

**Addendum 1 to
Document C14/22-E
29 August 2014
Original: English**

Note by the Secretary-General

SUPPLEMENTARY REPORT OF THE INDEPENDENT MANAGEMENT ADVISORY COMMITTEE (IMAC)

I have the honour to transmit to the Member States of the Council a report from the Chairman of the Independent Management Advisory Committee (IMAC).

Dr Hamadoun I. TOURÉ
Secretary-General

SUPPLEMENTARY REPORT OF THE INDEPENDENT MANAGEMENT ADVISORY COMMITTEE (IMAC)

Summary

This document presents a supplement to the IMAC's Third Annual Report. It is submitted to the ITU Council for its final meeting in October 2014, to fulfil the Committee's specific responsibility to advise the Council on issues arising from the audited financial statements of ITU and reports produced by the external auditor; and to support and inform the Council's consideration of the financial statements and external audit report for 2013.

This supplementary report also provides comment and advice to the Council on an additional matter concerning the procedure for the Council's formal consideration of IMAC reports and recommendations.

Action required

The Council is invited **to endorse** the supplementary IMAC report.

References

[Resolution 162](#) (Guadalajara, 2010); Council [Decision 565](#); Document [C14/22](#) Third annual report of IMAC to the Council.

1. Purpose of this IMAC report

1.1 In its Third Annual Report, presented to the Council on 7 May 2014, IMAC referred to its regular meetings with the External Auditor, and the Committee's intention to discuss the External Auditor's 2013 Report with the auditors at IMAC's meeting on 3 and 4 July 2014. Although delays subsequently meant that the External Auditor's Report was not available to IMAC until later in July, IMAC had full and helpful face-to-face discussions with the Corte dei Conti's auditors on their audit findings for 2013.

1.2 This supplement to IMAC's Third Annual Report is submitted to the ITU Council for its final meeting in October 2014, to fulfil the Committee's specific responsibility under the Terms of Reference approved by Resolution 162 (Guadalajara, 2010) for IMAC to advise the Council on issues arising from the audited financial statements of ITU and reports produced by the external auditor; and to support and inform the Council's consideration of the financial statements and external audit report for 2013.

1.3 This supplementary report also provides comment and advice to Council on an additional matter concerning the procedure for the Council's formal consideration of IMAC reports and recommendations.

2. The External Auditor's Report for 2013

2.1 For the ITU's financial statements for 2013, the External Auditors have provided an unqualified, "fairly presents", audit opinion, again with an emphasis of matter as in the previous year. An emphasis of matter reports circumstances which the auditors consider should be brought to the attention of those using the financial statements, as being fundamental to the users' understanding of the financial statements but without modifying the auditor's opinion in respect of the matter emphasized.

2.2 In this case, the External Auditors have drawn attention to the disclosure in the Statement of Financial Position of a negative net asset at 31 December 2013 amounting to -196.2 million CHF (compared with -227.7 million CHF at 31 December 2012), arising from actuarial liabilities in relation to After Service Health Insurance. The emphasis of matter refers to the impact of the recognition of long-term liabilities, as

affected by changes in actuarial estimates and valuations, the details of which are set out in Note 17.2 to the financial statements.

2.3 The long-form report of the External Auditor on the audit of the ITU financial statements for 2013 presents five specific recommendations (four recommendations for action by management and one directed to the Internal Audit Unit); and nine “suggestions” (four for management and five for Internal Audit).

3. The External Auditor’s recommendations

3.1 The External Auditor’s recommendations to management concern:

- the need for better review and monitoring by ITU Headquarters, and stricter procedures in relation to bank arrangements in field offices (reinforcing findings separately reported by the Internal Audit Unit);
- the continuing need for a full actuarial review study - now planned for 2016 - to support the balance sheet valuation of liabilities, particularly in relation to After Service Health Insurance, and to ensure the health of ITU’s financial position in the long term; and
- the need for defined guidelines on the accounting, reconciliation and reporting of extra budgetary funds.

3.2 In addition, the External Auditor has made a fifth recommendation that the Internal Audit Unit should improve its annual risk analysis and the process for ensuring risk-based audit planning. This recommendation is consistent with good practice and professional standards and IMAC considers it especially important in order to ensure best use of limited resource while the level of resources available for internal audit remains problematic, as the Committee has reported in previous years (also see further below).

3.3 IMAC considers that these formal recommendations, when implemented, will contribute to improved financial management and control in ITU; and the Committee therefore supports the External Auditor’s recommendations.

4. The External Auditor’s formal suggestions

4.1 The External Auditor’s Report presents four suggestions for action by management, concerning:

- the need to write off missing assets;
- the need for a review and evaluation of health services reimbursed as health care, and the sustainability of the costs of the arrangements;
- the scope for improvement in procedures relating to accounting for trust funds; and
- the need for defined guidelines covering the accounting and reporting for extra-budgetary funds.

4.2 In addition, the External Auditor’s Report presents a total of five suggestions arising from its assessment of ITU’s Internal Audit Unit, the evaluation of which IMAC had recommended in its second annual report in June 2013. The external audit review of IAU provides a comprehensive and positive commentary on the IAU arrangements and professional standards; and also sets out a number of actions that address issues previously raised by IMAC about limited IAU resources and the need to ensure sufficient audit coverage to meet ITU’s needs.

4.3 The External Auditor has suggested that:

- the Internal Audit Unit should improve its present annual planning by the adoption of an over-arching multi-year audit planning process, based on an enhanced and more explicitly-grounded risk analysis which can support the coverage of major identified risk areas on a cyclical basis (suggestions numbered 5, 6 and 7);
- the improved information from these enhanced processes be used to link with the audit tasks proposed in the IAU’s annual workplan and thus to better inform the Secretary-General for deciding on the adequacy of resources in IAU (suggestion number 8); and

- as part of the annual planning approval process, the Head of IAU should indicate the extent of need for hiring additional specific professional expertise as contractual services, for consideration by the Secretary-General in the context of budgetary approvals (suggestion number 9).

4.4 While the Secretary-General's formal comments on several of these suggestions commits only to the intention to endeavour or aim to address the suggested actions, IMAC believes the External Auditor's advice is appropriate, practical and feasible.

4.5 Given the concerns IMAC has previously expressed on the adequacy of the coverage achieved by IAU and the limited resources available to it (IMAC's First, Second and Third Annual Reports referred), the Committee fully endorses the suggestions made by the External Auditor.

5. Matter concerning the procedure for the Council's consideration of IMAC's reports and recommendations

5.1 In considering IMAC's Second Annual Report in June 2013, the Council approved the report and in particular its recommendations. This procedure provided a transparent and appropriate process which supports effective accountability to the ITU's governing body and contributes to a beneficial outcome, in that the Council's expectations over the implementation of Committee recommendations are clear and can be followed up.

5.2 In 2014 the IMAC report was submitted as previously, inviting the Council to approve the recommendations in the report, so as to encourage effective response and timely action in the interests of good accountability. Concluding the discussion, as reflected in the video record of proceedings, the Chairman of the Standing Committee on Administration and Management invited the Council members to approve the IMAC recommendations and this conclusion was confirmed by the meeting without objection.

5.3 However, the subsequently issued report by the Chairman of the Standing Committee on Administration and Management (Document C14/92-E dated 14 May 2014, Original: English) recorded merely that the Council should take note of the IMAC report and its recommendations.

5.4 While it is, of course, entirely a matter for the Council's discretion and authority how to proceed, this outcome did not seem to reflect the clear and specific decision of the session in which the IMAC report was debated; and further, an outcome in which a governing body does no more than take note may not facilitate the follow up of the implementation by those concerned and clear accountability to the governing body's expectations. In order for management's implementation of recommendations to be monitored effectively against the Council's expectations, IMAC would be grateful if the Council would clarify its position.

6. Timing of Council's Consideration of External Auditors Report for 2014

6.1 Lastly, IMAC would like to bring to the attention of the Council a governance issue concerning its consideration of the external auditors report for 2014. IMAC has noted that in this year and in previous years, the Council has considered the external auditor's report in the year following the fiscal year that was audited. This is a generally recognized good practice, as it has allowed ITU's governing body to review the state of the accounts and take actions if necessary before the closing of the next fiscal year. However, in 2015 it appears that the external auditor's report will not be completed in time for consideration at the scheduled May session of the Council. Consequently, the Council will not have an opportunity to review the 2014 audit report until 2016, a full year and a half after the end of ITU's fiscal year. The Council may therefore want to discuss with the external auditors options to ensure timely consideration of the auditors' report for 2014.
