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| **Council 2015 Geneva, 12-22 May 2015** |  |
| **INTERNATIONAL TELECOMMUNICATION UNION** |  |
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| **Agenda item: ADM 7** | **Addendum 1 to**  **Document C15/22-E** |
| **13 May 2015** |
| **Original: English** |

**Report by the Secretary-General**

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

**Addendum 1, External Audit**

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| Summary  This document presents an Addendum to the IMAC’s fourth Annual Report. It is submitted to the ITU Council 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 2014.  Action required  The Council is invited to endorsethe Addendum 1 to the fourth Annual Report of IMAC.  \_\_\_\_\_\_\_\_\_\_\_\_  References  *Document C15/22 Fourth annual report of IMAC to the Council.  Document C15/65 External Auditor’s Report* |

**1. Purpose of this Addendum**

1.1 In its fourth Annual Report, IMAC noted that its observations on External Audit would be covered in an Addendum to its report, following review of the External Auditors’ Report, when received. On 5 May 2015, IMAC met with the Corte dei Conti’s auditors to discuss their audit findings for 2014.

1.2 This Addendum to IMAC’s fourth Annual Report is therefore submitted to advise the Council on issues arising from the External Auditors’ Report on their audit of the financial statements of ITU; and to inform the Council’s consideration of the financial statements and external audit report for 2014.

**2. The External Auditors’ Report for 2014: Unqualified audit opinion**

2.1 The External Auditors have provided an unqualified audit opinion on the ITU’s financial statements for 2014, with an emphasis of matter on the negative net assets arising from actuarial liabilities in relation to long-term employee benefits. The emphasis of matter does not modify the unqualified audit opinion. The External Auditors’ long-form audit report provides a comprehensive and penetrative financial review and commentary; and includes four recommendations and seven suggestions for management action.

**3. The External Auditor’s recommendations and suggestions**

3.1 The External Auditors recommend:

1. The reinforcement of procedures for the write-off of lost or stolen items;
2. That management start a tender procedure to select an actuary for performing the IPSAS 25 related actuarial valuations;
3. The carrying out in due course of a full actuarial review study to evaluate when the ITU’s financial health might be compromised by the provisions of the Health Insurance Scheme;
4. Monitoring of the five key drivers, or factors, which are relevant for funding and managing employee benefits liabilities, to ensure that there will be adequate pay-as-you-go and long-term funding (see also Suggestion 3).

3.2 The External Auditors suggest:

* 1. That management should consider revising the threshold of low value assets (recorded in Note 12 to the Financial Operating Report), having regard to differences in the categories and depreciation of these various assets;
  2. That management carry out a review at the end of 2015 to determine whether the existing actuarial assumptions used in the valuation of liabilities might merit further revision;
  3. That in relation to employee benefits liabilities, management should define comprehensively a set of drivers and sub-drivers, and use the most relevant drivers to efficiently monitor and address the financial position on After Service Health Insurance, ASHI (see also Recommendation 4);
  4. That management embark on an internal analysis of whether the distribution of ITU publications could be better enhanced through an increase of resellers’ presence more widely across the various regions;
  5. That, after the end of a first trial period of one year, management assess if the 5% returns policy for unsold publications has had the expected impact;
  6. That, given the advent of free online access which could affect publications revenue, management might monitor and analyze the trend of sales of hard copies in order to gain information to support future decisions in this area;
  7. In relation to changes in staffing, contracting and turnover (which are tending towards less stability in the structure of the workforce) management should analyze the implications of these developments in terms of the potential loss of experience from rapid rotation of people and expected retirements; and establish strategic priorities for future staff requirements in the medium term.

**4. IMAC’s comments and advice**

4.1 IMAC considers that implementation by management of the External Auditor’s’ recommendations and suggestions will contribute to improved financial management and control in ITU, and the Committee supports the External Auditors’ recommendations.

4.2 In addition to the above-mentioned issues, IMAC noted the need for a review and evaluation of health services reimbursed as health care, and the sustainability of the costs of the arrangements; and (ii) the need for defined guidelines covering the accounting and reporting for extra-budgetary funds.

4.3 Annex 1 of the External Auditors’ Report provides information on the status of the implementation of audit recommendations from previous years. IMAC notes that a total of 9 recommendations from 2008, 2009, 2012 and 2013 remain on-going and not yet closed.

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