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| Report by the Secretary-General | |
| FOURTH ANNUAL 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). This report will be complemented by addenda relating to External Audit and the external validation of the Internal Audit self-assessment respectively, after the IMAC meeting of 4-5 May 2015.

Houlin ZHAO  
 Secretary-General

FOURTH ANNUAL REPORT OF THE   
INDEPENDENT MANAGEMENT ADVISORY COMMITTEE (IMAC)

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| Summary  This document presents the annual report of the Independent Management Advisory Committee (IMAC) to the ITU Council. It contains conclusions and recommendations for the Council’s consideration in the areas of internal audit function, risk management and internal controls, financial statements, accounting and external audit, in compliance with IMAC’s terms of reference.  This fourth annual report by IMAC to the ITU Council provides an update on the Committee’s coverage and activity since June 2014 and presents specific recommendations intended to improve the oversight, internal control and governance arrangements to better meet the organisation’s current needs.  This year, IMAC is inviting the Council to approve its recommendations in order to further encourage effective response and timely action in the interests of enhanced accountability.  Action required  The Council is invited **to approve** the IMAC report and its recommendations.  \_\_\_\_\_\_\_\_\_\_\_\_  References  [*Resolution 162*](http://www.itu.int/pub/S-CONF-PLEN-2015) *(Rev. Busan, 2014); Council* [*Decision 565*](http://www.itu.int/md/S11-CL-C-0109/en)*; Documents* [*C12/44*](http://www.itu.int/md/S12-CL-C-0044/en) *First annual report of IMAC to the Council;* [*C13/65 + Corr. 1*](http://www.itu.int/md/S13-CL-C-0065/en) *Second annual report of IMAC to the Council and C14/22 + Add.1 Third annual report of IMAC to the Council.* |

**1. Introduction**

1.1 IMAC serves in an expert advisory capacity to assist the Council and the Secretary-General in exercising their governance responsibilities for financial reporting, internal control arrangements, risk management and governance processes, and other audit-related matters. IMAC therefore assists in enhancing transparency, strengthening accountability and supporting good governance. IMAC does not carry out audit, nor duplicate any executive or audit functions, internal or external, but helps to ensure best use of audit and other resources within the ITU’s overall assurance framework.

1.2 In response to the request from some members of the Council Working Group on Financial and Human Resources for clarity on the role and benefit of the IMAC, the Committee has prepared an explanatory note which is attached as Annex 1 to this present report.

1.3 The current members of IMAC appointed by the Council are:

* Mr Eric Adda
* Dr Beate Degen (Chairman)
* Mr Abdessalam El Harouchy
* Mr Graham Miller
* Mr Thomas Repasch

1.4 Since IMAC’s third annual report (Document C14/22-E) and subsequent supplementary report (Addendum 1 to Document C14/22-E) were submitted to the Council in 2014, IMAC met on 3-4 July 2014 (in advance of PP-14), 1-2 December 2014, 4-6 February 2015 and 4-5 May 2015. Under IMAC’s terms of reference, the findings of the November 2014 meeting were submitted to the Chairman of the Council and the Secretary-General. The findings of the December, February and May meetings have been consolidated in this fourth annual report to the Council. Reports of the Committee’s meetings and its annual reports as well as other key documents are available to the ITU membership on IMAC’s area of the ITU public website, accessible via [ITU Council](http://www.itu.int/en/council/Pages/default.aspx).

1.5 Meeting attendance: Dr Degen, Mr Adda, Mr Miller and Mr Repasch attended all meetings. Mr El Harouchy was unable to attend the second meeting in February 2015.

1.6 Since its last annual report to the Council in 2014, IMAC engaged with all areas of its responsibilities, including internal audit; risk management; internal control; the organisation audited financial statements and financial reporting; and external audit.

1.7 In order to further improve its communication with stakeholders, IMAC met with the Chairman of the Council Working Group on Financial and Human Resources (CWG- FHR) and attended the Working Group’s February 2015 meeting for matters relating to the Committee’s areas of responsibility. In the course of its meetings, IMAC held substantive discussions with the Secretary-General and Deputy Secretary-General, the Financial Resources Management Department, the Internal Auditor, the External Auditor and other management representatives as appropriate.

1.8 IMAC notes the election and appointment of Mr Houlin Zhao as Secretary-General and Mr Malcom Johnson as Deputy Secretary-General and looks forward to working with both in the coming years. The Committee wishes to thank the former Secretary-General, Dr Hamadoun Touré, for his support in the establishment of IMAC and in its work in the first three years of the Committee’s existence.

**2. Follow-up of IMAC’s third annual report to the Council in 2014 and status of IMAC recommendations**

2.1 To assist the CWG-FHR’s follow-up of action taken in response to IMAC’s recommendations, IMAC reviewed the implementation status of those of its recommendations which were still open when the CWG met in February 2015 (8 out of IMAC’s 9 recommendations from 2014; 4 of the 8 recommendations from 2013; and 2 of the 6 recommendations from 2012). This review was reported in Document CWG-FHR 4/14, and presented to and discussed with the CWG-FHR at its 4th meeting in February 2015.

**3. IMAC’s observations, conclusions and recommendations for 2015 are set out below**

**Developments from PP-14**

3.1 IMAC members reviewed the relevant outcomes of PP14 and welcomed the decision of Member States to make IMAC a permanent component of ITU’s governance and oversight structure.  Taken together, the effective functioning of internal audit, external audit, and IMAC will provide confidence to Member States and other stakeholders that ITU’s oversight framework is consistent with those found in UN agencies as well as the public and private sectors.

3.2 IMAC also welcomed the decision by PP14 to provide broader public access to ITU documents, including the annual report by the Internal Auditor on internal audit activities after its consideration by the Council.  IMAC encourages Member States to continue to pursue the widest possible public access to ITU documents at all levels.  Additionally, the Committee urges Member States to make full use of this increased access in order to increase understanding of ITU management issues.

3.3 While modifications to Resolution 162 regarding IMAC were also noted with satisfaction, members of IMAC viewed with concern a significant change in paragraph 2 of the annex to the resolution, IMAC’s terms of reference.  In providing a valuable mandate for IMAC to provide advice to Council and ITU management on “how to implement its recommendations”, the revision resulted in the removal of the equally important mandate to advise Council on “the actions taken by ITU management on audit recommendations”, which is a conventional and essential provision to ensure accountability.

3.4 Since IMAC believes the deletion of mandate was inadvertent and an unintended consequence of the revision process, the Committee will endeavor to carry out both mandates and report accordingly to Council and ITU management.  Ultimately, however, we believe that the deleted mandate should be reinstated at the earliest opportunity, preferably by PP18.

**Recommendation 1 (2015):** IMAC recommends that Council propose to Member States at PP18 that paragraph 2 of the terms of reference of IMAC be revised to restore the mandate for IMAC to advise on “the actions taken by ITU management on audit recommendations.”

In the interim, and to avoid any confusion or misunderstandings about IMAC’s role, the Committee invites Council to clarify and explain its understanding of the mandates entrusted to IMAC; and to endorse the Committee’s intention to proceed as set out above.

**Internal control**

3.5 IMAC noted with satisfaction that publication of a Statement on Internal Control with the annual Financial Operating Report is now part of a regular procedure within ITU. This is a sign of improved public accountability from ITU senior management and provides a disclosure on the effectiveness of the internal control. Nevertheless, the value and integrity of the Statement should be improved by the Secretary-General obtaining positive assurance on the effectiveness of the internal controls applied by ITU senior management, via formal certifications that they have discharged their responsibilities for the maintenance of the internal control framework in their respective areas of responsibility.

**Recommendation 2 (2015):** IMAC recommends that the Secretary-General should obtain documented assurance on the effectiveness of the internal control system by requiring senior managers to attest their responsibilities over the internal control system by providing the Secretary-General with signed internal letters of representation to support the published Statement on Internal Control. A formal procedure for this is being taken forward.

**Financial management**

3.6 In its Third Annual Report (in 2014), IMAC recommended that ITU should consider the appropriateness of preparing a comprehensive business case to support decisions on major long-term capital expenditure/construction projects such as the proposed replacement of the Varembé building; and the Committee continued to monitor developments. IMAC noted the establishment of a new dedicated Council Working Group, CWG-HQP, which would examine the status of HQ premises and analyse the options. IMAC welcomed this approach which will provide more comprehensive and considered review in support of major expenditure decisions.

**Recommendation 3 (2015)**: IMAC encourages the CWG-HQP to take forward its work to examine all realistic and coherent options, taking into account direct and indirect costs; and the Committee would be pleased, if required, to provide thoughts and comments on the outputs of the process in due course.

**Risk management**

3.7 IMAC noted the commendable progress made in incorporating risk and risk management within the process for the ITU Strategic Plan 2016-2019. This is in alignment with advice and support given by IMAC to the respective functions at ITU.

3.8 Although ITU has addressed risk management in the context of the cycle of periodic strategic planning, a structured operational risk management system still needs to be established as part of the ITU’s ongoing business processes. Management are now well placed to implement this further important stage of enterprise-wide risk management (and in due course to give consideration to developing an evaluation capacity in ITU, which would support the effective implementation of the Strategic Plan). Risk management remains a work in progress and IMAC will keep the further development of a more comprehensive risk management system under review, and provide advice to management as necessary.

**Recommendation 4 (2015):** IMAC reiterates its recommendation of 2014 (Rec.6/2014) that the development of systematic risk management arrangements be further pursued and applied to the operational level as a continuous part of the business process, with the establishment of a risk register, identification of risk owners and regular top management review.

**External Audit**

This part will be included as an addendum to this report once the External Auditor’s report has been reviewed.

**Internal audit**

3.9 ITU’s Internal Audit Unit continued to receive IMAC’s attention over the last year, and the Committee was pleased to note a number of areas of improvement.  For example, IMAC noted with satisfaction the Secretary-General’s decision in 2014 to provide additional resources to the Internal Audit Unit.  This action was consistent with IMAC recommendations in 2012 and 2013, as well as with recommendations made previously by the External Auditor.  IMAC expects that the additional resources will help to broaden audit coverage of key risk areas in ITU.

3.10 IMAC also noted with satisfaction that, as it had recommended in 2013 (Rec.4/2013), ITU arranged to have an external validation of Internal Audit’s self-assessment, which took place in early 2015.  IMAC comments will be included as an addendum of this report once the external validation report has been reviewed.

3.11 IMAC reviewed and endorsed the Internal Audit Unit’s draft audit plan for 2015, which was subsequently revised to include audits of the impacts of the saving measures taken, the management process used to achieve those savings and scope for potential new savings.  IMAC also noted the Unit’s intent to complete its audit of field operations in Africa.

3.12 In their audit report for 2013, the external auditors had raised several issues related to internal audit, including the need to improve risk analysis in developing internal audit plans.  IMAC endorsed these recommendations and believes there is further scope for improving internal audit planning, to reflect the prioritization of topics based on a more explicit assessment of risk. The Committee will continue to offer guidance and advice as part of its core oversight responsibilities.

3.13 In its third annual report, in 2014, IMAC had expressed concerns about the broad range of management shortcomings reported from internal audits of ITU operations in Regional and Area offices, including the ones in the Arab Region, the Asia-Pacific Region, the Commonwealth of Independent States and in the Americas Region.  The most recent audit of ITU operations in the Africa Region also revealed deficiencies in every area reviewed, including asset management, bank and cash management, project management, safety and security, and delegation of management authorities.  In their totality, the problems make clear the need for immediate action by ITU senior management to strengthen its oversight of field operations.  As a way of keeping Member States informed about these issues, IMAC believes that the Secretary-General should report to Council as a matter of priority.  Additionally, IMAC encourages the External Auditor as well to keep this issue under review as part of its audit work.

**Recommendation 5 (2015**): IMAC recommends that the Secretary-General report to Council on the overall audit findings and action taken to improve ITU’s management of field operations.

3.14 As with the issues related to ITU field operations, IMAC also emphasizes the importance of Member States' engagement on other ITU management issues.   The improved access by Member States to internal audit reports and the recently introduced reporting by the Internal Auditor at ITU Council meetings will aid this engagement and, hopefully, will enhance the dialogue between Member States and the Internal Audit function.  In this regard, the Committee urges Member States to take advantage of this access, especially in areas highlighted by IMAC in its reports to Council.

**4. Other matters**

4.1 IMAC will next meet in autumn 2015, if possible at a time to again coincide with the meeting of the Council Working Group on Financial and Human Resources (CWG-FHR). As the autumn meeting will be the final meeting in the Committee’s first four-year term under the current membership, IMAC members wish to express their deep appreciation to Member States, the CWG-FHR, the Secretary-General and ITU officials for their support, cooperation and positive attitude in the creation, continuance and effective functioning of the Committee.

4.2 Following the decision of PP-14 to continue the mandate of IMAC as part of the oversight arrangements at ITU - and as anticipated under the provisions of Resolution 162 - the initial four-year appointment of three of the five members of IMAC may be renewed by the Council; and, to ensure continuity of membership, the initial appointment of two members of IMAC shall be for one term of four years only. Accordingly, under the arrangements foreseen in the Annex to Resolution 162, Mr Eric Adda and Mr Thomas Repasch will leave the Committee at the end of 2015.

4.3 IMAC’s membership, responsibilities, terms of reference and reports are available on the IMAC area of ITU’s public website, under Governance <http://www.itu.int/en/council/Pages/im>ac.aspx.

**Annexes: 1**

**Annex 1 – Fourth Annual Report OF THE INDEPENDENT MANAGEMENT ADVISORY COMMITTEE (IMAC)**

**THE ROLE AND BENEFIT OF THE IMAC**

The Chairman’s Summary Report of the fourth meeting of the Council Working Group on Financial and Human Resources 4th – 6th February 2015 (Document CWG-FHR 4/23 (Rev.1) at paragraph 5.5) recorded that:

“The need for further clarifications was raised regarding the functions of the Internal Auditor, External Auditor and IMAC, as well as the usefulness of a cost benefit analysis to provide clarity to some delegates.” and at paragraph 5.11 that:

“The Secretariat was requested to provide information to Council on the cost of the IMAC and its benefits in relation to the internal audit and external audit functions.”

**In order to provide clarity for Council Member States for the future, IMAC has prepared the following note of explanation on the role and benefit of the Committee, and the distinction between IMAC’s function and that of the internal and external auditors.**

**THE RATIONALE FOR COMMITTEES LIKE THE IMAC**

At the request of the General Assembly, and in recognition of the need for reform and improved governance in the UN consistent with corporate governance developments in the private and public sectors, in 2006 the UN published a “Comprehensive review of governance and oversight within the United Nations and its funds, programmes and specialized agencies” (document A/60/883). The review was carried out under the guidance and direction of an eminent Steering Committee of independent international experts with the assistance of PricewaterhouseCoopers.

The review drew on worldwide public and private sector codes and practices; international standards and norms in governance and oversight; and best practice. It provided a UN Code of Governance for system-wide adoption; made recommendations for improvements in governance to strengthen the effectiveness and accountability of executive management, ensure better use of independent expert advice and enhance effective management of ethical issues; recommendations to improve the UN’s central internal oversight service, OIOS; and recommendations to strengthen the wider system of oversight within the UN system through effective and independent governing audit committees (with the kind of role and functions now fulfilled by the ITU’s IMAC).

The need for such audit committees, oversight committees or boards has been widely recognised and accepted as an important and necessary element in the governance architecture of UN organisations. Such committees have been variously recommended by the Comprehensive review of governance and oversight in the UN system; by the UN Joint Inspection Unit (JIU/REP/2006/2 “Oversight Lacunae in the United Nations System”; and JIU/REP/2010/5 “The Audit Function in the United Nations System”); and by the position statement of the combined Representatives of Internal Audit Services of the United Nations entities and Multilateral Institutions, RIAS. Relevant professional bodies, such as the International Federation of Accountants, IFAC, have called for independent audit committees in the public sector, distinct from but reporting to, governing bodies.

Oversight committees have become recognised good practice in the UN system. They form part of the governance structure of an organisation, and are a prerequisite for good governance. The comprehensive review of governance and oversight in the UN system identified best practices to produce a set of good governance and oversight principles. These principles reflect the governing body’s ultimate responsibility to satisfy itself that management has a robust framework for internal controls, risk management, systems and compliance with laws, regulations and accounting standards.

The review set out the three separate components needed to allow a governing body to discharge that key responsibility:

* An oversight / audit committee of independent experts, with a membership and appropriate terms of reference approved by the governing body;
* A professional and competent internal audit function, accountable to executive management but also reporting independently to the governing body through the audit committee, with appropriate terms of reference or charter, and regular quality reviews; and
* External audit, appointed and accountable to the entity’s assembly of Member States through the audit committee.

**An oversight committee** – like IMAC - is a governance body of external, independent experts in strategic financial and risk management, internal control and oversight. The committee assists the governing body to fulfill its corporate governance and oversight responsibilities in relation to an entity’s financial reporting, internal control system, enterprise risk management and internal and external audit functions. Its role is to provide advice and recommendations to the governing body and executive head within the scope of its terms of reference.

**Internal Audit**, while internally independent of the activities they audit, are part of the organization and report primarily to management (as well as providing summary annual reports to the governing body). Internal auditors are usually employees of the entity, although the function of some activities may be outsourced. Internal Audit's primary responsibility is appraising an entity's risk management strategy and practices; its management and internal control frameworks; and governance processes.

**The External Auditor** carries out an audit on the organization’s financial statements in accordance with specific standards. The financial audit provides an opinion on whether the financial statements are fairly stated in accordance with international accounting standards and the financial reporting framework. The External Auditor may carry out and report on some selective additional performance audit in areas or topics at the External Auditor’s discretion: for example to provide an independent review of an issue, program, function, operation, or specific management systems and procedures.

**Thus independent oversight committees do not duplicate the activities of other oversight and audit functions, such as the internal or external auditors, both of which have “operational” responsibilities of their own. The role of an independent audit or oversight committee is to communicate openly and often with management; carefully review information received; challenge management as appropriate; and provide support and advice to the governing body. It does not have a management function but can, from an expert perspective, (and in the words of the JIU) oversee the performance of the external auditor and all internal oversight functions, not only internal audit.**

**WHAT IMAC AND SIMILAR COMMITTEES ACTUALLY DO**

The oversight or audit committee helps to ensure best use of total resources applied to internal and external audit, providing assurance that audit oversight has been appropriate and effective; it helps manage and reduce strategic and operational risk; it provides a forum through which the executive head and the governing body (whose members may not all be financial experts) can gain assurance and impartial advice; and it strengthens governance and accountability. An oversight audit committee (in ITU’s case, the IMAC) is not another layer of audit. It does not carry out audit, nor does it duplicate any other functions.

The remits of internal audit, external audit and a committee such as IMAC are different and distinct from each other. They may be complementary but they are not at all the same.

The role and existence of audit and oversight committees is directed at supporting good governance, sound financial management and control, financial integrity, and ethical conduct.

**THE BENEFITS OF HAVING THE IMAC**

The prime rationale for the Independent Management and Advisory Committee is inherently directed at meeting the accepted standards of good governance, financial integrity and effective accountability, and contributing to improved governance and risk management. As with other compliance and control arrangements, such as those used to support the need for regularity, financial probity and ethics, oversight functions are not structured to meet financial objectives (other than responsible budget management and efficiency); and are not designed to yield a financial return on investment, even though the existence and operation of these mechanisms may well be in the organisation’s indirect financial and business interests.

Advice, recommendations, and guidance given by the IMAC to the ITU Council and Management since its foundation are documented in the annual reports as well as in progress reports presented to the Council Working Group for Finance and Human Resources. The implementation of the recommendations and corresponding improvements of the ITU can be perceived as value added to the ITU and its Member States.

The Council and Members States may wish to note that, as a matter of good practice and in accordance with its own Rules of Procedure, IMAC undertakes periodic formal self-evaluation of its performance and has already carried out something on these lines. This self-assessment - evaluating the extent of compliance with good practice principles and therefore the Committee’s effectiveness - was submitted to the Council’s attention in 2013, in IMAC’s Second Annual Report (paragraphs 2.3 and 2.4 of Document C13/65). Both this Report and the detailed Self-Assessment are available on the IMAC area of ITU’s public website – please see <http://www.itu.int/en/council/Pages/imac.aspx> .