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| **Council 2016Geneva, 25 May – 2 June 2016** |  |
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| **Agenda item: ADM 8** | **Document C16/40-E** |
| **20 May 2016** |
| **Original: English** |
| **Report by the Secretary-General** |
| EXTERNAL AUDIT |

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| **Summary**The External Auditor's report covers the audit of the financial statements for 2015.**Action required**The Council is invited to examine the External Auditor's report on the accounts for 2015 and to **approve** the accounts as audited.\_\_\_\_\_\_\_\_\_\_\_\_**References**[*Financial Regulations (2010 edition)*](http://www.itu.int/council/finregs/Regl_Fin_10e.pdf)*: Article 28 and additional terms of reference* |


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REPORT OF THE EXTERNAL AUDITOR

**INTERNATIONAL TELECOMMUNICATION UNION
(ITU)

Audit of the Financial Statements for 2015**

**17 May 2016**

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# INTRODUCTION

The legal basis for the audit carried out by the External Auditors is set out in Article 28 of the Financial Regulations (2010 edition) and the Additional terms of reference.

This report informs the Council of the results of our audit.

The audit considered the ITU’s Financial Operating Report at 31 December 2015 and the budgetary accounts and their consistency.

The financial periods are governed by the Constitution and Convention of the International Telecommunication Union, and by the ITU’s *Financial Regulations and Financial Rules* in accordance with the International Public Sector Accounting Standards (IPSAS).

We carried out the audit of the accounts for the Financial Year 2015 based on INTOSAI standards and on the IPSAS regime and in line with the additional terms of reference that form an integral part of the Union’s Financial Regulations.

We planned the working activities according to our audit strategy to obtain a reasonable assurance that the Financial Statements are free from material misstatement.

We evaluated the accounting principles and related estimates made by Management and we assessed the adequacy of the presentation of information in the Financial Statements.

We tested, on a sample basis, a number of transactions and the relevant documentation and we obtained sufficient and reliable evidence in relation to the accounts and disclosures in the Financial Statements.

Thus, through the audit, we have obtained a sufficient basis for the opinion given below.

During the audit all questions were clarified and discussed with the officials responsible.

The team had regular discussions with Mr. Alassane Ba, Chief of ITU’s Financial Resources Management Department, and with members of his staff or in other departments, depending on the subject matter under consideration.

The result of the audit was communicated on 12 May 2016.

Pursuant to §9 of the Additional terms of reference governing the external audit, with regard to comments by the Secretary-General for inclusion in this report, the Secretary-General informed us, through his colleagues, during the final discussion on 5 May 2016, that his comments would be sent to us. Those comments were received on 13 May 2016 and were duly incorporated in this report.

We audited the ITU financial operating report on the Organization’s accounts relating to the financial results as at 31 December 2015, presented in compliance with Article 28 of the *Financial Regulations (2010 edition)*.

A Letter of Representation referring to the accounts for the Financial Year 2015, signed by the Secretary-General and the Chief of the Financial Resources Management Department, was included in the Financial Statements and is an integral part of the audit documentation.

Furthermore, we also received the Statement of Internal Control for 2015, signed by the Secretary-General, on 29 March 2016.

We have highlighted the results of our audit activity as “Recommendations” and “Suggestions”. Whilst Recommendations fall under the follow-up process carried out by the Council Working Group on Financial and Human Resources, Suggestions are only followed up by the External Auditor. However, in principle, the ITU Council, possibly following advice from the Independent Management Advisory Committee (IMAC), may ask the Secretary-General to implement a “Suggestion”, where deemed necessary.

We also audited the ITU TELECOM World accounts for 2015, in accordance with Resolution 11 (Guadalajara 2010) resolves no. 6.

We would like to underline that next year a revised international auditing standard will enter into force, requesting external auditors to provide specific information to be disclosed in the audit certificate. During the next meeting in December 2016 the Panel of United Nations External Auditors will deal with the above-mentioned issue. We will inform Management and Council of every change made in the audit certificate.

Finally, we wish to express our appreciation for the courtesy and availability shown by all the ITU officials who we asked for information and documents.


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# AUDIT CERTIFICATE

**Independent Auditor’s Report**

We audited the financial statements of the International Telecommunication Union (ITU) for the year ended 31 December 2015, which comprise the statement of financial position, the statement of financial performance, the statement of changes in net assets, the comparison of budgeted and actual amounts and the cash-flow statement, as well as a summary of significant accounting policies and other explanatory notes.

**The ITU Secretary-General’s responsibility for the financial statements**

The Secretary-General is responsible for the preparation and fair presentation of the financial statements in accordance with the International Public Sector Accounting Standards (IPSAS). Furthermore, the Secretary-General is responsible for the transparency of the financial statements and their accessibility, as well as for establishing and maintaining such internal control as is deemed necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**The auditor’s responsibility**

Our responsibility is to express an opinion on the ITU Financial Statements, based on our audit. We conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI), and the ITU Financial Regulations and Rules. The ISSAIs require that we comply with ethical requirements, and plan and perform the audit in such a way as to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or errors. In making this risk assessment, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Secretary-General, as well as evaluating the overall presentation of the financial statements.

We ascertained that the financial statements had been prepared in accordance with the stated accounting policies and that these policies had been applied on a basis consistent with that of the preceding financial period. We also ascertained, on a sample basis, the compliance of transactions with the ITU Financial Regulations and Rules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In accordance with the ITU Financial Regulations and Rules (Article 28) and the additional terms of reference governing External Audit (Annex I to these Financial Regulations and Rules), we have also issued a detailed report on our audit of the ITU Financial Statements for 2015.

**Emphasis of matter**

The Statement of financial position shows a negative Net Asset (-343.2 MCHF), mainly due to the impact of 495.0 MCHF in actuarial liabilities relating to long-term employee benefits recorded in the statement of financial position. Details of our analysis are included in our report. Measures are being undertaken by Management, which has assured us that it will monitor the effectiveness of these measures.

**Opinion**

In our opinion, ITU’s Financial Statements for 2015 present fairly, in all material respects, the financial position of the International Telecommunication Union as at 31 December 2015, as well as, for the year then ended, the financial performance, the changes in net asset, the cash flows and the comparison of budget and actual amounts, in accordance with IPSAS and the Financial Regulations and Rules of the ITU.

Rome, 17 May 2016



# STRUCTURE OF THE ACCOUNTING STATEMENTS

1. The ITU’s Financial Statements, prepared and presented in compliance with IPSAS 1, include the following elements:
* Statement of financial position – Balance sheet at 31 December 2015 with comparative figures as at 31 December 2014 showing Assets (divided into Current and Non-current assets), Liabilities (divided into Current and Non-current liabilities) and Net assets;
* Statement of financial performance for the period ended 31 December 2015, with comparative figures as at 31 December 2014 showing the Surplus/Deficit for the financial year;
* Statement of changes in Net Assets for the period ended 31 December 2015, showing the value of the Net assets including the surplus or deficit for the Financial Year as well as losses directly recorded in Net assets without impacting the Statement of financial performance;
* Table of cash flows for the period ended 31 December 2015, showing the inflow and outflow of cash and cash equivalents, regarding the operational, investments and financing transactions and the treasury totals at the end of the financial year;
* Comparison of budgeted amounts and actual amounts for the 2015 financial period;
* Notes to the financial statements providing information about accounting policies and additional information necessary for a fair presentation.

# STATEMENT OF FINANCIAL POSITION 2015

## ASSETS

1. In 2015, Assets amounted to 370.3 million Swiss Francs (MCHF), which is similar to the value recorded in 2014 (370.3 MCHF).
2. They consisted of Current assets, amounting to 262.1 MCHF, representing the 70.8% of Total Assets (slightly more than in 2014, 69.9%), and Non-Current Assets, amounting to 108.2 MCHF, representing 29.2% of Total Assets (30.1% in 2014).

## Current Assets

1. Total Current assets in 2015 amounted to 262.1 MCHF, representing an increase of 3.3 MCHF (+1.3%) as compared to 2014 (258.8 MCHF). The increase, in overall terms, is due to Investments (+24.7 MCHF) and Receivables of non-exchange transactions (+0.7 MCHF), whereas Cash and cash equivalent (-19.9 MCHF), Contributions receivable (-1.4 MCHF), Inventories (-0.1 MCHF) and other receivables (-0.8 MCHF) decreased. The basis for the evaluation of Current assets is given in the Main Accounting Principles (Note 3).

## Cash and cash equivalent

1. The sub-heading “Cash and cash equivalent”, totalling 55.5 MCHF, decreased by 19.9 MCHF (-26.4%) compared to 75.4 MCHF in 2014; it included cash in hand and all the balances of ITU postal and bank current accounts as at 31 December 2015. This decrease was mainly due to “Bank current accounts in CHF” (-21.9 MCHF) which made up around 63.4% of the total sub-heading. The decrease originated from a transfer to “Investments” due to a diversification policy introduced during the year. A detailed breakdown of Cash and cash equivalent is shown in Note 7 of the Financial Operating Report.
2. We asked all the banks having business relations with ITU to confirm the current accounts’ balances as at 31 December 2015. We verified that the accounts balances had been properly recorded in the accounts. All variances detected were explained and justified. It is worth mentioning that we did not receive direct confirmation from eight banks. This limited our work in this area, although Management did everything it could to enable us to receive them.
3. With reference to the missing bank confirmations, Management provided us with a copy of the statements as at 31.12.2015 relating to all the above-mentioned banks, and we used them for the reconciliation.

### Updating of lists of authorized signatures at banks

1. As a result of our audit of the bank confirmations, as last year, we also found isolated differences between the lists of authorized signatures kept by Management at Headquarters and the lists that we received from the banks. Due to the fact that not all the confirmations had been received, we could not reach a conclusion over the signatories. It should also be mentioned that Management was aware when an outdated list was being submitted by banks and acted promptly, communicating with the banks in order to resolve these discrepancies.

## Investments

1. In 2015, the sub-heading “Investments” amounted to 111.8 MCHF, an increase of 24.7 MCHF (+28.4%) compared to 2014 (87.1 MCHF), and it included fixed-term investments with maturity of not more than 6 months from 31 December 2015. A detailed breakdown of Investments by date of maturity and the reason for the decision to increase investments in 2015 is shown in Note 8 of the Financial Operating Report.
2. In Note 3 of the Financial Operating Report, regarding Main Accounting Principles, the specific paragraph on Financial Instruments provides information on the disclosure of Investment. In accordance with IPSAS, Note 5 provides information about the Financial risk management, in particular all Investments are exposed to a credit risk, as well as interest rate, liquidity, currency and market risks.

## Receivables

1. Current receivables, whether for exchange or non-exchange transactions, had a net worth of 86.2 MCHF in 2015, compared to 86.8 MCHF in 2014. They represented 33.5% of the total current assets compared to around 32.9% in 2014. As stated in Note 9 of the Financial Operating Report, they represent the uncollected revenue that Member States, Sector Members and Associates are committed to pay to ITU for annual contributions, the purchase of publications, satellite network filings and other invoices issued by ITU.
2. Non-current receivables, also inserted and illustrated by Management in Note 9, whether for exchange or non-exchange transactions, amounted to 14.9 MCHF (17.5 MCHF in 2014). They were fully provisioned at 31 December 2015 in line with the principles described in Note 3 to the financial statements. Additional explanations are given under Note 9 “Receivables”.

## Other current receivables

1. An amount of 8.1 MCHF (8.8 MCHF in 2014) is shown in the closing balance sheet under other receivables. A detailed breakdown of “other receivables” is shown in Note 11 of the Financial Operating Report.

## Inventories

1. In 2015, items related to publications, souvenirs and supplies were recorded at a net value of 0.6 MCHF, a decrease of 0.1 MCHF compared to the 2014 net value of 0.7 MCHF. Inventories are detailed in Note 10 of the Financial Operating Report.
2. We acquired and checked the lists of items in the inventories, comparing them with those for the previous year. No major problems were identified, that might have had an impact on the accounts at the closing date (31.12.2015).

## Non-current assets

1. Non-current assets as at 31 December 2015 totalled 108.2 MCHF; they showed a reduction of 3.4 MCHF (-3.0%) compared to 2014, when they amounted to 111.5 MCHF, mainly due to the depreciation of the ITU’s buildings. The basis for the evaluation of Non-current Assets is given in the Accounting Principles (Note 3).
2. This heading was composed of “Property, plant and equipment”, amounting to 104.9 MCHF, or 97.0% of total Non-current assets (in 2014 it was 107.4 MCHF, or 96.3% of total Non-current assets) and by “Intangible assets”, amounting to 3.2 MCHF, or 3.0% of the total (in 2014, it was 4.1 MCHF, or 3.7%). They are illustrated in Notes 12 and 13 of the Financial Operating Report respectively.

## Property, plant and equipment

1. This heading showed a value of 104.9 MCHF, which was the net value, at 31 December 2015, of the capitalised cost minus the related depreciation for each category listed here: buildings (a net value of 103.9 MCHF was recorded in 2015; 105.4 MCHF in 2014); machinery (0.09 MCHF in 2015; 0.1 MCHF in 2014); furniture (0.2 MCHF in 2015; 0.4 MCHF in 2014); IT equipment (0.7 MCHF in 2015; 0.5 MCHF in 2014). These are illustrated in Note 12 of the Financial Operating Report.
2. IPSAS 1 requires that, in the Statement of the financial position, buildings should be recognised as assets. For the initial recognition, IPSAS 17 states that reference must be made to the costs of these items or to a reliable fair value. Depreciation is charged systematically over the asset’s useful life, and the depreciation method must reflect the pattern in which the asset’s future economic benefits or service potential is expected to be consumed by the entity. The residual value must be reviewed at least annually and must equal the amount the entity would receive currently if the asset were already of the age and condition expected at the end of its useful life. Land and buildings are separable assets and are accounted for separately, even when they are acquired together.
3. According to Annex II to the ITU Financial Regulations, the External Auditor has to express whether “procedures satisfactory to the External Auditor have been applied to the recording of all assets, liabilities, surpluses and deficits”.
4. In Note 3 to the Financial Operating Report “Main accounting principles”, sub paragraph “Property, plant and equipment”, it is stated that the initial recognition of buildings was performed at the “*intrinsic value*” “*on the basis of the study conducted by an external consultancy*”, in order to define the IPSAS opening balance sheet value. This was considered the “historical cost”, and the depreciation was realized referring to an “*estimated useful life*” which was 100 years for the structure. The land on which ITU has a free of charge “*droit de superficie*” was not considered in determining the initial value of the buildings. In the past years we issued a recommendation related to the renegotiation of the Host State Agreement (please refer to the follow-up table, Annex 1) and, when this agreement has been finalised, residual book values should be adjusted accordingly.
5. In Note 12 to the Financial Statements, the buildings recognized as non-current assets were the Tower, Varembé, Extensions A, B and C and Cafeteria, and Montbrillant. In respect of buildings, as stated above, the net carrying amount varied from 105.4 MCHF at 1 January 2015 to 103.9 MCHF at 31 December 2015, due to a depreciation of 3.4 MCHF recognized during the year.
6. The Swiss Confederation grants financing for the construction of buildings for international organizations through the “Fondation des immeubles pour les organisations internationals” (FIPOI), in the form of a loan on favourable terms, i.e. a period of 50 years at an interest rate of 0%. The land is provided free of charge by the State of Geneva via a “*droit de superficie*”. The value of borrowings from the FIPOI is illustrated in Note 16 of the Financial Operating Report.

### The accuracy of the Asset Register need to be improved

1. We obtained and checked the lists of assets, and we carried out a physical stock-check on a sample of items recorded in the fixed asset register. We noted that some items in our sample were not properly recorded in the 2015 accounts nor labelled. For instance, findings were more recurrent when related to IT tools and, furthermore, it should also be considered that some of the donations (before 2010) were not recorded in the register. Although the net book value of the missing items is not material for our audit, we were assured by Management that due care would be taken to ensure the precise recording of all the items in the coming months.
2. We stress the importance of the accuracy of the inventory under IPSAS rules. It is essential that the people responsible in each sector strictly follow the relevant procedures, with regard to the recording of the existence of some items and their movements, and correctly assess their values. We also stress the fact that an accurate asset register is not only important for the value recorded in the Statements but is also an important tool for an efficient and effective asset management.

In this regard, we recommend that Management increase its efforts to recognize, label and capitalize the fixed assets located at ITU, in order to have a more accurate record of assets, through procedures and processes that will bolster coordination between different Departments.

Comments by Secretary-General

The Secretariat will pursue the efforts already made to ensure that all assets are recorded in the respective databases.

### A revision of the depreciation’s coefficients is needed

1. ITU Policy and Guidelines on “Capital assets management” (5th version, issued March 2013) are used as a reference by Management and, in particular, paragraph 4 describes the categories into which the ITU’s assets are divided, and their related lifetimes.
2. During our audit we noted that the lifetimes set out in the ITU’s Policy were not always in line with the document “UN Policy Framework for IPSAS” (Second edition, see, for reference, paragraph 13.2 and following). Therefore, some of the categories and their related lifetimes need to be amended accordingly.

In this regard, we recommend that Management should review the different categories’ lifetimes and their related depreciations according to UN practices. Where categories are updated, an adjustment of net book value will be needed.

Comments by Secretary-General

The secretariat will further analyse this recommendation and its potential consequences.

### A “Fixed assets management” merits further implementation

1. Based on the audit carried out this year, we detected that, in the Asset Register or in other supporting databases, there was no clear indication of the status (e.g., “active”, “not in use”, “partially utilized”, etc.). There was also no clear indication of their precise assignment to a staff, and no monitoring as to whether the staff was using the item assigned effectively and appropriately.

We consider that the asset management framework needs further improvement, therefore we recommend that Management should: i) consider the feasibility of assessing the status and the level of utilization of assets; ii) monitor regularly the obsolescence of items, also with a view to assessing the accuracy of the Asset Register; iii) extend these processes and procedures to all ITU Departments and Regional offices.

Comments by Secretary-General:

The secretariat will further analyse this recommendation and make report on the findings and conclusions to the external auditors.

### Write-off of assets

1. Last year we issued a recommendation (Rec. 1/2014, see Annex 1) on the need to reinforce procedures related to write-offs of lost or stolen items. We acknowledge that Management has implemented the processes for lost or stolen items. Specific measures to strive to reduce these cases might be considered.
2. Furthermore, during our audit, we noted that the official forms filed and used for authorizing write-offs of items, regardless of whether they have been lost or are not in use, are often under the sole authority of one authorized staff member.
3. From an asset management point of view, we consider it to be relevant that, before writing-off an asset, information be made available to all Departments and Regional offices, in order to decide on its residual cost-benefit before buying an equivalent one.

We also suggest that asset management related to disposal and donations should be further improved, in particular through the optimization of procedures, for instance by creating an ad-hoc Committee. It might also be useful to consider, subject to a cost/benefit evaluation, the possibility of exchanging assets between Departments and Regional offices, before deciding to buy a new item.

Comments by Secretary-General:

The secretariat will consider the feasibility level of this suggestion and will consider several options such as internal committee, electronic workflow or equivalent internal processes.

## Intangible Assets

1. In 2015, Intangible Assets amounted to 3.2 MCHF, a decrease of 0.8 MCHF (-20.5%) compared to the value for 2014 (4.1 MCHF).
2. As stated by Management in Note 13 to the Financial Operating Report, capitalization, according to IPSAS 31, regarded internal developments related to improvements of some specific services offered to members, specifically for the access, management and archiving of ITU documentation.

## LIABILITIES

1. In 2015, Total Liabilities amounted to 713.5 MCHF, a decrease of 42.8 MCHF (- 5.7%) in comparison with the value recorded in 2014 (756.3 MCHF). They consisted of:
2. *Current Liabilities*, amounting to 143.0 MCHF, representing 20.1% of Total Liabilities (in 2014, they represented 19.1%, totalling 144.4 MCHF), and
3. *Non-Current Liabilities*, totalling 570.4 MCHF, representing 79.9% of Total Liabilities (in 2014, non-current liabilities represented around 80.9%, totalling 611.9 MCHF).

## Current liabilities

1. Total Current liabilities in 2015 amounted to 143.0 MCHF, representing a decrease of 1.4 MCHF as compared with 2014 (144.4 MCHF). The decrease, in overall terms, was due to the effect, on the one hand, of the fall in “Deferred revenue” (-1.9 MCHF) and “Suppliers and other creditors” (-2.0 MCHF) and, on the other hand, the increase in the sub-headings “Other debts” (+2.3 MCHF) and “Provisions” (+0.2 MCHF). The basis for the evaluation of Current Liabilities is set out in the Accounting Principles (Note 3).

## Suppliers and other creditors

1. An amount of 7.2 MCHF (9.2 MCHF in 2014) is shown in the closing balance sheet under “Suppliers and other creditors”. A detailed breakdown is shown in Note 14 to the Financial Operating Report.

## Deferred revenue

1. The sub-heading “Deferred revenue” amounted to 127.6 MCHF (129.5 MCHF in 2014). The majority of this amount comes from contributions from the ITU’s membership (Member States, Sector Members, Associates) and from revenue for Satellite Network Filing not yet finalized at the end of 2015. A detailed breakdown of deferred revenues is shown in Note 15 to the Financial Operating Report.

## Provisions

1. In 2015, the sub-heading “Provisions” amounted to 1.0 MCHF (0.8 MCHF in 2014). This heading included the provision for litigation (0.8 MCHF) and the provision for free Satellite Network Filing (0.2 MCHF).
2. The increase of 0.6 MCHF, as compared with 2014, for litigation, is mainly due to the possibility that there could be litigation with the ILO (International Labour Office) relating to the exit of ITU from the SHIF (Staff Health Insurance Fund). We reviewed the whole list of litigation and the related amounts booked into the accounts, and we considered them to be correct. See the dedicated paragraphs below for further considerations.

## Borrowings and financial debts

1. The amount related to the ITU’s capital borrowed from FIPOI for the construction and renovation of some of its premises was recorded as short-term (1.5 MCHF, or 1.0% of total Current Liabilities), corresponding to the instalment to be repaid to FIPOI by ITU in 2015, and as long-term (43.8 MCHF, or 7.7% of total non-current liabilities). The amounts, detailed in Note 16 to the Financial Operating Report, are also confirmed by the statement obtained from FIPOI dated 14 December 2015.

## Other Current liabilities

1. In 2015, the sub-headings “Employee benefits” and “Other debts” amounted respectively to 0.5 MCHF (the same as 2014) and 5.3 MCHF (3.0 MCHF in 2014). A detailed description and breakdown are shown in Notes 17.1 and 19 to the Financial Operating Report respectively.
2. In particular, short-term Employee benefits, recorded under “Current liabilities”, are related to the provision for overtime (0.08 MCHF, it was 0.06 in 2014) and the provision for accrued leave (0.4 MCHF, the same as 2014). Our checks did not reveal any major issue and the provisions are substantially accurate.

## Non-current liabilities

1. Total Non-current liabilities in 2015 amounted to 570.4 MCHF, representing a decrease of 41.5 MCHF (-6.8%) as compared with 2014 (611.9 MCHF). The decrease, in overall terms, is explained by the fall in Employee benefits (-39.3 MCHF, -7.4% compared to 2014). The basis for the evaluation of Non-current liabilities is set out in the Accounting Principles (Note 3).
2. This heading comprised long-term debts (see paragraph “Borrowings”), third-party funds, allocated or in the process of allocation, liabilities for the ITU Health Insurance Scheme and provisions covering obligations of uncertain amount and timing mainly related to post-employment benefits.

## Summary of employee benefits

1. Employee benefits are disclosed in the Financial Statements under “Current liabilities” and under “Non-current liabilities”, totalling 495.5 MCHF in 2015, as summarised in the table below.



## Long term employee benefits

1. As shown in the table above, in 2015, the sub-heading “Non-current liabilities” (related to long term employee benefits) amounted to 495.0 MCHF, down by 39.3 MCHF (-7.4%) as compared with 534.3 MCHF in 2014. It represented 86.8% of total Non-current liabilities and 69.4% of total liabilities. This heading included the actuarial liabilities for post–employment benefits under the After Service Health Insurance plan (ASHI) (472.8 MCHF; in 2014 it was 512.7 MCHF), a provision for estimated liabilities for the repatriation grant (12.9 MCHF; in 2014 it was 12.4 MCHF) and a provision for accrued leave (9.2 MCHF; in 2014 it was 9.3 MCHF). A detailed description and breakdown of the employee benefits is shown in Note 17.2 to the Financial Operating Report.

## Employee Benefits: Installation and Repatriation grants

1. As shown in the previous paragraph, the provisions recognized at 31 December 2015 for installation and repatriation grants amounted to 12.9 MCHF (12.4 MCHF in 2014) and were calculated according to the actuarial study that Management commissioned the actuary “CPA Conseil”, and illustrated in its report dated 16 February 2016.

## Employee benefits: ASHI

1. In 2015, the provision for actuarial liabilities for the ASHI plan amounted to 472.8 MCHF, representing a decrease of 39.9 MCHF (-7.8%) compared to 512.7 MCHF in 2014. This decrease was mainly due to the change in some assumptions (see paragraph ‎58), despite the decrease in the discount rate to 1.32% in 2015 from 1.51% in 2014. This calculation, based on actuarial assumptions, was performed by the actuary AON Hewitt Consulting.

## Negative Net-assets influenced by actuarial liabilities

1. The considerable amount of the ASHI’s actuarial losses (257.1 MCHF) has a significant impact on the Net Asset of the ITU and, for this reason, as in the past years we focused part of our audit on the correctness and reliability of the Employee Benefits values.
2. The choice of actuarial assumptions is the sole responsibility of Management. The External Auditor checks their plausibility and their consistency with IPSAS 25 and with previous years and validates them.
3. As last year, for this specific subject, our team made use of a group of public actuaries, who were experts in social benefits. They carried out a review of the key assumptions related to 2015, which were duly discussed with Management. We found that these assumptions were in line with economic trends and rates and also consistent with data available at ITU at the moment of our audit, and we validated them.
4. To carry out their audit, our actuaries recalculated the valuations prepared by the two actuaries (CPA Conseil and AON) chosen by ITU; they also performed an in-depth analysis of all actuarial valuations and assumptions in order to review their plausibility and the algorithms used. Management and the actuaries fully cooperated with the review.
5. The work of our actuaries confirmed that the amounts recorded in the accounts were substantially correct; however, apart from the key assumptions related to economic variations, which need to be reviewed every year, it might, in the future, be considered appropriate to reconsider the relevance of other assumptions.
6. We take note that, following suggestion n. 2 in our report on the Financial Statements 2014, Management reviewed some assumptions, mainly related to the changes in the profile of the ITU population covered by the Medical Benefit Plan. As shown in the AON report, there was a decrease in members included in the valuation. Other changes regarded:
7. the ITU’s decision to adopt the inflation assumption used in the latest UNJSPF (United Nations Joint Staff Pension Fund) actuarial report, with an increase in the inflation rate from 2% to 3%;
8. The adoption of the salary increase assumption used in the latest UNJSPF actuarial report, which led to a rate of 3.5% per annum plus an age-related static salary increase scale, whereas till 31.12.2014 a flat rate by staff category had been used.
9. The above-mentioned decrease in the discount rate, due to the fact that the majority of the ITU post-employment benefit obligation is in Swiss Francs.

### The transition to the “CMIP”. The discount rate does not fully reflect IPSAS 25

1. It is to be considered that, during 2014, the ITU departed from the ILO/ITU Staff Health Insurance Fund (SHIF), which was jointly managed with ILO. The ITU introduced a new staff health insurance scheme, the Collective Medical Insurance Plan (CMIP) insured and administered by Cigna/Vanbreda International.
2. Given that the change in the staff insurance scheme took place on 1 May 2014, but it was still possible to claim reimbursements under the old scheme until January 2015, it is still early to fully measure the impact of the new scheme. The calculation of the ITU’s residual guarantee Fund has not yet been finalized, pending the closing of the SHIF accounts. We will therefore monitor the impact of the change on the new scheme in the coming years.
3. We understand the reasons why AON calculated the discount rate using its own AA Corporate Bond Yield Curve, based and weighted on the major currencies; however, we have the opinion that a different discount rate should be used to calculate actuarial liabilities. In fact, paragraph 94 of IPSAS 25 requires that “*An entity makes a judgment whether the discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds, high quality corporate bonds, or by another financial instrument. In some jurisdictions, market yields at the reporting date on government bonds will provide the best approximation of the time value of money. However, there may be jurisdictions in which this is not the case, for example, jurisdictions where there is no deep market in government bonds, or in which market yields at the reporting date on government bonds do not reflect the time value of money*”.
4. Since we can affirm with certainty that in Switzerland a “deep market” in government bonds does exist (and that market yield reflects value for money), the discount rate should be equal to the yield, at the end of the year, on long-term Swiss government bonds, adjusted to reflect the estimated timing of benefit payments, also considering that the majority of obligations related to the ASHI are in CHF.
5. This might lead to a temporary increase in the actuarial liabilities, because the market yield for the Swiss government bonds is currently at a low level; on the contrary, an increase in the years to come should lead to a decrease in such liabilities.

Given the purpose of the valuation required by IPSAS 25 and the directions provided in paragraph 92 to 94 thereof, we recommend that, in the years to come, Management should ask the actuary to use a discount rate equal to the yield on long-term Swiss government bonds.

Comments by the Secretary-General

Management notes this recommendation and will discuss the matter with the appointed actuary to determine the most appropriate approach, taking into consideration the best practices of the UN organisations

## A full actuarial study is needed.

1. In our report on the Financial Statements for 2014, we recommended that Management should perform a full actuarial study in the coming years: it is necessary to obtain answers, and possible solutions, to the question of adequate funding, in order to ensure that the ITU Health Insurance Scheme is not underfunded, in the long-term, on a pay-as-you-go basis.
2. The study should be performed at the end of 2016, according to our recommendation n. 3/2014 and the Secretary-General’s reply; we are aware that Management has already started the tender procedure for selecting the relevant expert actuary for this task and we will monitor this process.

## Liabilities and Negative net assets: comparisons within the UN system are not possible

1. Last year, we welcomed the ITU’s Management participation in a Working Group on the ASHI, within the UN System. The results of this WG were incorporated in the UN Secretary-General’s report A/70/590 of 04/12/2015. We received this report at the end of March 2016, together with the document CEB/2016/HLCM/12 of 14/03/2016, issued by the High-Level Committee on Management (HCLM) in view of its thirty-first Session of 22-23 March 2016.
2. The two documents contain many recommendations to face the problem of ASHI-related actuarial liabilities. We will carefully analyse the impact of the possible implementation of these recommendations, taking into consideration the fact that they are still “in progress”, as the Working Group’s work is still ongoing.
3. As already stated in our report on the 2014 Financial Statements, we stress the fact that, within the UN system, it is not always possible to be consistent in the key assumptions used in respect of the ASHI, because of the different characteristics of each Agency. These include the number and composition of staff (salary and career advancement, family allowances, etc.) and the location (number of staff deployed in field offices), which have effects on predicted illness and mortality.
4. Considering, for example, the difference in calculating the discount rate according to IPSAS 25, we observe that several Agencies make reference to different yield curves (for instance related to AA Corporate bonds, developed by different operators, or to long-term government bonds); therefore, it is difficult to carry out a direct comparison of the current situation of the ITU’s actuarial liabilities with the liabilities of other Agencies in the UN system.

## Future underfunding at ITU: defining possible “drivers” for reducing it

1. Last year, we also indicated that, in our opinion, remedial measures were necessary to reduce the underfunding of employee benefits liabilities, which is mainly due to the increasing ASHI actuarial liability.
2. We also showed the main five “drivers” for funding the liabilities and consequently offsetting negative Net assets. Three of these are oriented towards funding liabilities and two to managing them; we also recommended (recommendation n. 4/2014) that Management monitor such drivers to ensure adequate pay-as-you-go and long-term funding.
3. We also issued a suggestion, to the effect that a comprehensive set of drivers and sub-drivers should be established, and that the most relevant should be used to efficiently monitor and address the ASHI situation.
4. We take note that several measures have been considered by the ITU’s Management to face the ASHI underfunding; however, since the full actuarial study will help to disclose when core activities might be affected by ASHI expenditures, we will monitor the effectiveness of any action taken by Management on the basis of the results of this study.

## Separation from the “SHIF”: contrast in the settlement

1. It should be mentioned that the separation from the SHIF, the health insurance scheme operated by the ILO, in which the ITU participated until 2014, has not yet been fully completed, because there are disagreements between the two agencies on the sum to be paid to the ITU by the SHIF, mainly related to two key points:
2. on the basis of the separation, claims for reimbursement could be submitted to the SHIF by ITU insured members until 31 January 2015. Obviously, after that date there was still need for time to process reimbursements. The ILO has charged ITU five months full administrative costs (up to May 31, 2015), as if all ITU members were asking for repayments on the old fund. The ITU argues that it was a very small number of files, so the administrative costs could not be charged to the ITU to that extent;
3. the second point concerns the liquidation of the SHIF guarantee fund, to whose establishment and maintenance the ITU participated with a contribution of 23% of the fund: the ITU had assumed that, following the principle of the proportionality of its contribution and the principles of mutuality and solidarity, it would be paid to the Union a percentage of the fund valuation corresponding to the percentage of its paid contribution to the fund; the ILO did not agree on this figure and offered a much lower sum.
4. For these two main reasons, the ITU has provisioned 500 kCHF for an eventual, possible, litigation (see above, paragraph ‎43).

## Employee benefits: Staff Superannuation and Benevolent Funds (ITU closed Pension Funds)

1. As in previous years, an amount of 90’000 CHF is recorded in the accounts at closure; it relates to benefit obligations in the form of pensions payable to former staff members under the Staff Superannuation and Benevolent Funds (see also related paragraph ‎93).

## NET ASSETS

1. Net assets comprised allocated and unallocated own funds, extra-budgetary funds, the non-budgetary result, the surplus/deficit for the financial year and the effects of the transition to IPSAS. In 2015, Net Assets resulted in a negative value of -343.2 MCHF, a decrease as compared with -386.0 MCHF in 2014.
2. All the movements in Net assets are explained in various Tables and Notes in the Financial Operating Report, in particular:
	1. Table II “Statement of financial performance”, which shows the deficit for the period (-15.8 MCHF).
	2. Table III “Statement of changes in net assets”, showing the movements separately for each own funds, and IPSAS effects.
	3. Table V “Comparison of budgeted amounts and actual amounts”, which also discloses the accounting reconciliation between budget out-turns (actual amount) and amounts recognized in the Financial Statements (in this regard, see also Note 25).
	4. Note 3 “Main accounting principles” in the paragraph related to the “recognition of Funds”, in particular the sub-paragraph on “Allocated funds”, and the paragraph related to “Reserve Account”.
	5. Note 4 “Management of net assets”, which lists the movements in the Reserve Account.

# STATEMENT OF FINANCIAL PERFORMANCE 2015

1. This Statement shows the Organization’s operating and financial revenue and expenses classified, disclosed and presented on a consistent basis in order to explain the year’s net deficit or surplus. The result of the period was a deficit of -15.8 MCHF.

## Revenue and Expenses

1. Total revenue amounted to 174.3 MCHF, a decrease of -5.8 MCHF (-3.2%) as compared to 2014 (180.1.0 MCHF), mainly due to decreases in i) Voluntary contributions (-2.5 MCHF, -21.4%), ii) Other operating revenues (-2.8 MCHF, -7.0%), in particular a fall in extra-budgetary revenue related to project support and publication sales and iii) Finance revenue (-0.2 MCHF, -19.5%), a fall that was mainly generated by unrealized exchange-rate gains and a fall in Investment interest, as reported in Note 22. Assessed contributions, amounting to 126.4 MCHF, corresponding to 72.5% of total revenue, decreased slightly (-0.3 MCHF, -0.3%) compared to 2014, as reported in Note 21 of the Financial Operating Report.
2. Expenses totalled 190.1 MCHF, an increase of 4.5 MCHF (2.4%) as compared to 2014 (185.6 MCHF). Employee expenses, 150.8 MCHF, representing 79.3% of total expenses, increased by 7.1 MCHF (+4.9 %), as reported in Note 23 of the Financial Operating Report.

## Personnel

1. We carried out detailed sample testing on a number of randomly selected payrolls, covering staff members of various categories and grades. Some payrolls concerned regular staff hired on a permanent/continuing basis, others concerned staff holding fixed-term appointments for a period of one year or more. Our sample also considered temporary staff appointed for shorter periods (short-term staff) and consultants employed under Special Service Agreements (non-staff). For all the positions selected, the duty station was Geneva and payments were made in CHF, except in one case, in which the duty station was New York and payments were made in USD. Consultants may work from home. We checked the accuracy and correctness of the payrolls in relation to the established rules and procedures. For all payrolls in the sample, we requested access to the personal files, to ascertain whether the entitlements and allowances granted to individual staff members and officials were supported by appropriate documentation. We did not detect any errors or major weaknesses as the result of our tests, so we consider that we obtained reasonable assurance that the values recorded in the accounts were correct.
2. In our last year’s report, we drew attention to the risks of discontinuity caused by the extensive use of individual consultants, partly engaged for ongoing tasks, which were not necessarily highly specialised and might normally be performed by regular staff. Management informed us that in 2015, the use of external resources (non-staff personnel) was mostly related to the actions and activities of each Sector, especially the BDT. Regarding the use of external resources in the SG, in addition to specific activities and actions including Telecom, non-staff personnel were also used for additional translation services; for IT related services; to reinforce security services and to strengthen medical services. In 2015, the number of persons with at least one consulting service contract was as follows: SG: 159 (+ 31 translators); TSB: 93; BR: 33; BDT: 293. In 2014, the corresponding figures were as follows: SG: 174 (+ 31 translators); TSB: 61; BR: 17; BDT: 297 (+ 13 translators).
3. As confirmed by Management (see response to our Suggestion 7 in the follow-up table annexed to this report), a new regulatory framework on the extent and use of consultants is currently in progress, also following a recommendation included in the recent JIU Review of management and administration in the ITU (JIU/REP/2016/1).
4. In view of the massive wave of retirements expected in the near future (34% of the posts will become vacant in the next 10 years), the question arises as to what model of "generational change" is considered desirable in the current climate of cost containment. This involves consideration of a number of elements, such as the adjustment of the organization chart, a possible reduction in the grades of vacant posts, redeployment of personnel following prioritization of work and a response to the possible increase in the mandatory age of separation. Some of these elements are due to be included in the new HR Strategic Plan for the period 2016-2019, which is also under review. Progress made on the implementation of the HR Strategic Plan will be audited in the future.

# STATEMENT OF CHANGES IN NET ASSETS FOR THE PERIOD WHICH ENDED ON 31 DECEMBER 2015

1. Table III “Statement of changes in net assets” represents not only the movements of cumulated allocated and non-allocated own funds, and IPSAS effects, but also movements for each own fund, as reported in Note 4.

# TABLE OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2015

1. The Table of cash flows identifies the sources of cash inflows, the items on which cash was spent during the reporting period, and the cash balance as at the reporting date.
2. In 2015, the ITU reported a cash flow from operating activities of +1.7 MCHF, positive, but decreasing from the value recorded in 2014 which totalled +9.1 MCHF. A negative cash flow was also reported from finance activities (-1.5 MCHF), represented by the repayment of FIPOI loan. Net cash flows from investment activities (-26.8 MCHF) showed a relevant negative variation from 2014, when the value was -1.6 MCHF, mainly due to an increase in investment.
3. The net result in cash and cash equivalents showed a decrease of 19.9 MCHF in 2015. We checked the underlying entries by selecting samples from some accounts. The result was that all chosen transactions were properly backed-up by supporting documentation. The Cash Flow Statement is thus verified and confirmed.

# COMPARISON OF BUDGETED AMOUNTS AND ACTUAL AMOUNTS FOR THE 2015 FINANCIAL PERIOD

1. Table V “Comparison of budgeted amounts and actual amounts for the 2015 financial period” is drawn up in compliance with IPSAS 24, which requires that this comparison, arising from execution of the budget itself, should be included in the Financial Statements. The Standard also provides for the disclosure of the reasons concerning the material differences occurring between budget and actual amounts.
2. Table V also includes an accounting reconciliation of the differences between the budget out-turn (actual amounts) and the amounts recognized in the accounting statement. Further details are provided in Note 25 to the Financial Operating Report and we also refer to the Secretary-General’s comments reflected in the Financial Operating Report.

# STAFF SUPERANNUATION AND BENEVOLENT FUNDS

1. Three Funds are reported in Annex B2 of the Financial Operating Report: the “*Reserve and Complement Fund*” (with Total Assets amounting to 6.3 MCHF), the “*Provident Fund*” (with Total Assets amounting to around 1.5 MCHF) and the “*Assistance fund*” (with Total Assets amounting to around 0.2 MCHF), without substancial variations from last year.
2. For the “*Reserve and Complement Fund*” and for the “*Provident Fund*” in the Liabilities, two actuarial provisions respectively of 54 kCHF and 36 kCHF are recorded under the item “*Employee benefits*”, in line with an actuarial valuation performed in 2010.

# UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP), INFORMATION COMMUNICATION TECHNOLOGY DEVELOPMENT FUND (ICT-DF), AND TRUST FUNDS

1. Rule 5 in Annex 2 of Financial Regulations provides that “a separate account for each voluntary contribution or trust fund shall be opened in a special account of the Union”.
2. In Annex B3 of the Financial Operating Report, there are three projects currently related to UNDP activity. Annex B4 of the Financial Operating Report showed the Trust Fund projects. These are partly financed by a withdrawal from ICT-DF, authorized by a decision of the ICT-DF Steering Committee. Other projects are funded with specific contributions (exposed in Annex B5) and regulated by agreements with donors. Annex B6 lists projects related to ICT-DF.
3. ITU own funds allocated to projects increased in 2015 to 6.4 MCHF from the 2014 value of 5.7 MCHF. On the other hand, third-party funds allocated to projects in 2015 decreased to 28.7 MCHF from 30.0 MCHF in 2014.
4. The amount of ITU own fund allocated for projects was mostly increased by the transfer of funds from ICTDF. Third-party funds awaiting allocations increased in 2015 to 2.9 MCHF (they were 2.2 MCHF in 2014).

# REGIONAL PRESENCE

1. A Segment Disclosure is presented in Note 24 of the Financial Operating Report for the Financial Year 2015. As stated in Note 3, segment reporting is based on the ITU’s main activities and sources of financing.
2. According to IPSAS, “a segment is a distinguishable activity (…) for which it is appropriate to separately report financial information for the purpose of evaluating the entity’s past performance in achieving its objectives and for making decisions about the future allocation of resources.”
3. In our view, the performance of the regional presence can be considered as deserving a specific focus at the level of secondary segment information. This is strictly related to Resolution 25 (Rev. Busan, 2014), “*Strengthening the regional presence*”. It should also be noted, that IMAC repeatedly drew the Council’s attention to the activities of Regional and Area offices (refer to the IMAC 4th Annual report, point 3.13).

We acknowledge the fact that Management is providing information to council and membership in a transparent manner on the regional presence in several documents and reports. However, in order to better respond to Resolution 25 requirements and in conformity with IPSAS, we recommend adding a segment disclosure on the Regional Presence to the Financial Operating Report that will set forth details on the appropriations and actuals of the regional offices.

Comments by the Secretary-General

This recommendation will be taken into consideration in the framework of the preparation of the 2016 financial operating report that will be submitted to Council at its 2017 session. A specific note relating to the regional presence together with a financial table will be included in the 2017 financial operating report.

## Host Country Agreements for Field Offices

1. Following our analysis of the IAU reports regarding field offices, we have carried out a review of the HCAs in the different Regions. Our analysis showed that some HCAs might merit a revision, and in two cases the hosting of the offices relies only on “accepted practices” and not on formal acts.

We therefore suggest that ITU Management continue to review the current host country agreements, with the aim of formalising the “accepted practices” and the benefits obtained by the HCA, in order to enhance its role and protect its assets.

Comments by the Secretary-General

Suggestion No. 2 is acceptable and in practice its implementation has been ongoing for several years and will continue in the future.

Thus, a specific agreement for the Area Office in Honduras where there was no concrete agreement, was concluded in 2013.

Similarly, a formal agreement for the Area Office in Indonesia (for which no formal agreement currently exists) should be signed in the near future; the draft agreement was the subject of an agreement in principle on the part of both parties with the exception of one paragraph which remains pending due to internal consultations within the Government of Indonesia. A review of the Host Country Agreement currently in force for the regional office in Bangkok may also be finalized soon. Finally, the negotiations for the conclusion of a host country agreement for the Area Office in Chile are also under way.

The aim of the ongoing negotiations for the field offices where there is no formal host country agreement, is to codify existing practice through an agreement with the host countries concerned.

# PRESENTATION OF KPIs

1. We noted the Financial Key Performance Indicators (KPIs) presented in the foreword of the Secretary-General to the Financial Operating Report and considered that they mainly respond to the questions raised during the 2015 Council session.
2. We agree with the Secretary-General’s statement, that “careful interpretation of the results of the indicators is necessary in order to obtain meaningful comparison with other United Nations organizations and specialized agencies” (see also paragraphs ‎69 and ‎70 above). Furthermore, it should be noted that, in certain cases, the Accounting Standards (IPSAS) leave Management, options and discretionality on how to implement them and, therefore, accounting consistency in the United Nations might not be guaranteed across various agencies.
3. We consider that for ITU, it is important to have a financial analysis using key indicators (as in Document CWG-FHR 5/6) together with explanations and analyses. Notwithstanding the potential importance of external benchmarking, but considering the difficulties to provide appropriate and consistent external benchmarks as previously explained, it is important to note that these ratios should be viewed as general trend analysis and should normally not be part of the certification of accounts process.

# FOLLOW UP TO PREVIOUS RECOMMENDATIONS AND SUGGESTIONS

1. Annex I collects all our previous recommendations and the comments received from ITU Management at the time of the delivery of the Report. Annex II collects all the recommendations issued by our predecessors, the SFAO, and the comments received from the ITU’s Management at the time of the delivery of the Report. Annex III shows the follow-up to all our suggestions.
2. The recommendations that are evaluated as “closed” will not be included again in next year’s Audit Report, unless they need an annual follow-up.

# ANNEX 1 – Follow-up to recommendations in our previous reports

|  | **Recommendation raisedby Italian court of Auditors** | **Comments received from Secretary-General at the timeof the issuance of the report** | **Status asreported by ITU Management** | **Status on actions takenby Management as evaluatedby the Italian Corte dei conti** |
| --- | --- | --- | --- | --- |
| **Rec. 1/2014** | We consider that lost or stolen items deserve a separate and specific procedure before their write-off, and, although we acknowledge that a procedure is in force, we recommend Management to reinforce the existing one for this specific issue. | The existing procedure will be amended accordingly in 2015 | The procedure was reinforced in a more explicit way regarding the lost or stolen items in accordance with the recommendation.In addition, closer coordination has been established between the Security Service of the Union, the Asset Management Unit/FRMD and IS department.**Update as of end-January 2016:** The protectionof IT assets is explained in the amended Service Order No. 15/11 published on 16 December 2015.**Update as of end-February 2016**: The Service Order on inventories management has been amended and Service Order 15/11 was published in December 2015 providing a detailed procedure for establishing and maintaining inventory records and for protecting IT assets | Closed.This recommendation will be followed up in the context of our future audits. |
| **Rec. 2/2014** | We recommend Management to start a tender procedure to select the actuary for performing the IPSAS 25 related actuarial valuations | Procurement rules are and will be scrupulously followed when proceeding to the tender for the IPSAS 25 actuarial valuations. | The ITU is linked by contract up to the end of 2015.In line with the procurement rules and regulations in force, a call for bids will be published at the beginning of 2016.**Update as of end-January 2016**: Discussions between HRMD and FRMD to define the ITU requirements will start beginning of March and, the call for bids should be published by the end of April.**Update as of end February 2016:** In March 2016, the Financial Resources Management Department (FRMD) in collaboration with the Human Resources Management Department (HRMD), will define the requirements related to a global actuarial study for IPSAS 25. The relevant Call for Bids is scheduled to be published by the end of April 2016 | Partially implemented.We take note of the actions already taken by Management and we will follow the implementation process |
| **Rec. 3/2014** | We recommend Management to perform a full actuarial review study, to evaluate when the ITU financial health, in the long-term scenario, might be compromised by the provisions of the Health Insurance Scheme. However, considering that the transition to the new scheme is still in progress, this study has to be performed after the separation from the SHIF and after sufficient data is available under the CMIP, not before the end of 2016. This recommendation replaces the previous n. 6/2012 and n. 3/2013, which are to be considered closed. | It is taken note of this recommendation. A full actuarial study will be performed according to the recommendation. | As recommended, a full actuarial study will be performed at the end of 2016 based on the data and results provided by the Collective Medical Insurance Plan (CMIP).**Update as of end-January 2016:** The requirement of this study will be included in the main actuary study related to IPSAS 25 (Rec 2/2014) | Ongoing |
| **Rec. 4/2014** | As remedial measures are needed, these drivers might be considered by the Council: we recommend Management, to monitor these drivers to ensure adequate pay-as-you-go and long-term funding | The funding of the health Insurance on a pay-as-you-go basis as well as of the ASHI actuarial liability is of upmost concern for the Union and is carefully monitored. The drivers mentioned here above have been, among others, taken into account while planning the transition to the CMIP and producing the 2014-2015 budget, the 2016-2019 financial plan as well as the 2016-2017 budget, which will be presented during Council 2015. The continuous monitoring of the CMIP results with regular pro-active communication with all the stakeholders and timely proposed adjustments and decisions will enable the funding on a pay-as-you-go-basis.  | The Management follows this recommendation and monitors carefully the different drivers to ensure ITU’s good financial health. | Ongoing.  |
| **Rec. 1/2013** | ***Updating of lists of authorized signatures at banks***With regard to field offices’ accounts, we recommend that the Management make efforts to better review and to update signature powers at banks, as appropriate in accordance with ITU Financial Regulations, and to better monitor by Headquarters any changes to bank signature authority, e.g. in case of addition of a signer or in case of deletion of any individual that is no longer authorized.  | A reminder has been sent by FRMD to all field offices regarding the importance of the continuous update of the list of staff with signature power declared at banks. Field offices have been instructed to signal to FRMD any staff change having an impact on signatures lists in order to ensure the correct update and maintenance of these lists. | The field offices have been instructed to communicate any staffing changes impacting the list of bank signatories on a continuous basis. In November 2014, in order to prepare the 2014 external audit of the Union, a reminder was sent by the Chief of FRMD to all field offices in order to ensure that any necessary updates would be communicated to banks before the end of 2014. This process will be conducted every year-end.**Update as of end-January 2016**: All the lists have been updated with the correct authorized signatures. | Closed |
| **Rec. 5/2013** | ***Although the ERM has not yet been implemented, a risk based plan is necessary***Although we are aware that it might be problematic to perform a risk assessment without an ERM, we recommend the Internal Auditor to enhance the process for producing a “risk-based” audit plan starting from the risk register and from a risk analysis (to be performed yearly). | In line with the recommendation also made by the IMAC, Internal Audit will enhance the planning process and will present in the audit plan elements of the risk analysis and priorities. | The 2015 audit plan was drawn up whilst relying, to the extent possible, on risk information obtained through discussions with senior managers, complemented by the reflection and outcome of discussions at PP-14. The 2015 audit plan contains these risk elements and also touches upon medium term planning items.**Update as of end-January 2016:** Further work will be undertaken for the 2016 audit plan.**Update as of end February 2016:** For the establishment of the 2016 Internal Audit planning, a risk analysis has been done based on an established audit universe, the ITU business processes and the official ITU risk register. | Closed |
| **Rec. 1/2012** | ***Dual signatories should be required for amounts above CHF 5’000***Although we understood from Management about the feasibility of implementing dual signatures in field offices, for example in a field office only a P official could be present, we recommend Management to ensure dual signatories in financial operations with banks for amounts above 5’000 CHF whenever possible, and, in case the responsible officials on the field operates on an ITU’s bank account alone, he should receive an ex-ante authorization from Management. | These procedures are applied whenever possible. For Field offices where dual signature is not possible due to specific constraints (legal constraints for some Countries for bank signatures), specific authorizations and monitoring will be applied. | The procedures are applied according to the Secretary-General’s comment.Furthermore, a review of the authorized signatures has been conducted and the Officers in charge of the Field offices have been reminded to report actively any staff changes impacting the authorized signatories. Moreover, the FRMD internal note on the delegation of signature has been updated to reflect latest changes in staff as well as the 5’000 USD threshold for Field offices.**Update as of end-January 2016:** All the necessary adjustments in the authorized signatories have been made in coordination with the regional offices. | ClosedWe take note of the actions already taken by Management and we will follow the implementation process |
| **Rec. 2/2012** | ***Cash-in-hand at field offices***We consider the difference that we found due to reconciliation issue, as non-material in terms of value. Nevertheless we recommend Management to strengthen controls over the cash-in-hand, also having as a reference the recommendation made by Internal Audit in its reports related to the ITU Regional Presence. | Cash reconciliation is currently done on a monthly basis in field offices. Any counting within a month will result in reconciliation issues due to this fact. Financial Resources Management Department (FRMD) will ensure that a review of the current process is done in 2013. Recent internal audit reports have already identified these issues as well as internal control procedures to mitigate the related risks. Management has already agreed with these recommendations and further action will be taken in 2013. | All Field offices are using the standardized report. Guidelines regarding the utilisation of petty cash will be produced by BDT/ADM with the support of FRMD according to the recommendation of the Internal Auditor report SG-SGO/IA/14-18 by June 2015.**Update as of end-January 2016:** A common cash management report has been implemented and is now used by all the Regional/Area Offices. | Closed |
| **Rec. 3/2012** | ***“Droit de superficie”***Considering that it is important and in ITU’s interest to extend the “droit de superficie” granted to ITU by the State of Geneva since 1967, we recommend Management to start, as soon as possible, the negotiations in this respect with the competent Host Country Authorities. | In January 2013, the Legal Adviser has already successfully contacted the Host Country competent Authorities in order to initiate a negotiation process. | The competent Host Country Authorities welcomed the request from ITU in principle and confirmed their interest as well as the fact that further developments will be triggered by decisions related to the replacement of the Varembé building, which are currently still under discussion.PP-14 decided the creation of a Council Working Group. The CWG will, with the support of the Secretariat, examine the status of HQ premises of the Union and continue to analyse the options so far submitted and any other proposal by Member States, for prudent treatment of the premises into the long-term future, in order to prepare a recommendation for Council. The first meeting of the CWG took place on 28 January 2015.**Update as of end-January 2016:** The work of the CWG on options for the Union's HQ premises over the long term is still on-going. A second meeting was held on 28 September 2015. | Ongoing |
| **Rec. 4/2012** | ***Assets’ recording in the register***[…] we have performed a physical stock checking of some fixed assets categories, such as a sample of items of furniture and IT equipment and we have traced them into the accounts. We observed that the ITU responsible in Facilities Management Division (HRMD Department) have not found some of the assets during the physical stock checking at year end (around 0.73% of the acquisition value of the assets concerned). We are aware that controls have detected part of these assets not found at year end, however we recommend Management to continue its research and to write-off the item that will not be found during 2013. | I will instruct FRMD to coordinate with the Facilities Management Division to ensure the continuation of efforts in 2013 and will clarify the existence and treatment of the items not captured in the stock checking. | The process of the identification and localisation and/or write-off of the assets not found during the stock checking has been initiated in past years and is progressing according to plan.**At the end of 2014** the value of non-found assets has been significantly reduced by 83% of the 2012 value.**Update as of end-January 2016:** The level of the identification of the assets which have not been found will be known by the completion of the physical inventory on 31 December 2015. | Ongoing |
| **Rec. 10/2012** | ***Digitalisation of personnel dossiers***Although our analysis of the correspondence of the data inserted in the IT System with personnel dossiers did not revealed any major issue, we recommend the Management to start to evaluate the cost-effectiveness to digitalise personnel dossiers, not only in order to prevent that an accidental event might bring to loose fundamental data, but also to allow a direct interface of personnel dossiers with SAP HR. | I take note of this recommendation and inform you that HRMD is exploring this possibility. | The Detailed Blueprint (DBBP) of the e-Staff Personal File (digital filing) System was established on 19 April 2013.This DBBP comprises the HRAD (E&B Service) business process and mapping of the structure of the staff member (hard) personal file. The system is linked to the SAP-ERP\_HCM.**Update as per end of January 2015:** The first phase of creating the tool is completed. The e-Staff Personal File (digital filing) System is now operational. The next phase of the exercise concerning HRAD (E&B Service) focuses mainly on two different tendencies which are :1) Reduction of previous storage places (cupboards and computerized directories) to reorient Archive document flows toward the new e-filling system.2) Reduction of numbers of paper documents by revised working methods (repetition, overlap, unnecessary printing, etc…). There will always be paper documents as the original signed documents must be kept for legal reasons and to certify the accuracy of information recorded in the SAP- ERP\_HCM.**Update as of end-January 2016:** The digitalization is ongoing. HRMD is undertaking a fundamental review of all its procedures and document flow in view of creating a centralized, structured and secure electronic information management infrastructure to support the delivery of HR services. | Ongoing |

# Annex II – Follow-up to recommendations issued by SFAO

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| **Report** | **Recommendation raisedBy Swiss Auditors** | **Comments received fromSecretary-General at the time of the issuance of the Swiss report** | **Status as reported by ITU Management related to Swiss Auditors’ report** | **Status as reportedby ITU Management** | **Status on actions taken by Management as evaluatedby the Italian Corte dei conti** |
| **Rec. 2/2008****Rec. 3/2009** | Transactions carried out manually outside the SAP environment are sources of error and dysfunction and generate additional tasks which may not be reflected in the job descriptions of the staff concerned. These tasks, conducted without any real backup, lead to delays. I once again invite ITU to move as quickly as possible to integrate the BCS project management tool into the SAP software.Accordingly, I invite ITU:– To make a decision on possibly incorporating into the Grant Management (GM) module all projects that are not operationally and financially closed, to enable correct calculation and distribution of interest on investments in connection with projects.– To define the main technical cooperation processes and assign corresponding responsibilities.– To implement the necessary training measures for efficient use of the new SAP environment in the technical cooperation area. | The two recommendations 1/2008 and 2/2009 are closely linked. In 2011 the Financial Resources Management Department, the Telecommunication Development Bureau (BDT) and the Information Services Department conducted a study into whether it would be necessary to introduce a second accounting system in USD, with the support of consultants. This study concluded that training in the GM module should be stepped up, so as to make maximum use of the specificities of this module. Some progress has been made as regards the administrative management of projects. All projects on which there has been no action for several years have been closed and any remaining funds placed in a suspense account (for the reimbursement of donors, use in other projects, etc.). Donors are contacted to decide the subsequent use of these funds. As regards the SAP GM system, a study or gap analysis was conducted in 2011 in order to determine the development requirements that would allow for the optimal and adapted use of the system. | SAP Grant Management (GM) was implemented by ITU in January 2010 for the financial management of technical cooperation projects. The related financial processes have been reviewed in 2011 and are in the process of being optimized and the users retrained. | This process is still under progress due to budgetary constraints.**Update as of end-January 2016:** Due to BDT budget constraints, the optimization of this process is postponed. | Ongoing |

# Annex III – Follow-up to suggestions in our previous reports

|  | **Suggestion presentedby Italian court of Auditors** | **Comments receivedfrom Secretary-General at the time of the issuance of the report** | **Status as reportedby ITU Management** | **Status on actions taken****by Management as evaluatedby the Italian Corte dei conti** |
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| **Sugg. 1/2014** | *Low value assets (LVA)*In this regard, we suggest Management to consider reviewing the LVA threshold, in particular specifying the different categories of items and their depreciation according to their useful life. | This suggestion will be investigated in order to analyse the impact of introducing differentiated thresholds according to the category of fixed assets. It is to be noted that the value of CHF 15.2 million represents the cumulative amount of LVA captured in the fixed assets model since the introduction of the IPSAS (including the pre-IPSAS implementation balance). | The implementation of this suggestion is still under evaluation | Ongoing |
| **Sugg. 2/2014** | We suggest Management to review at the end of year 2015 whether some assumptions might merit further revision. | It is taken note of this suggestion and all assumption will be reviewed accordingly for the financial period 2015 related valuations. | The assumptions have been reviewed, also considering some changes in the profile of the ITU population covered by the CMIP, with regard to number (smaller population), age and other aspects. The different assumptions are shown in AON report. | Closed |
| **Sugg. 3/2014** | We suggest Management, as needed, to define a comprehensive set of drivers and sub-drivers, and use the most relevant drivers to efficiently monitor and address the ASHI situation. | The monitoring of the CMIP is currently done with the purpose to enable early identification of adjustments to ensure funding on the pay-as-you-go basis. The above mentioned drivers are taken into account in order to identify the relevant adjustments, The ASHI liability will be funded according to the available resources on a long-term basis taking into account budgetary constraints. | The Management follows this suggestion; as soon as the full actuarial study will be completed, its results will be considered to define appropriates drivers to efficiently address the ASHI situation. | Ongoing |
| **Sugg. 4/2014** | We suggest Management to start an internal analysis on whether distribution could be furtherly enhanced through an increase in reseller presence in more Regions. | Recruiting new resellers is an on-going process to build sales incomes. Sales & Marketing Division has added 26 new resellers in the last 5 years (there were 59 resellers in year 2010). We shall continue to seek new resellers in regions that are currently under-represented. | In 2015 the number of resellers increased by 5, and we are currently trying to get a few more in South America, but it is not easy to be of interest to new agents. | Closed |
| **Sugg. 5/2014** | Management explained that, through this “return policy”, a higher percentage than 5% could enhance the reselling activity, therefore we suggest to consider, after the end of a first trial period of one year, to assess if this 5% policy has had the expected impact. | The 'Return Policy' for ITU publications was introduced for the first time in 2014. The rate of return has been intentionally kept at a low 5% to minimize overstock by resellers resulting in higher cost to ITU. The first returns of publications in April 2015 have been around 1% only reflecting a cautious approach by resellers. We will continue to monitor returns in future and, if needed, we shall consider increasing it gradually. | At the end of 2015, we can still consider as valid the 5% percentage of the returns; however, we keep monitoring the situation and we are opened to increase the percentage, if needed | Closed |
| **Sugg. 6/2014** | We suggest Management to monitor the trend in sales of hard copies and analyse it in order to have elements to support decisions for further actions on that matter. | A close watch is kept on sales performances of all publications that have been granted free online access to general public. Analysis of each publication is carried-out continually to assess impact on revenues to enable us to take corrective measures. One such current publication is the Radio Reg 2012 which will complete its 4 years life-cycle in 2016 following which we will assess impact and take appropriate action. | We know exactly how many people used the free download as well as the downloaded documents. We missed a few small buyers, who usually bought only one book, but sales through retailers increased.We also implemented the paid download system, which allows buyers to save than buying the hard copy. However, we found that, although electronic copies are offered with a reduction of 40%, many buyers still prefer to have a physical copy, whether in paper or on DVD. Fortunately, the DVD has almost completely replaced the paper copies, which saves postage and printing and even contribute to the environment. | Closed |
| **Sugg. 7/2014** | We suggest Management to analyse the implications in terms of loss of relevant experience potentially resulting from the rapid rotation of people and from the expected retirements, and to establish strategic priorities for future staff requirements in the medium term. | Management takes note of the suggestion. Additionally a policy on the use of Special Service Agreement contractors is to be promulgated to ensure that this workforce is used appropriately and in the best interest of the Union. | a) Promulgation of a policy on the use of Special Service Agreement (SSA) contractors is still work in progress. The new policy will cover the following elements:- A revised definition of the SSA contractor;- Identification of the different categories of tasks which a SSA contracts can be issued taking into consideration the core/non-core functions dimension, project related tasks and high level expertise needed for specific researches - Establishment of a unified recruitment process across the Union;- Establishment of a remuneration grid and ranges covering different needs;- Clear guidelines on delivery timelines including;- Clear guidelines on the duration including limitations and conditions for extension and renewal of such contracts;- Re-definition of associated social benefits and other entitlements (travel costs, DSA for non-local, etc.);- The definition of an assessment tool of the deliverables.b) It is also important to note that to the delivery of interns and SSA contractors is under the supervision of appointed staff, to help preserve institutional. | Ongoing |
| **Sugg. 2/2013** | With regard to the refund of medical services, we suggest to the Management to perform a study for evaluating the effect of a sensitive reduction of services not strictly related to health care. | I take note of this suggestion and inform you that Management will follow-up with the new claims administrator on the study mentioned. | The new Health Insurance scheme has been in place for less than one year and is carefully monitored in order to analyse the first effects of the CMIP implementation. So far a deductible has been instituted as well as a stronger costs containment. Further measures to monitor the costs will be considered and introduced according to the plan performance.**Update as of 31.12.2015:**Regular meetings of the Management Committee are being held to study other costs containment measures. The financial situation of the Plan is constantly monitored. | Closed.This suggestion will be followed up in the context of our future audits. |
| **Sugg. 3/2013** | We suggest Management, without reducing the quality of health service, to consider a threshold on expenditure for health services benchmarking them with reasonable and customary expenses, in order to ensure the sustainability of the cost of the new scheme. | I take note of this suggestion and inform you that Management will explore feasible threshold options with the new claims administrator. | The new Health Insurance scheme has been in place for less than one year and is carefully monitored in order to analyse the first effects of the CMIP implementation. So far a deductible has been instituted as well as a stronger costs containment. Further measures to monitor the costs will be considered and introduced according to the plan performance.**Update as of 31.12.2015:**Regular meetings of the Management Committee are being held to study other costs containment measures. The financial situation of the Plan is constantly monitored. | Closed.This suggestion will be followed up in the context of our future audits. |
| **Sugg. 5/2013** | We suggest to IAU to adopt a multi-year audit plan, on a rolling cycle, based on a risk assessment exercise. | Internal Audit will endeavour to extend the audit planning to a multi-annual basis. | February 2015: in progress - the 2015 audit plan contains these risk elements and also touches upon medium term planning items.**Update as of 31.3.2016:**The 2016 audit plan is based on a risk assessment exercise and contains also elements to identify the mid-term major risks, which will be covered by the audits. | Closed |
| **Sugg. 6/2013** | Following our previous recommendation n. 5, linking activity with risk is in our opinion important. Although we have observed in the 2014 AWP a higher number of audits planned at the level of Headquarters, we suggest IAU to specify to Secretary-General and to IMAC during the AWP’s approval exercise, if the number of audits planned is sufficient to cover major risks identified. | Internal Audit will aim to communicate to the Secretary-General and the IMAC whether any gaps in audit coverage would have been identified. | February 2015: pending – further work will be undertaken for the 2016 audit plan.**Update as of 31.3.2016:**The 2016 audit plan is based on a risk assessment exercise and contains also elements to identify the mid-term major risks, which will be covered by the audits | Closed |
| **Sugg. 7/2013** | Following our previous suggestion n. 5, considering that it might be difficult to cover all risks identified in a given year, we suggest IA to present in a multi-annual work plan a number of audits sufficient to cover, in a given term, major risks identified. | Internal Audit will endeavor to extend the audit planning to a multi-annual basis taking into account the audit coverage of major risks identified by Internal Audit. | February 2015: pending – further work will be undertaken for the 2016 audit plan.**Update as of 31.3.2016:**The 2016 audit plan is based on a risk assessment exercise and contains also elements to identify the mid-term major risks, which will be covered by the audits | Closed |
| **Sugg. 8/2013** | Although we acknowledge the existence of a detailed time monitoring system, we suggest the IAU to link it with all the possible tasks foreseen in an AWP and in a Multi-annual Work Plan (see suggestion n. 7), in order to give more elements and information to the SG for deciding in the future on the adequacy of resources in IAU. | Internal Audit will be given instruction to continue monitoring its time and report on a regular basis progress made versus the AWP. | February 2015: In progress – despite the budget concerns of the ITU for 2016-2017, a P2 Junior Internal Auditor (fixed term) position was created in early 2015 to complement the resources (and also respond to IMAC‘s recommendation).**Update as of 31.3.2016:**The time monitoring is an essential part of the audit plan, which contains the required elements. A new P2 Junior Internal Auditor was hired to enhance the resources of the IAU. | Closed |
| **Sugg. 1/2012** | Availability of financial reporting for field officesIt is worthwhile mentioning that all the banks account operational in field offices are reconciled and supervised by ITU Management on a periodical base. However, due to the fact that amounts are not inserted directly in the accounts by the field officials, entry of all the movements in the IT accounting system (SAP) is performed periodically at the level of Headquarters. Management is aware of this issue, therefore we suggest to continue the efforts for implementing a suitable financial reporting at level of field offices. | I take note of this suggestion and inform you that a significant part of the identified issues related to financial reporting will in principle be solved by training field offices relevant employees. | As accounting remained centralized at Head Quarters, the focus has been on standardizing the field offices financial reporting. This has been finalized in January 2015. | Closed |