Agenda item: ADM 2

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Report by the Secretary-General

EXTERNAL AUDITOR'S REPORT ON ITU'S 2022 FINANCIAL STATEMENTS

Purpose

This document presents the external audit report on the audited ITU's 2022 Financial Statements.

Action required by the Council.

The Council is invited to **examine** and **approve** the External Auditor's Report on ITU's 2022 Financial Statements audited by the National Audit Office (NAO).

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References

Financial Regulations (2018 Edition): Article 28 and additional terms of reference

Report to Council

January 2024

International Telecommunication Union

External Auditor's report on ITU's 2022 financial statements

The aim of the audit is to provide independent assurance to members; to add value to the ITU's financial management and governance; and to support your objectives through the external audit process.

The Comptroller and Auditor General is the head of the National Audit Office (NAO), the United Kingdom's Supreme Audit Institution. The Comptroller and Auditor General and the NAO are independent of the United Kingdom Government and ensure the proper and efficient spending of public funds and accountability to the United Kingdom's Parliament. The NAO provides external audit services to a number of international organizations, working independently of its role as the Supreme Audit Institution of the United Kingdom.

Contents

Final audit report

Background

1 The International Telecommunication Union (ITU) is the United Nations Specialized Agency for information and communication technologies. It was founded in 1865 to facilitate international connectivity in communications networks. It allocates global radio spectrum and satellite orbits, develops the technical standards that help networks and technologies seamlessly interconnect, and aims to improve access to ICTs to underserved communities worldwide.

2 The UK National Audit Office was appointed as the External Auditor of the ITU for a four-year mandate starting 1 January 2022. Following the initial findings from our audit of the 2022 financial statements, the Secretary-General requested additional time for the Secretariat to reflect on the identified issues and revise the 2022 financial statements, before resubmitting them for audit.

3 Members will be aware that we presented an interim report to the June Council and provided a further update in October. Our earlier report highlighted important financial management issues we had identified and contained substantive findings and recommendations on ITU's governance and oversight, change management and the new building project. In our final report on 2022, we provide an overview of the audit opinions and issues related to the ITU's financial management. Our two reports should be considered as the collective observations from our audit of 2022.

4 Our findings and recommendations have been discussed with management. In line with good practice, the results of our financial audit were communicated to the Independent Management Advisory Committee (IMAC) prior to finalising our work. The original drafting language of this report is English. The English version is the authoritative text.

Audit opinions

5 The audit included a general review of ITU's accounting procedures, an assessment of internal controls that impact on our audit opinions; and such tests of accounting records and other supporting evidence as we considered necessary. Our audit procedures were designed primarily for the purpose of forming those opinions. The audit did not involve a detailed review of all aspects of the budgetary and financial information systems, and the results should not be regarded as a comprehensive statement on them. Finally, an examination was carried out to ensure that the financial statements accurately reflected the accounting records and were fairly presented.

Opinion on financial statements

6 Our overall audit of ITU's financial statements revealed no weaknesses or errors which we considered material to their accuracy, completeness or validity. The audit opinion confirms that these financial statements present fairly, in all material respects, the financial position of ITU as at 31 December 2022 and of its financial performance and cash flows for the year then ended. It also confirms their preparation in accordance with International Public Sector Accounting Standards.

Opinion on Regularity

7 Regularity is the concept that transactions reflected in the financial statements must be in accordance with the relevant framework of authorities. As reported in our interim report of July 2023, during 2022 “ex-gratia” payments of CHF214,000 were paid to former Elected Officials under Article 10.4 of ITU’s Financial Regulation. The payments in 2022 were duly authorized by the former Secretary-General “who may make such ex-gratia payments as he deems to be necessary in the interest of the Union”.

8 Under IPSAS, elected officials meet the reporting definition of key management personnel and transactions with them are considered material by their nature. We considered the expenses in 2022 against the requirements of Article 10.4 and in our view, these payments did not meet the definition of ex-gratia as set out in ITU’s Financial Regulations as they were not necessary, or in the interest of the Union and therefore have no basis for payment under ITU’s financial or staff regulations. In our previous report we noted the actions taken by management to prevent any re-occurrence of these issues.

9 Except for the CHF 211,751 of expenditure paid to the former Elected Officials, on which the opinion has been qualified, the transactions underlying the financial statements have been made in accordance with the Financial Regulations and applied to the purposes intended by the governing bodies.

Presentation of financial statements

10 As highlighted in the July 2023 interim report on the 2022 financial statements, ITU’s draft financial statements were not properly prepared in accordance with International Public Sector Accounting Standards when presented to us for audit. We reported that:

- The financial statements presented for audit contained significant material errors and uncertainty owing to inappropriate accounting policies that did not comply with the financial reporting framework (IPSAS);
- The financial statements presented for audit also contained material errors and uncertainty owing to poor-quality data. Our audit identified many historical transactions, including inconsistent treatment of currency revaluation, which had not been properly brought to account and advances and other receivables, treated as assets, which were no longer recoverable and not been impaired; and

- ITU financial statements had not evolved since the implementation of IPSAS in 2010. We performed a detailed review of the disclosures and presentation against the requirements of the standards and found significant deficiencies.

11 We advised the Secretary-General to reflect on our observations; and in addition to the misstatements identified, to consider the wider impact of our findings. Most of the issues identified related to earlier years and we noted that, since IPSAS requires that the previous year's financial results are restated, there was an opportunity for the Secretariat to reflect on whether there may be other historical judgements or accounting treatments that should be reviewed.

12 In mid-August 2023, ITU presented a revised set of financial statements. The supporting working papers were not sufficient to reconcile the two versions of the financial statements. Consequently, it was not possible to agree the changes that had been made to those expected from our audit results. Further, we identified that material error remained in the revised version and the audit trail from prime records to financial statements was insufficient and lacked integrity. The statements had, again, not been subjected to sufficient management review before being provided for audit. ITU had underestimated the level of remedial work required to bring the financial statements to an auditable quality.

13 With the assistance of consultants, ITU continued to resolve the underlying issues within its financial statements, and while all issued had not been fully addressed these were substantially corrected in the version presented for audit in mid-November 2023. The audit trails have not been clean, and it has been necessary to examine many areas of the financial statements multiple times which is inefficient and consumed far more audit resource than expected. Further issues were identified, which should have been addressed by management during their review of the financial statements. However, by mid-December management had addressed all significant issues allowing the audit to proceed to its conclusion steps.

14 ITU has not demonstrated that it has the capacity to deliver quality in its financial reporting and in the underlying records to support an efficient audit. Consequently, we urge the Secretary General to plan the delivery of the 2023 financial statements realistically and to manage expectations of Members on the timing of the reporting on those statements. ITU's operating environment and internal capacity has not changed in 2023 and therefore the presentation of statements and supporting information for audit will remain challenging and rely on the use of expensive external consultants.

15 In our view, plans for 2023 remain unrealistic to deliver financial statements of the requisite quality. ITU need to significantly enhance its financial reporting capabilities. This involves implementing processes, controls, and best practices to ensure that financial information is accurate, transparent, reliable and efficient. Once this is embedded, ITU can return to a more normal timetable to produce its financial statements. In our experience in similar organisation the delivery and embedding of these improvements cannot be achieved within a single cycle. It is important to take a measured approach to build capacity, quality and efficient delivery, to ensure improvement is embedded and sustainable.

16 The impact on the previous financial statements of correcting the historical errors and inappropriate accounting policies are reflected in Note 30 to the financial statements. As required under reporting standards, this Note shows the impact of the adjustments made to the previously issued financial statements. We have discussed the detail of this Note with the IMAC. The note confirms the significant amendments and restatements which have been required to ensure the financial statements present fairly the financial performance and position in 2022. In many of the areas amended, management will continue to cleanse and refine the underlying records. It will be critical that these records are fully cleansed and reviewed before compilation of the 2023 financial statements.

ITU should:

R1: develop a clear plan for the delivery of high quality financial information and supporting audit trails to a realistic timetable, ensuring that all areas of the accounting record have been cleansed and reviewed prior to the preparation of financial statements.

R2: ensure the financial reporting function is appropriately resourced to deliver against the plan.

Management accepts these recommendations, noting that Financial Operating Report must be delivered by end March 2024 for an audit opinion to be provided for the June 2024 Council meeting. To adhere to this timeline, the Secretary-General and Deputy Secretary-General have initiated the formation of a task force dedicated to maintaining the progress of issuing IPSAS compliant financial statements. Executive management has concluded that the most effective approach to achieving this objective involves engaging external consultants in the short term, while concurrently launching a recruitment process to onboard ITU staff responsible for this function in the coming years.

Financial operating report

17 The financial operating report provides an overview of ITU's financial performance and position in 2022. While the information is materially consistent with the reported results, there is much greater opportunity to use this report to enrich the information given to Members alongside the reported performance. We believe that the report could focus more on financial trends and how the ITU is managing financial risks. We have also noted that there is limited analysis of outcomes and what has been spent and achieved in the period. Members need to have a commentary on financial statements that is fair and balanced and provides a rounded picture of the overall performance of the organisation, its financial health and of the key outcomes arising from the resources used.

18 More widely within the UN system there has been greater focus on using this type of commentary to show how resources have been used. As resources become more stretched, it is increasingly important for the Members to have a clear context for the movements and financial pressures which the organisation faces and the ways in which the ITU will respond and flex to adapt to the resourcing circumstances. This helps to support accountability as better information linking resources to outcomes, can support improved financial decision making by the Members.

19 ITU should consider further development of this commentary, utilising the IPSAS Board's guideline on presenting financial statement discussion and analysis, and enhancing the disclosure of the underlying causes of variations. This would provide a richer context for the reader to understand movements in the financial position and cash flows presented in the financial statements. We believe it is increasingly important for the report which accompanies the financial statements to be accessible and comprehensive, covering performance and financial information. Audited figures in the financial statements offer stakeholders a wealth of information and ITU should think about how they use the financial performance section to complement this and offer relevant insight.

ITU should:

R3: develop its financial reporting commentary to encompass the IPSAS Board's guidance on presenting financial statements to enrich the information provided to Members, to ensure it informs an understanding of the reasons for trends and variations, identifies risks and opportunities and provides a summary of the outcomes delivered for the resources expended.

Management accepts this recommendation and will work to improve its reporting going forward.

Financial commentary

Financial performance

20 ITU reported an overall deficit of CHF24.4million (2021: CHF13.3million), with total revenues of CHF196.8 million (2021: CHF177.1million) and expenses of CHF203.0million (2021: CHF190.9million)[1]. The increase in expenses compared to 2021 was primarily due to the resumption of travel following the pandemic, with "mission" expenses increasing to CHF5.6million from CHF443,000.

21 The Statement of Comparison of Regular Budget to Actuals shows revenue and expenses against the approved budget, with:

- actual revenue of CHF157.2million, against the balanced budget of CHF163.6million; and
- actual expenditure of CHF162.0million, against the balanced budget of

[1] All figures used in this Report reflect comparisons with the audited (Re-stated) financial results from previous financial years.

CHF163.6million.

22 This led to a programme budget deficit of CHF4.8million against its break-even target. The primary driver for the deficit on budget was a decline in satellite filings. The result of a continued budget deficit is a further drain on the general reserves of ITU. It will be critical for ITU to retain a focus on accurate forecasting of revenues, and to take actions where declines are noted to ensure that forecasts of receivable revenues are aligned with costs. Similarly, it is important to ensure that ITU ensures full cost recovery on its operations, to ensure that it can continue to meet its objectives and financial obligations in the medium to long-term. We will consider ITU's financial sustainability later in our mandate, alongside a review of how results-based management supports reporting of achievements against plans as highlighted further below.

Financial position

23 Overall, because of actuarial gains of CHF215.5million on the valuation of the After Service Health Insurance (ASHI) and taking account of deficit of revenue over expenses, net assets deficit reduced to negative CHF213.1 million (2021: negative CHF410.8million).

24 Total assets decreased by CHF19.7million to CHF317.9million and included cash and investments of CHF207.7million (2021: CHF225.1million) and property, plant and equipment and intangibles assets with a net value of CHF86.6million (2021: CHF86.2million). Receivables from core activities decreased to CHF17.8million (2021: CHF19.5million) after impairment of CHF36.1million, which management do not consider is recoverable from Members and other users of services. This represents a significant reduction in funds available to the Secretariat to implement activities. Enhancing credit control procedures are crucial for ITU's financial health and stability and we would encourage management to take urgent action in this area as highlighted below.

25 Total liabilities reduced by CHF217.4million to CHF530.9million. Liabilities include contributions received in advance of CHF50.8million (2021: CHF53.6million), third-party (i.e. donor) funds of CHF38.0million (2021: CHF49.7million), borrowings of CHF46.9million (2021: CHF52.0million) and the total staff benefit liabilities of CHF368.7million (2021: CHF570.5million) of which CHF344.1million relates to the after service health insurance, as shown in Note 18 to the financial statements.

26 ITU's overall financial health has stayed broadly consistent over the past three years (as now restated), but continues to report negative net assets despite the significant recent gains on the actuarial valuation of the employee benefits arising from changes in the wider financial markets. We use ratio analysis of an organisation's financial health on all our international audits to show how financial positions change over time. They express the relationship of one item of account against another. For example, there are CHF3 of current assets for every CHF1 of current liabilities, demonstrating that ITU can meet its immediate cash-flow requirements. This is predominantly due to ITU's existing cash management policies which means its cash and investments are held as current assets even though they support non-current liabilities, such as donor funds and reserve accounts, including employee benefits.

Figure 1 - Analysis of ITU's key financial health ratios

Ratio	2022	2021	2020
Current ratio Current assets: Current liabilities	3.0	3.2	3.3
Total assets: Total liabilities Assets: Liabilities	0.6	0.5	0.4
Cash ratio: Cash and short-term investments: Current liabilities	2.7	2.8	2.9
Investment ratio: Cash and investments: Total assets	0.7	0.7	0.6

Source: ITU's financial statements (as restated)

Financial management

Cash management

27 At 31 December 2022, cash and investments totalled CHF207.7million. ITU's Financial Regulations require that the Secretary-General to minimise the risk while ensuring the liquidity necessary to meet the Union's cash-flow requirements. The Regulations also require that investments be selected based on achieving the highest reasonable rate of return.

28 ITU’s investment guidelines establish the treasury committee, comprising the Deputy Secretary-General, the Chief of Administration and Finance Department, the Head of Accounts Division and the Chief of the Payroll and Treasury Section. The committee should meet at least quarterly to "arbitrate the level of deposits between current accounts, business accounts and fixed-term deposits and/or deal with treasury matters such as interests and long term deposits". Given the scale of ITU's cash resources these requirements are weak. The guidelines were created in 2010 and, in our view, should be reviewed and updated to ensure that they remain relevant. We would expect such a policy to include:

- the objectives of the cash management policy;
- the roles and responsibilities of individuals or departments involved in cash management. This includes the identification, assessment, and management of risks associated with cash management (i.e. currency risk, interest rate risk, and counterparty risk);

- the criteria for selecting and maintaining banking relationships and guidelines for short-term investment of excess cash. This should define acceptable investment instruments, risk tolerance levels, expected returns and ethical considerations;
- outlining the procedures for cash flow forecasting to ensure appropriate and proactive decision-making;
- outlining the approach to liquidity management. This involves maintaining an optimal level of cash reserves to meet operational needs and unforeseen contingencies.
- define reporting requirements for monitoring cash positions, forecasts, and performance against targets; and
- the need for external expertise to inform investment decision making.

29 Given the scale of ITU's cash and investment holdings, we would expect such a committee to have access to independent investment experts to enable it to understand the wider market environment and provide challenge to its investment managers. This is particularly important given the heightened market instability and movements in interest rates.

ITU should:

R4: review its investment policy and processes, to ensure they reflect best practice and make the best return on cash resources within an agreed risk tolerance, this should be informed by external benchmarking and expertise.

Management accepts this recommendation and will follow the best UN practice of other Geneva based organizations.

Debtor management

30 To have stable and predictable levels of resource it is important that Members fulfil their obligations in full, and on a timely basis. We noted at 31 December 2022 that there were CHF47.5million (2021: CHF49.1milion) of assessed contributions outstanding from Members of which the majority has been outstanding for more than 12 months. The level of outstanding receivables constitutes a significant financial burden on the available cash resources of the Union to fund its core activities. To manage its cash-flows, ITU invoices Members six months in advance. Utilising future cash resources does not represent good practice and doing this on a consistent basis is not a sustainable way to resource activity. It creates a risk that resources might not be available to replenish those funds which exist for other purposes.

31 To improve cash flow and the overall financial health of ITU, there should be a fundamental review of the existing debtor management arrangements. This should include more proactive credit control, more efficient and determined collection processes, and strategic decision-making to ensure that accounts receivable are managed effectively. Our audit identified significant weaknesses in the assessment of those debts which might be irrecoverable, and lack of timely assessment can result in inaccurate information to support financial decision making. We noted that budget allocations do not take account of the trends in actual receipt of funds, and therefore risk allocating resources that will not in fact be received in the period.

ITU should:

R5: review its debtor management procedures, to ensure more active follow-up and recovery actions.

R6: also ensure that budget allocations and financial decision-making take account of the realistic timings of cashflows, based on historic trends to minimise the risk of overspend.

Management accepts these recommendations and will continue to put together a review of outstanding amounts due to the organization, with a view to putting in place appropriate debtor management in collaboration with its Council Members and other debtors. Furthermore, ITU management is proposing changes to its current Financial Regulations and Financial Rules to ensure strengthening of controls around Cash and cash equivalents.

Employee benefits

32 In 2022, total employee expenses reported in the financial statements were CHF 153.5 million (2021: CHF 151.9 million), these represent 75.6 per cent (2021: 79.6 per cent) of all expenses during the period. ITU's Staff Regulations set out the conditions of service and the basic rights, duties, and obligations of ITU staff. This includes the salaries and related allowances and the social security benefits, including access to the UN Joint Staff Pension Fund and After-Service Health Insurance.

Post-employment benefits

33 The most significant liabilities which ITU recognises in its financial statements are the employee benefit liabilities. These liabilities comprise the staff member's after-service health insurance, their repatriation entitlements, and their accrued annual leave. The overall liability for these staff benefits has decreased to CHF368.7 million (2021: CHF570.5 million).

34 The after-service health insurance liabilities totalling CHF 344.1 million (2021: CHF 545.6 million) are calculated by an independent actuary based on underlying data and assumptions. They reflect the value of the contractual obligations to staff and retirees, on 31 December 2022, for their underlying claims expected in the future. The year-on-year movement arises from changes in the actuarial assumptions including those relating to medical claims costs.

35 ITU maintains a separate account for the funds it has allocated for the future financing of after-service health insurance liabilities which at December 2022 totalled CHF 14 million (2021: CHF 13 million). These funds have primarily been generated by a transfer from the reserve account, leaving significant unfunded liabilities. Such unfunded liabilities are common within the UN system, but it remains important for Members to regularly determine and approve the way in which they wish to plan for the funding of these scheme liabilities, especially those which arise because of extra-budgetary funding.

36 The most significant factors that have impacted the valuation of the liability are the actuarial assumptions, which decreased the liability by CHF 215.5 million (Figure 2). These comprise:

- CHF 133.6 million gain on financial assumption changes. These cover updates to assumptions such as discount rates, inflation and medical trends. The gain here related primarily to the discount rate increasing from 0.5 per cent to 2.5 per cent which significantly reduces the overall liability. While beneficial to ITU's financial health for 2022, the gain results from movements in the financial markets and not from the active management of the liabilities by ITU and likely to be reversed in future periods should discount rates reduce.
- CHF 80.1 million gain on demographic assumption changes. These cover updates to assumptions such as turnover, mortality and disability, retirement and most significantly adjustments to medical cost claims as outlined below.
- CHF 1.8 million gain on experience changes. These cover adjustments required due to the difference between assumptions made and actual results.

Figure 2: Evolution of ASHI defined benefit obligation

	2022	**2021**
Defined benefit obligation 1 January	545,636	631,870
Interest cost	2,703	1,254
Current service cost	19,685	25,171
Contribution paid	-8,412	-9,160
Actuarial assumption changes	-215,510	-103,499
Defined benefit obligation 31 December	344,102	545,636

Source: ITU financial statements

Medical claims costs

37 The underlying obligation of ITU is the expected claims in the future, that staff members, former staff and their dependents have earned from their past service with the organisation. In developing the estimate, ITU's actuary develops expected claims costs per claim at each age which can be seen in Note 18.1.2 to the financial statements.

Figure 3: medical claims cost

Age range	2022 claims cost (CHF)	2021 claims cost (CHF)
50	3,138	3,487
55	3,928	4,365
60	4,925	5,472
65	6,184	6,871
70	7,777	8,641
75	9,800	10,889
80	12,369	13,743
90	16,491	18,323

Source: ITU's financial statements and ITU's IPSAS 39 ASHI valuation reports

38 ITU's actuary performed a study in 2018 using actual ITU claims cost experience between 2015 and 2017, this was prior to joining the United Nations Staff Mutual Insurance Society (UNSMIS). This information was used to create a profile of expected claims at each age between 50 and 90.

39 At 31 December 2022, using the profile derived from the 2018 study, ITU updated its assumption to take account of recent UNSMIS claims data. This showed that the actual inflation-adjusted average medical cost per retiree was CHF 9,600. This data was subsequently validated by internal audit after we identified that management had not considered the need to check the veracity of such external data. Separately, we performed independent checks on the claims data shared with us and were able to closely agree the average claims cost derived and therefore concluded that the medical claims cost assumptions at 31 December 2022 were reasonable.

40 Given the changes to the plan, in particular the move to UNSMIS and more generally changes to global healthcare trends (notably due to the Covid-19 pandemic), ITU should perform a new full medical claims cost study to update the profile and support its future valuations. ITU should also ensure that all third-party data used in such a study is robustly validated by management. These are necessary requirements to ensure management prepare financial statements in accordance with IPSAS and which allow then us to provide an opinion in line with International Standards on Auditing based on the reasonableness of management's estimates.

ITU should:

R7: regularly perform medical claims cost studies to support the valuation of its employee benefit liabilities and develop policies for updating these assumptions between full studies.

R8: ensure all third-party data used in the valuation of employee benefit liabilities is appropriately validated.

Management accepts these recommendations.

UNSMIS

41 In 2019, following a recommendation from ITU's Collective Medical Insurance Plan (CMIP) Management Committee and consideration by the Joint Advisory Committee and Coordination Committee, the Secretary General signed a memorandum of understanding, effective January 2020, with the UN Office in Geneva to join the UN Staff Mutual Insurance Society against Sickness and Accident (UNSMIS) to provide health insurance coverage under ITU's Staff Regulations.

42 As a condition of joining the mutual scheme, ITU made an initial contribution of $19.5 million to the UNSMIS reserve fund. Additionally, due to the demographics of the ITU ASHI membership, an additional annual contribution to the reserve fund over 13 years of $22.5 million was required. In addition to these cash contributions, the enhanced benefits and reduced costs to staff and retirees of the new plan increased ITU's overall ASHI liability by CHF50.0million. In our view, additional costs of this scale would normally warrant specific approval of the entities governing body together with a clear analysis of the costs and benefits of making the change to the scheme.

43 While joining the UNSMIS decreased the contribution rates, eliminated the claim "excess", or deductible for individuals and provided some enhanced benefits, it is unclear whether, against these significant additional costs and liabilities, the decision to join UNSMIS provided good value for money to the ITU. In our view, ITU should revisit its original business case for joining UNSMIS and report to Council on the associated costs and benefits of this significant investment decision to ensure the transactions was in line with the Council's intentions.

ITU should:

R9: revisit its original business case for joining UNSMIS and report to Council on the associated costs and benefits to the Union of this significant investment decision.

Management accepts this recommendation and will work with other UN Agencies to ensure that it benchmarks the level of health insurance protection afforded to its retired and current staff.

UN Joint Staff Pension Fund

44 ITU is affiliated as a member organisation to the United Nations Joint Staff Pension Fund (UNJSPF) through its employees. However, as the pension scheme cannot accurately determine a reliable estimate of the corresponding risk borne by each participating organisation no actuarial liabilities for the pension scheme appear in ITU’s financial statements.

45 The characteristics of the UN pension scheme are outlined in Note 18.3 to the financial statements and this disclosure is consistent across many participating organisations. At the latest actuarial date, 31 December 2021, UNJSPF has concluded that there was no requirement for deficiency payments to be made under Article 26 of the Fund's Regulations, as its funding ratio had improved since its last actuarial report to 117 per cent (2019: 107.1 per cent). Should this situation change in the future, deficiency payments would be required from ITU and other participating UN system entities. This situation represents a potential future financial risk to the organisation which needs to continue to be tracked.

Strategic financial management

46 Strategic financial management involves the consideration of how the resources can be used to fund the longer-term objectives of the Union. This involves consideration of how resources are linked to the goals of the Members and how resources are planned for longer term commitments, such as capital works and the funding of after service health insurance. It also requires a holistic approach to how the overall reserve funds of ITU can be used to fund operations.

47 ITU's strategic plan, covering a four year horizon, is set out at each Plenipotentiary conference in its Resolution 71, most recently at PP22, where the strategic plan was approved for 2024-2027. The supporting financial plan is elaborated within Decision 5 (Revenue and Expenses for the Union) and allocates financial resources to the strategic goals of the Union. ITU's non-core activities, including extra-budgetary activities funded by ITU, or donor contributions; capital activities; and health insurance and other staff related fund balances, are planned, programmed and reported separately. In our view, the strategic plan should better reflect plans for these other non-core resources, linking them more closely to the Members' overall strategic objectives. This would provide a more complete measure of the Union's overall performance and use of resources, better highlighting how other activities contribute to the delivery of outcomes. Later in our mandate we plan to look at how results-based management supports reporting of achievements against plans.

48 Effective financial management utilises reserves to smooth the resource demands of the Union and to meet known obligations or commitments. Despite pressures on core resources, ITU has cash backed reserves and fund balances. While some balances may be restricted for specific purposes, others are available to the ITU and in our review of the financial statements we considered that the use of these resources could be better articulated and reported to Members.

ITU should:

R10: review all its current fund and reserve balances and the scope for rationalisation and simplification, reviewing whether balances continue to be relevant to the Union's financial plans. This should be in the context of an overall strategy for the maintenance of reserves and funds, aligned to the strategic plans of ITU.

Management accepts this recommendation and has proposed changes to the Financial Regulations and Financial Rules to improve its current fund management to promote transparency, accountability and reporting.

Other matters for Members

49 Under Article 28 of the Financial Regulations (External Audit), the Secretary General is required to report to us on any cases of fraud identified. There were no such cases reported to us and we identified no instances of fraud during our audit work.

50 The ex gratia payments reported to us have been disclosed in Note 28 to the financial statements as required under Article 10 of the Financial Regulations. This matter was covered in more detail in paragraphs 7 to 9 above.

Acknowledgments

51 We would like to thank the Secretary-General and her staff for their co-operation in facilitating our audit engagement.

Gareth Davies

Gareth Davies

Comptroller and Auditor General, United Kingdom - External Auditor

24 January 2024