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| Report by the Secretary-General |
| REPORT OF THE INTERNAL AUDITOR ON INTERNAL AUDIT ACTIVITIES |

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| SummaryThis report covers the internal audit activities for the period between March 2014 and February 2015.Action requiredThis report is transmitted to the Council for **consideration**.\_\_\_\_\_\_\_\_\_\_\_\_References*ITU Financial Regulations and Rules (2010), Article 29* |

# Introduction

1. This report is transmitted to the 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 forconsideration. The current report covers activities from the period between March 2014 and February 2015.
2. For most of 2014, the Internal Audit Unit comprised two professional staff – a P.5 (Head of the Unit) and a P.3 (Internal Auditor), as well as a part-time general service staff (Audit Assistant). In September 2014 a temporary P.1 post (Junior Internal Auditor) was created whilst awaiting the creation –further to an earlier made recommendation by the Independent Management Advisory Committee (IMAC) - of a fixed term P.2 post (Junior Internal Auditor) which has recently been approved. Today the Unit consists thus of three professional posts and a part-time general service staff.
3. Internal Audit is organizationally independent from the processes and functions it has audited in the period covered by this report. In line with good governance and to support the independence of the internal audit function, the IMAC was provided with progress reports on the internal audit work, formulated comments and reported thereon in its reports to the Secretary-General and in its annual report to the Council.
4. The Internal Audit plan for 2014 was communicated to the External Auditor in an effort to promote efficiency and coordination.

# Orientation and scope of the internal audit activities

1. The orientation of the audit work was mainly towards the areas of assurance engagements and/or performance audits. The scope encompassed the review of documents and structures/charts, the analysis of conducted activities, an assessment of the related processes and procedures, and the evaluation of compliance. All audits planned and taken forward were timely finalized, with the issuance of final reports including the comments of the managers concerned.
2. Internal Audit 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[[2]](#footnote-2) (IIA), as well as with the provisions of the ITU Internal Audit Charter.[[3]](#footnote-3) In addition, Internal Audit 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.

# Assurance Engagements

1. The objectives of the assurance engagements were to assess the internal controls in place, to review the adequacy of the applicable regulations and rules, to verify the compliance of selected transactions with applicable policies and procedures, and to assess whether the activities under review were in line with the principles of efficient, effective and economical use of the Union’s resources. The priority of the recommendations resulting from the audit work is classified according to the impact and likelihood of the deficiency (critical, high, medium, low).
2. Internal Audit systematically shares copies of internal audit reports with the ITU External Auditor and IMAC. In accordance with ITU Financial Regulation 29.5, final internal audit reports can, upon written request to the Secretary-General, be made available to Member States or their designated representatives. During the period reported on, no requests were received.
3. The results of the audit work for the period reported on indicated that internal controls, policies and procedures were generally established and functioning but needed improvement in certain areas. Recommendations made to Management are being actioned, with the support of the Secretary-General, and this will further strengthen ITU to fulfil its mandate.
4. The implementation of recommended actions is followed up by Internal Audit, as and when required (see also paragraph on follow-up further in this report).

*The following assurance engagements have been conducted:*

***Audit of the SAP Enterprise Resource Planning system’s Workflows***

1. The main purpose of the audit was to assess whether the internal controls are generally adequate and functioning well. The scope of the audit encompassed the three SAP workflow functionalities that the ITU has implemented so far: (i) travel requests, (ii) leave requests and (iii) internal purchase requisitions (*Shopping Carts* in SAP terminology). The audit covered all workflow transactions recorded in SAP in 2012 and 2013 (01.01.2012 – 31.12.2013).
2. Internal Audit’s observations, recommendations and Management’s comments:
3. For travel requests, the workflow was in general adequately configured and in compliance with regulations. There was however a need for systematically ensuring timely submission and approval of travel requests, as well as for delegating the approving authority in case of absence of the supervisor (authorizing official). Management already adopted measures to address this issue.
4. For leave requests, the workflow review also showed a deficiency in terms of timely submission of leave requests by staff members and approval by supervisors. Furthermore the review showed a number of deficiencies, lack of segregation of duties, and shortcomings that need – as a matter of priority – to be addressed by Management. The risk of circumventing the control of the supervisor (authorizing official) existed for these cases. A few isolated cases of more serious deficiencies were also identified and Internal Audit informed staff concerned, supervisors, and/or HRMD officials to take corrective measures. In general, leave balances were however not affected by the deficiencies that were observed, although the latter constitute a risk of inadequate leave entitlements management and accounting. Some additional modifications to the configuration of the workflow would also be helpful for staff themselves to better manage their leave requests and/or monitor their leave balances. Management commented that it agrees with the recommendations.
5. For the *Shopping Carts* workflow, the review showed a few weaknesses in segregation of duties that need to be addressed. Management commented that it supports the recommendations in general, but opts for operational reasons to maintain the current practice.
6. As an overall conclusion, no issues for the *travel request* workflow were encountered and related internal controls are deemed generally adequate and functioning well, and assurance was provided that risks are being managed and objectives are met. For the *leave request* workflow, a few specific internal control weaknesses were encountered as well as a conflict in segregation of duties. Although actions were being undertaken by Management to address these issues, it would be too early to provide assurance that risks are being adequately managed. For the *Shopping Carts* workflow, a few issues regarding segregation of duties were encountered. Where action has been taken for one of the two, it would be too early to provide assurance that risks are being adequately managed.

***Audit of the Quality Assurance Mechanism for Deliverables***

1. The main purpose of the audit was to review the mechanisms in place within the three ITU Bureaux and the General Secretariat for ensuring high quality standards in the achievement of expected deliverables, and therefore, to provide assurance to the Secretary-General with respect to the accountability of the ITU management towards ITU Members States. The bases for the audit were the operational plans (OPs) for 2015-2018.
2. Internal Audit’s observations, recommendations and Management’s comments:
3. There was lack in the formal coordination mechanisms with respect to guidance and harmonization in the approach, format and basis for evaluation of the OPs. Enhancing and formalizing the intersectoral coordination mechanisms for the elaboration of ITU OPs, in line with the new framework of the Strategic Plan for 2016-2019, was thus recommended. Management already implemented this when preparing the OPs for 2016-2019.
4. The definition of key performance indicators (KPIs) across the Union was not always homogeneous, the level of granularity in the KPIs varied from one Bureau/Department to another and the description of the KPIs did not always provide sufficient criteria for assessment. Further promotion for the use of the SMART (Specific, Measurable, Achievable, Relevant/Realistic, Time-bound) approach when defining Performance Indicators was thus recommended. SMART Performance Indicators should also be defined for each Output. Management already implemented this when preparing the OPs for 2016-2019.
5. Since the introduction of Service Level Agreements (SLAs), ITU has well adopted its use and has now reached a maturity for using SLAs in assessing past service performance. However, the current SLA template has no provision for assessment of the past performance of Service Providers. A revision of the SLA framework was recommended to facilitate the assessment of the Service Provider’s past performance. The Secretary-General indicated in his comment that the Union has reached a maturity in the use of SLAs and is thus ready to take this mechanism one step further, as recommended. This recommendation was not yet further implemented.
6. There was no systematic and documented approach in place for assigning the responsibility of Objectives and Outputs. Responsible Owners should thus be identified, and this for each of the Objectives and Outputs of the OPs for 2016-2019 (whenever these owners can be clearly identified). Management agreed to implement this when preparing the OPs for 2016-2019 by defining internally the responsible owners.
7. Every Bureau and the General Secretariat has developed methods and instruments for monitoring activities and evaluating the quality of deliverables. Some of these methods and tools were considered good practices to be presented for the consideration of the rest of the Union. However, the level of maturity of the tools and reporting systems for monitoring and evaluating deliverables vary for each Bureau/Department. Internal Audit also noted that ITU has no systematic corporate monitoring and evaluation mechanism. A feasibility study needs thus be conducted for the implementation of a corporate monitoring and evaluation mechanism, thereby leveraging the existing mechanisms in place in the Bureaux and the General Secretariat. The Secretary-General indicated in his comment that the Deputy Secretary-General would be the most suitable official to be entrusted with this study. In 2015 such a study was already commenced.
8. As a general conclusion and based on the review of the mechanisms in place within the three ITU Bureaux and the General Secretariat, assurance was provided that the Union is heading in the right direction for achieving expected deliverables, based on high quality standards.

***Audit of the contributions to the United Nations Joint Staff Pension Fund (UNJSPF)***

1. The main purposes of the audit were to review and assess the internal controls (and reporting), to verify compliance of selected transactions with applicable policies, procedures and regulatory framework, and to assess whether the contributions to the UNJSPF were in line with the principles of efficient, effective and economical use of the Union’s resources. The scope encompassed all contributions paid to the UNJSPF between January 2012 and May 2014, both for regular staff and short-term staff at ITU headquarters and in the field.
2. Internal Audit’s observations, recommendations and Management’s comments:
3. The calculation of monthly contributions to the UNJSPF was generally adequate and in compliance with rules and regulations but information and data contained in ITU reports sent to the UNJSPF were not always properly recorded in the latter’s records. A discussion with UNJSPF officers to resolve this issue was recommended. Management commented that work is underway to address the issue.
4. A few cases were identified, where disability benefits by the UNJSPF had been granted but the option chosen by ITU was not always the most economically beneficial for ITU. It was recommended that costs to be incurred be considered when determining the date of separation for disability reasons. Management commented that it supports this recommendation.
5. With the introduction of the new Collective Medical Insurance Plan, contributions by retirees to this plan were manually calculated on a monthly basis and may expose the ITU to errors. Development of a standard program to optimize efficient, effective and economical use of the Union’s resources was recommended. Management commented that it supported the recommendation and Internal Audit was informed recently that an intermediate solution is already in place and work is being undertaken to implement a permanent solution.
6. The UNJSPF has developed an interface transferring data related to pension with the aim of enhancing collection of data from member organizations. A request to validate employee data on a regular basis, as to ensure accuracy and integrity of these data for pension purposes, was recommended. Management supported this recommendation.
7. Calculation of Validations and Restorations of pension contributions by staff were performed adequately; in some cases, however, there were important delays, beyond the regulatory 90 days. A recommendation was made to not grant exceptional treatment as far as delays and reimbursement facilities are concerned. Management supported this recommendation.
8. As a general conclusion, reasonable assurance was provided that the established processes provide adequate safeguards as to the ITU’s and staff’s responsibilities towards the UNJSPF.

***Audit of the Africa Regional and Area Offices***

1. The purposes of the audit were to assess the internal controls in place at the Africa Regional office in Addis Ababa, Ethiopia (AFR/RO/ADD) and the Area Office in Harare, Zimbabwe (AFR/AO/HAR); and to review the adequacy of the applicable regulations and rules, to verify the compliance of selected transactions with applicable policies and procedures, and to assess whether the activities conducted were in line with the principles of efficient, effective and economical use of the Union’s resources. The scope of the audit encompassed the time period from January 2012 to September 2014. Internal Audit already included the review of some documents from the Area Office of Dakar, Senegal (AFR/AO/DAK) and the Area Office of Yaoundé, Cameroon (AFR/AO/YAO) whenever these documents where readily available from ITU Headquarters (ITU/HQ), e.g.: petty cash reports, host country agreements, etc., but decided to conduct the audit of AFR/AO/DAK and AFR/AO/YAO at a later stage.
2. Internal Audit’s observations, high priority recommendations, and Management’s comments:
3. Bank signatories for the bank of AFR/AO/HAR were not up-to-date and it was recommended to bring them in line with the ITU Financial Regulations and Rules. Management commented that this was being dealt with.
4. There was no harmonized approach for the use and reporting of petty cash and it was recommended that a common approach be established amongst all offices. Management commented that it had started working on this and further work would be undertaken in 2015.
5. Several security deficiencies were found in the premises of the regional and area offices that were visited and it was recommended to address these and to achieve compliance with relevant UN security standards. Management commented that work on this had started in conjunction with the relevant divisions at ITU/HQ.
6. Other areas of concern were related to asset management and project management, for which recommendations were made to address the issues. Management commented to be supportive of the recommendations and indicated that work was already underway or that additional clarifications and guidance were sought.
7. As a general conclusion, no critical issues[[4]](#footnote-4) were encountered. Depending on the office concerned, there is room for improvement mainly in the areas of safety and security, bank and cash management (for which ITU/HQ – in coordination with the RO/AO – is already addressing the issues), and action/project implementation.

***Audit of the SAP Enterprise Resource Planning system’s Customer Relationship Management (CRM) system***

1. The main purposes of the audit were to review the compliance of CRM’s transactions with ITU rules and procedures and to assess CRM’s effects on the ITU secretariat’s activities. The scope of the audit encompassed the implementation of the CRM project covering activities from January 2013 to January 2015.
2. Internal Audit’s observations, recommendations and Management’s comments:
3. Internal Audit concluded after the audit that the project’s methodology was adequately followed and implemented. Substantial delays were, however, noted in the course of the implementation but these delays were regularly reported and monitored by the Steering Committee. Internal Audit also noted that the go-live of the project was successful. Additionally, Internal Audit found that the procurement process applied for contracting the various sub-contractors was in compliance with the ITU procurement regulations and rules. It was also noted that most of the users are positive and confident that, over time, CRM will provide benefits to their work.
4. The CRM implementation project was basically the foundation phase and a lot of functionality was delivered but there is still a long way before CRM would meet the ITU secretariat’s expectations. The CRM Project Steering Committee should thus be re-activated and reconvened to ensure that the project will continue. An updated roadmap for the continuation of the project should also be established. Management agreed to the recommendation and the CRM Implementation Committee was already created in early 2015 to succeed the CRM Project Steering Committee.
5. The list of requirements still to be developed/implemented and the evolution ITU’s CRM faces are quite sizable and there is concern that, with the current resources, there is a risk of an extended schedule for full implementation. Management agreed with the recommendation made to allot additional resources to the CRM implementation so as to speed it up. Management agreed with the recommendation and asked for the Steering Committee to ensure adequate resources would be made available for the further project.
6. Serious issues exist with respect to data quality (such as duplications and errors) in “old” databases prior to transferring these data into CRM and it is thus recommended to perform an adequate and timely data cleansing. Management fully agreed with the recommendation.
7. At this stage of the implementation, all users still have a wide access profile and a recommendation was made to implement an adequate approval chain linked with access rights. Management agreed with the recommendation.
8. As a general conclusion, findings from the audit provided *Reasonable Assurance*[[5]](#footnote-5) in relation to compliance of CRM’s transactions with ITU rules and procedures. The assessment of CRM’s effects on the ITU secretariat’s activities is positive, yet there are a number of areas which need further attention to achieve the objective of CRM fully meeting the needs of the users.

# Implementation of IMAC recommendations pertaining to Internal Audit

1. IMAC performed regular follow-up of the recommendations with respect to the internal audit function and included progress noted in its report to to the Secretary-General and in its annual report to the Council. In that context, specific reference is made to the second IMAC report to Council (C13/65, paragraph 3.4) in which it had recommended that “… Internal Audit pursue the commissioning of a peer review to take place preferably by 2014”. Such review took place in January 2015. Though the external validation team expressed the overall opinion that ITU Internal Audit generally conforms to the Standards and Code of Ethics of the IIA, it noted partial conformity with 1 of the 14 IIA Attribute Standards and 5 of the 26 IIA Performance Standards. IMAC will further follow up on the various recommendations related to the partial conformance, with a view of enhancing effectiveness and value added by Internal Audit to the ITU.

# Follow-up of internal audit recommendations

1. Throughout the period reported on, and in compliance with IIA**[[6]](#footnote-6)** Standard 2500, Internal Audit continued to follow up on recommendations made in previous audit reports. Substantial progress was noted over the last 12 months and statistics on the implementation are:



(\*) situation on 19 March 2015

1. No critical or high importance recommendations from before 2012 were left unimplemented. One of these recommendations is related to the change of an internal approval workflow, which was delayed as it became part of a more holistic review of internal procedures and is now in progress and expected to be completed in 2015. Another recommendation is also still in progress because it concerns a shift in priorities, yet also expected to be implemented in 2015. The recommendations from 2011 still in progress concern an internal audit of costing of publications. Management informed Internal Audit (and IMAC) regularly of the progress. As the issues raised during the audit are relevant for financial reporting but also for management reporting purposes, and in order to enable a transparent understanding of the actual cost of each publication, the chosen approach was to proceed carefully after having gathered the necessary information. The valuation test will be conducted in 2015 after having gathered several months of reliable information. In 2015, Internal Audit continues to monitor the implementation of the various recommendations contained in previous audit reports and will report on this follow-up, as appropriate, to IMAC and to the Secretary-General. Overall, continuous progress is noted.

**Audit methodology related aspects**

1. Already in 2013, Internal Audit started using *Audit Effectiveness Questionnaires* which were sent to the audited processes’ and entities’ managers, to assess the effectiveness of the audit work and identify room for improvement. In general, feedback has been very positive to date (average score of 4, on a scale from 1 to 5).

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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, adopted by the Secretary-General on 27 June 2013. [↑](#footnote-ref-3)
4. A *critical issue* is defined as representing a complete breakdown of the control environment which impacts so negatively on an organization as to render its continued functioning impossible or highly unlikely. [↑](#footnote-ref-4)
5. Some weaknesses have been identified in the design and/or operation of controls, which could hinder achievement of the objectives of the system, function or process. However, either their impact would not be major or they would be not very likely to occur. [↑](#footnote-ref-5)
6. Institute of Internal Auditors, [www.theiia.org](http://www.theiia.org). [↑](#footnote-ref-6)