors and other partners, which may help to attract more funding and support for the organization’s work.
* **Better risk management:** robust financial regulations and rules would allow ITU to identify and manage financial risks more effectively, helping to ensure that the organization be financially stable and sustainable in the long term.

## Improving RBM framework

1. ***Improvement of RBM and its importance***

3.1 The aim of RBM is to improve the accountability, transparency and effectiveness of the organization’s programmes. This involves setting clear and measurable objectives, monitoring and evaluating progress, and using data to inform decision-making, which are essential steps to improving prioritization across the organization and should lead to the more effective resource allocation.

3.2 Presently, the RBM framework does not support management decision-making and effective allocation of resources to the organization’s priorities.

3.3 Strengthening RBM in ITU would help to improve organizational return on investment, as outlined in the visioning exercise under organizational excellence.

1. ***Key benefits of the RBM framework***

3.4 The key benefits of a strengthened RBM framework are envisaged as follows:

* **Implementation of a monitoring and evaluation framework:** ITU should implement a monitoring and evaluation framework to track progress towards achieving the organization’s objectives and outcomes. This framework should include regular reporting on key performance indicators and periodic evaluations of ITU’s programmes and activities.
* **Fostering a culture of learning and continuous improvement:** RBM is not a one-time exercise but a continuous process of learning and improvement. ITU should foster a culture of learning and continuous improvement by regularly reviewing its performance and making necessary adjustments to its programmes and activities.
* **Using RBM to inform decision-making:** RBM should be used to inform decision-making at all levels of the organization. ITU should use the results of its monitoring and evaluation activities to inform strategy, resource allocation and operational decision-making.
* **Ensuring accountability and transparency:** RBM requires a high level of accountability and transparency. ITU should ensure that its programmes and activities be transparent and accountable to stakeholders, including Member States and the United Nations system, which is achievable through regular reporting and stakeholder engagement.

1. ***Conclusion on RBM for ITU***

3.5 Overall, building an effective RBM framework in ITU requires a systematic and iterative approach that involves multiple external and internal stakeholders, which can help to establish a results-focused culture that supports evidence-based decision-making and continuous improvement.

## Review and strengthening of the financial management function

1. ***Assessment of the current finance and budget function***

4.1 Review of the financial management function requires assessing whether there are **areas for improvement** and looking at **best practices** within other United Nations agencies. Through collaboration with key stakeholders, including ITU staff, management and external partners, information has been gathered to assess the current operational level of financial services. The following information has been gathered to facilitate this process:

1. **Review** of current systems, including policies, procedures, financial statements and reports. This provided a **baseline** understanding of the current state of the function.
2. **Interviews** have been conducted with key stakeholders to gain a deeper understanding of the **financial management function**, including its strengths, weaknesses and challenges. This has identified areas for improvement and potential solutions.
3. **Analysis of financial data** has identified trends and patterns that can inform this review. This can include reviewing financial statements, budgets and expenditure.
4. **Benchmarking** ITU’s financial management function **against best practices** across the United Nations system has provided insights into areas where ITU can improve.
5. ***Key findings***
   1. The key findings include:

* The shortfall in overall proposed budget revenue, in particular the shortfall in revenue from traditional business in recent years, e.g. satellite network filings and publications, requires increased fiscal discipline.
* Current financial management costs are higher than at other United Nations agencies.
* There is a lack of budget and financial information for end users to enable decision-making.
* There is a need to review complete IPSAS compliance, especially regarding disclosures in the financial statements and ensuring that the financial statements be a true and fair reflection of the financial transactions during the financial period.

4.3 These findings will facilitate discussion on the next steps to help build support for effective improvement, which includes changes to policies, procedures and processes, structures and investment in innovative technology and staff training.

1. ***Timeline and resources required for the reform***

4.4 The timeline and resources required for the reform of the financial transformation plan will be aligned with the overall transformation roadmap to achieve organizational excellence.

4.5 Overall, the implementation of the financial transformation plan will require a significant investment of time, resources and effort as part of the overall transformation roadmap to achieve organizational excellence. It will be important to ensure that changes be implemented in a timely and effective manner, while also maintaining the stability and sustainability of the organization’s finances.

## Conclusion

5.1 In conclusion, the financial transformation plan proposed for ITU aims to strengthen financial management, improve transparency and accountability, and prioritize resources in alignment with the organization's strategic goals. The plan includes a review of financial regulations and rules, implementation of an RBM framework and a review of the financial management function.

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