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| **Agenda item: ADM 13** | **Document C17/44-E** |
| **14 March 2017** |
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| Report by the Secretary-General | |
| REPORT OF THE INTERNAL AUDITOR ON INTERNAL AUDIT ACTIVITIES | |

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| Summary  This report covers the internal audit activities for the period between March 2016 and February 2017.  Action required  This 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 for consideration. The current report covers activities from the period between March 2016 and February 2017.
2. For the period reported on, the Internal Audit Unit comprised – for the whole duration – two Professional staff – a P.5 (Head of the Unit) and a P.2 (Junior Internal Auditor). Until June 2016 there was also a P.3 (Internal Auditor) on an interim basis while the post was advertised but the temporary incumbent fell sick for a reasonably long period; the lack of work force was compensated by contracting a part-time consultant (15 August 2016 – 31 October 2016) and then another part-time consultant (1 December 2016 – 28 February 2017). A General Services staff (Audit Assistant) was working in the Unit on a full-time basis.

Today the Unit consists thus of three Professional posts and one General Services post.

1. Internal Audit (IA) 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, IA 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.

# Orientation and scope of the internal audit activities

1. In line with the IA Charter, the proposed IA plan for 2016 was reviewed by the Independent Management Advisory Committee (IMAC) in February 2016 and subsequently approved by the Secretary-General. It was also communicated to the External Auditor in an effort to promote efficiency and coordination. The orientation of the audit work was mainly towards the areas of assurance engagements. One of the seven planned audits was not performed (due to extensive attention given to the topic by the inter-sectoral task force) and another audit extended into 2017.
2. IA systematically shares copies of internal audit reports with the ITU External Auditor and with the IMAC. In accordance with ITU Financial Regulation 29.5, final internal audit reports can be made available to Member States or their designated representatives. A facilitated mechanism for accessing internal audit reports is in place since October 2015. During the period reported on, two requests for accessing internal audit reports were received via the online mechanism. These requests were responded to, including the management response available (on the current state of implementation of the recommendations). ITU was commended by the JIU that, when sharing reports with Member States the response and current state of implementation of recommendations is included in the response to the Member State Delegation (refer to JIU report 2016/8 - State of the Internal Audit Function in the UN system - § 197).

# Objectives and conclusions of the assurance engagements

1. The objectives of the assurance engagements were to assess: (i) the governance aspects of the Union’s operations audited; (ii) the risk management practices; and (iii) the effectiveness of (internal) controls. 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).

Based on the various assurance engagements performed, IA concluded that, overall, the transactions and processes are in compliance with procedures and established practices. In some instances however the governance, risk management processes and internal controls are not sufficiently adequate and effective. For some of the audits, improvement in these areas would allow IA to provide to the Secretary-General reasonable assurance that there is adequate governance and risk management, and that controls are effective. Recommendations made to management are being actioned, with the support of the Secretary-General, and this will further strengthen ITU to fulfil its mandate.

1. The implementation of recommended actions is followed up by IA, as and when required (see also paragraph on follow-up further in this report).

*The following assurance engagements have been conducted:*

***Audit of the Use of paper internally in the secretariat***

1. The main purpose of the audit was to assess the use of paper internally in the secretariat and ensure it is reduced to an acceptable level. Costs for purchasing paper amounts to an average of almost CHF 36’000 per year for the period reviewed (January 2010 to December 2015), with about one third of that paper being used by Reprography for publications and/or event/conference documents.
2. It was concluded that consumption of paper can be identified through various sources and a significant reduction of the paper consumed over the years was observed. IA also noted that initiatives such as electronic voting, electronic archiving and electronic conference/event documentation are steps towards an economic and ecological use of resources. It was also concluded that monitoring tools of paper consumption internally in the secretariat are not optimal and there is not sufficient guidance to staff to raise awareness of a paperless environment. A message sent to all staff for reinforcing the Union’s commitment for a paper-smart administration should be considered by top management. As a side observation during the audit, a lack of coordination between the various services concerned was noted; this may lead to inadequate purchases of printing toner and thus exposing the Union to an economic risk. Making inventory data of printers available for monitoring purchases should remedy this issue.
3. Overall, IA provided reasonable assurance to the Secretary-General that internal controls, governance, and risk management processes with respect to paper consumption internally in the secretariat are functioning. IA also confirmed that the use of paper internally in the secretariat is reduced to an acceptable level.

***Inspection of the External Experts Contracts***

1. IA conducted an inspection of recruitment and use of external experts covering the period from January 2013 to December 2015. The objectives of this Inspection were: (i) to assess guidelines and policies in place and reliability of internal controls in hiring of experts; (ii) to assess the effectiveness of communication between regional offices and HQ when hiring experts; (iii) to assess the process of risk assessment currently in place on how experts are selected and their performance evaluated; (iv) to assess the compliance of the recruitment of external experts with policies and procedures; and (v) to assess for the monitoring of effective utilization of resources allocated for hiring of experts.
2. It was concluded that there are no adequate policies and guidelines in place to govern the area of experts/consultancies. The Memo of 2010, although largely viewed as the applicable guideline, does not include all the necessary elements to serve the role of a proper policy framework. It was recommended that adequate policies and guidelines to monitor and control the recruitment of experts/consultants be developed. The Chief of HRMD agreed and indicated that an implementation plan will be worked on*.* The Director of BDT commented that BDT is ready to contribute, with its experience in initiating recruitment of consultants, to the development of policies and guidelines to establish a clear legal and regulatory framework for the recruitment of experts/consultants under the coordination of HRMD. It was also found that review control for job descriptions and Personal History Forms (PHF) is not optimal and there is a risk that resources are not being efficiently and effectively utilized. It was recommended that the experts’ recruitment process (to define roles and responsibilities of the concerned departments/units) be reviewed and documented, and the conflict of interest component be specifically elaborated to ensure that all experts sign punctually or regularly a code of ethics which comprises a conflict of interest statement. Again, the Chief of HRMD agreed and indicated that an implementation plan will be worked on. The Director of BDT commented that BDT, together with other Bureaux, will contribute to the work of HRMD to review and improve the recruitment process so as to better define the roles and responsibilities and ensure adequate level of control.
3. Overall, IA is of the opinion that the governance, risk management processes and internal controls, related to the area of external experts recruitment need improvement. IA identified areas for improvement with respect to policies guiding the recruitment of experts, review of experts’ profiles and job descriptions and the expert roster management. If these areas were addressed, the Secretary-General could be provided with reasonable assurance that there is adequate governance and risk management, and that controls are effective in the external experts recruitment processes.

***Audit of Trust Funds***

1. IA conducted an audit of the Trust Funds for the period from 2013 to 2015. The objectives of the audit were to assess: (i) policies in place and reliability of the internal controls to govern utilization of trust funds; (ii) the adequacy of trust funds resource utilization planning; (iii) if the trust funds are being adequately and efficiently utilized to achieve the goals of the Union; and (iv) the utilization of the Trust Funds for compliance with the applicable rules and procedures.
2. IA noted positive aspects such as BDT, and in particular BDT’s Project Support Division (PRJ), maintaining elaborate project management guidelines that are in line with best practices such as the PMI and Prince2. There have been efforts in place to standardize documents used in project management and PRJ maintains various templates such as templates for project document and cooperation agreement among others to create uniformity and efficiency in supporting projects implementation. PRJ also held a training session for the P3 staff involved in project management and is planning to conduct more on an ongoing basis in a bid to improve their skills to better support project implementation roles. IA found there are proper structures within the Bureau that are good for management of key risks of Trust Funds. During the audit, the IA also found other good practices currently in place that complement project evaluation. Furthermore, review and assessment of policies indicated that policies governing the utilization of the Trust Funds are adequate and are correctly interpreted by the users. Sample review of projects financed using the Trust Funds indicated the presence of duly prepared and signed project documents and legal agreements. All policy documents were found to be consistent with each other in that no opposing clauses were noted from one policy to another.
3. It was however concluded that there is a risk that project durations are not sufficient to allow resource utilization within a given time-frame. It was recommended that, while drafting projects and setting project durations the nature of the project and regional/national issues are taken into account in order to minimize project end date extension via Amendments/Addendum. BDT agreed to the recommendation and commented that it continues to insist on adherence to end dates, even if force majeure sometimes creeps in or beneficiary countries delay implementation due to a variety of reasons. Another issue noted was that controls are found to be effective but there is a risk that the utilization of Trust Funds is not optimal to achieve the goals of the Union. It was recommended that consideration be given to the development of an online project management and knowledge sharing tool. BDT confirmed that efforts to develop additional online project management and knowledge sharing tools will continue, taking into account the respective financial implications. Lastly IA noted that the existing policies governing the utilization of Trust Funds are largely reliable and adequate. No particular recommendation was made in this area.
4. Overall, IA is of the opinion that the governance, risk management processes, and internal controls are adequate and overall reasonably effective. Some improvement could be achieved in the areas of project durations and reinforcement of project management tools as well as major improvement for long outstanding balances of non-BDT trust funds.

***Corporate Fraud Risk Assessment***

1. The JIU report on “fraud prevention, detection and response in UN Organizations” highlights a number of deficiencies in that area and some of those are applicable to ITU also. Given the relatively close link between audits and fraud investigations and the competence and skills of auditors, it was important to respond to the recommendation that relates to Organizations’ need for a comprehensive corporate fraud risk assessment. Such a review would constitute a corner stone for the Union’s overall response to other JIU recommendations of that report. The corporate fraud risk assessment planning, document review, and interviewing were completed in 2016. The assessment is based on regulatory frameworks, where transactions, processes, guidelines, and procedures would alert or prevent a fraud, and interviews to determine how lower tiers of management and frontline staff perceive the organization’s vulnerability. The draft report was shared with the relevant ITU Officials. The comments obtained were taken into account, as appropriate, and a final draft was sent on 30 January 2017 to the relevant managers for final comments. The issuing of the report will most probably take place in Q1 or Q2 of 2017 and the recommendations implementation will be a direct input into the response to the JIU recommendations.

***Audit of Learning, Training, and Professional Development***

1. IA conducted a review of the Learning, Training, and Professional development activities covering the period from January 2014 to December 2015. The objectives of the audit were: (i) to assess the policies and guidance in place; (ii) to assess the training budget; (iii) to assess the planning of learning, training, and professional development; (iv) to assess the information, communication, and reporting of learning, training, and professional development; and (v) to review the set-up of the HR Focal points’ framework. The training expenses, including central and allotted to BR, TSB, BDT, and ISD department, amount to CHF 509’614 in 2014 (budget was CHF 683’500) and CHF 636’120 in 2015 (budget was CHF 678’500). It corresponds to approximatively 1% of the ITU staff costs.
2. IA concluded that the policy currently in force in the Union is obsolete and does not give a clear guidance to staff and managers. It was recommended that a policy and associated procedure dealing with all learning, training, and professional development processes is formally adopted. HRMD and other departments agreed with the recommendation. The management of the training budget is adequate but the latter is not on a “needs” basis. It was thus recommended that a skills and competencies gap analysis is conducted to determine the medium term learning programmes and related resource levels. The planning, information, and reporting processes are not optimal and not sufficiently coordinated. It was therefore recommended that Bureaux/Departments annually submit their *needs assessments* in a template to be developed by HRMD, that they also annually report back on their training activities in a template developed by HRMD and that the reconciliation exercise of training financial data and training profile data is facilitated by an automation tool. Most Bureaux/Departments and HRMD expressed their agreement with the recommendations. With respect to the HR focal points in Bureaux/Departments, the staff turnover is exposing the Union to a risk of discontinuing responsibilities. It was recommended that the HR focal point responsibilities of changing staff are safeguarded (at the central level).
3. Overall, IA is of the opinion that the governance, risk management processes, and internal controls are not sufficiently adequate and effective. Improvement should be achieved in the areas of policies, procedures, planning, and reporting. There is however adequate compliance of transactions with the current procedures and established practice.

***Audit of IT Contracts, Rental, and Maintenance Services***

1. IA conducted a review of IT contracts, rental, and maintenance services for the period from 2013 to 2015. The objectives of the audit were: (i) to assess the adequacy of policies governing IT contracts, rental, and maintenance services and their reliability in safeguarding assets of the Union; (ii) to assess for efficiency and economic use of resources for IT contracts, rental, and maintenance services; (iii) to assess the reliability of reporting on IT contracts, rental and maintenance services; (iv) to assess for effectiveness of controls and for compliance in management of IT contracts, rental, and maintenance with applicable policies; and (v) to assess the monitoring of relationships with third parties. In general it was found that many of the issues are actually broader and not specifically related to IT contracts, rental, and maintenance services.
2. IA concluded that the existing policies governing the procurement (of IT contracts, rental, and maintenance services) are assessed as not adequate, although the Legal Affairs Unit (LAU) considers that some of IA’s interpretation is not correct. It was recommended that the Service Order on Rules and Procedures Governing the Placement of Contracts be revised within a reasonable time (e.g. a year). LAU and FRMD indicated that the revision is already underway. There is a risk that efficiency and economy in utilization of resources (for IT contracts, rental, and maintenance) are not optimized. It was recommended that the preparation of an ITU Procurement Manual is fast-tracked, with an indication of, among other things, applicable procurement methods, processes involved, applicable thresholds, etc. LAU and FRMD indicated that the Procurement Manual will be issued in 2017 after consultation with the Contracts Committee. There is a risk that the third party relationship management (including the vendor account management) is not adequate and/or optimal. It was recommended that a mechanism to link ERP supplier data with CRM data is proposed to FRMD (PROC) and Membership and Partner Relations Division in SPM. It was also recommended that a mechanism be set up to make Sector Members aware of ITU procurement opportunities. These recommendations were agreed by the managers concerned. There is a risk that IT contracts recording and reporting are not adequate. It was recommended that a review takes place on how the contract management functionality in SAP may be used and that a contract database in SAP is created. FRMD agreed with the recommendation specifying that the database may be created outside SAP. ISD complemented its agreement by specifying that it might be more constructive to expand a central repository of contracts, Agreements, MOUs, etc. (which LAU is already maintaining) with functionality that would be useful to PROC for contract management and as a reference tool for internal requesting services such as ISD. Access privileges would then be according to organizational roles and responsibilities. There was general compliance with policies and controls were assessed as effective. IA did not issue any recommendation to this effect.
3. Overall, IA is of the opinion that the governance, risk management processes, and internal controls are not sufficiently adequate and effective. Improvement should be achieved in the areas of policies, procedures, efficient/effective use of resources, and reporting. There is however adequate compliance of transactions with the current procedures and established practice. If the abovementioned shortcomings were addressed, the Secretary-General could be provided with reasonable assurance that there is adequate governance and risk management, and that controls are effective in the IT contracts, rental and maintenance services.

# 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 the Secretary-General and in its annual report to the Council. At this stage, IA has addressed all IMAC recommendations with respect to internal audit.

In the Addendum 2 of its fourth report to Council, IMAC also endorsed the findings of the external validation team (contained in [Document C15/INF/11](http://www.itu.int/md/S15-CL-INF-0011/en)) and recommended that the Internal Auditor – through the mechanism of the annual report of the Internal Auditor on Internal Audit Activities – report to the Council in subsequent years on action taken and progress made in the implementation of each of the nine recommendations contained in the External Independent Validation of ITU’s IA activity. IA confirms now that all nine recommendations have been implemented.

# Follow-up of internal audit recommendations

1. Throughout the period reported on, and in compliance with IIA[[4]](#footnote-4) Standard 2500, Internal Audit continued to follow up on recommendations made in previous audit reports. Further progress was noted over the last 12 months and statistics on the implementation are (at 1 February 2017):

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| **Year** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **Total** |
| Number of audit reports | 2 | 0 | 4 | 4 | 7 | 4 | **21** |
| Recommendations - Total | 17 | - | 113 | 55 | 34 | 22 | **241** |
| In Progress | 0 | - | 8 | 5 | 8 | 20 | **41** |
| Delayed | 3 | - | 0 | 0 | 0 | 0 | **3** |
| Closed | 14 | - | 105 | 50 | 26 | 2 | **197** |
|  |  |  |  |  |  |  |  |
| % of recommendation In Progress | 0% | - | 7% | 9% | 24% | 91% | **17%** |
| % of recommendations Delayed | 18% | - | 0% | 0% | 0% | 0% | **1%** |
| % of recommendations Closed | 82% | - | 93% | 91% | 76% | 9% | **82%** |

1. No critical or high importance recommendations from before 2012 were left unimplemented. The recommendations still delayed from 2011 concern an internal audit of costing of ITU publications. Management informed IA (and IMAC) regularly of the progress and the External Auditor had already assessed that some of the recommendations from 2011 were closed. In 2017, IA 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, yet very often priorities change and these may affect the degree of importance of initially made recommendations. For 2016, many of the internal audit reports were finalized in the last quarter of the year and it would thus be difficult to have many of the recommendations already implemented in early 2017.

**Audit methodology related aspects**

1. Since 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. This practice was continued in the period reported on in this document. Based on the four *questionnaires* sent back to Internal Audit in 2016, feedback has been very positive (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, promulgated by the Secretary-General on 27 June 2013 [↑](#footnote-ref-3)
4. Institute of Internal Auditors, [www.theiia.org](http://www.theiia.org). [↑](#footnote-ref-4)