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## Report by the Secretary-General

### EXTERNAL AUDITOR'S REPORT ON THE UNAUDITED ITU'S 2023 FINANCIAL STATEMENTS

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#### Purpose

This document presents the external audit report on the unaudited ITU's 2023 Financial Statements.

#### Action required by the Council.

The Council is invited to **examine** the External Auditor's Report (National Audit Office (NAO)) on the unaudited ITU's 2023 Financial Statements.

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#### References

[Financial Regulations \(2022 Edition\)](#): Article 28 and additional terms of reference



National Audit Office

**Report to Council**

**May 2024**

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**International Telecommunication Union**

# **External Auditor's report on ITU's 2023 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.

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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.

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# Summary

## 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** Following the significant issues identified in our audit of the 2022 financial statements, as certified in January 2024, we highlighted that it was not going to be possible to accelerate the 2023 timetable in time for the June Council meeting. Our plans for delivering the audit were shared with Independent Management Advisory Committee (IMAC) in March. The Comptroller and Auditor General agreed on an approach with the Secretary-General to report our interim audit findings to Council, with the signature of the audit opinion in September. The IMAC will consider the results of our audit, ensuring appropriate governance and oversight over any changes in the presentation of the unaudited financial statements to Council (C24/41).

**3** Subject to ITU maintaining and building on its improvement plans, we anticipate a return to the normal reporting cycle for the 2024 financial statements, reporting to the June 2025 Council.

## Key observations

### Financial management

**4** The Secretariat has responded well to the observations on financial management we made in our 2022 reports. The Secretary-General has invested heavily in bringing in expertise to support the Financial Resources Management Department (FRMD) in the preparation of timely and compliant International Public Sector Accounting Standards (IPSAS) financial statements. Following initial feedback on the first two versions of the draft statements, the unaudited financial statement being presented to Council reflect the findings from our interim work.

**5** Our interim work has focused on key risk areas identified from our previous audit and on the income and expenditure transactions which are reflected within the Regular Budget statement (Statement V). While there were material adjustments related to two specific areas of the financial statements, namely third party funds and finance revenue/costs, which have been corrected in the unaudited financial statements issued for Council 2024. These errors contrasted with the much higher and

pervasive levels of misstatements identified in our 2022 audit. We shared our detailed findings with the IMAC on 22 May.

**6** We noted significant improvements in the quality of the disclosures within the financial statements and in the supporting audit trails and documentation. Progress has been made with support from consultants, pending recruiting to enhance internal capacity. It is important that this additional capacity builds on the progress made, and ITU establish the quality review mechanisms required to mitigate the risk of material error in future years. The enhanced capacity is also essential in helping ITU address the challenges of new IPSAS reporting requirements in the coming years.

**7** ITU reported in its unaudited financial statements, a consistent overall deficit of CHF 24.8 million (2022: deficit CHF 18.3 million) in the Statement of Financial Performance. On regular budget activities, ITU has reported an overall surplus of CHF 1.4 million, within which it made a CHF 7.8 million loss between budgeted revenue and actual cost recovery revenues. Our report highlights several areas where budgeted revenues and costs differed materially, and we have emphasised the importance of setting taut and realistic budget targets, and of enhancing the information available to make conscious decisions on whether revenue activities recover their costs. We noted the recent work which identified significant under-recovery of the full costs of Satellite Network Filings.

**8** The overall financial position of ITU is heavily impacted by the current value of obligations and commitments made to staff in respect of employee benefits, most significantly, After Service Health Insurance. These liabilities increased by CHF 30.7 million, to total CHF 399.4 million at the end of the period. It remains important for Members to continue to consider the funding approach to these liabilities, especially in respect to the elements attributable to extra-budgetary activities. In addition, the ITU continues to carry a provision for impairment of receivables of CHF 35 million, representing funds which are not readily available to be deployed.

**9** ITU also holds assets under construction of CHF 26.6 million, which are significantly attributable to the capitalised costs of design work to 31 December 2023 in connection with the new building project. Our report highlights that the actual value of these assets may be impacted by the decisions of Council during 2024, and that the Secretariat will need to assess the impact and disclosure the extent to which this will be adjusted in the 2024 Financial Statements.

**10** In our final report on 2022, we highlighted the need for the Secretariat to enhance its Treasury Management arrangements, and to obtain more external input to manage risk. Our analysis of the 2023 statements has shown that despite improved level of interest revenue, this has been offset by the heavy losses on exchange rate movements. Overall, ITU does not have arrangements in place to manage the risk of currency exposure, and its holdings have exceeded the levels of natural currency hedging which would normally mitigate the risk of loss. Overall, this has led to a currency loss of CHF 1.6 million. Similarly, ITU should develop its approach to those asset reserves it considers to be long term.

## **Governance and internal control**

**11** Governance and internal control are key mechanisms through which Members obtain assurance over the appropriate and effective use of resources. In our 2022 Interim Report to Council, we highlighted that key elements of the Accountability Framework were not fully operational or effective. The key element of the framework regarding assurance is the operation of the Three Lines assurance model. Following our initial audit observations, the Secretary General has provided a fair and balanced articulation of the control environment and her priorities for improvement in the Statement on Internal Control. While our report highlights areas for improvement, the Statement provides a commitment to a more honest and transparent view of the quality of controls and the work the Secretariat is taking forward to improve them.

**12** In respect of the first line, changes have been proposed by the Secretariat to the Financial Regulations, and we consider these changes modernise and align the regulations with current arrangements. The Secretariat should see the changes as the first step to a wider future review, which should reflect development of regulations to incorporate best practice, partnership working and resource mobilisation activities. Additionally, ITU should explore the considerable opportunities to enhance business processes, to take key transaction streams and develop more cost-effective processes with focused and proportionate control activities.

**13** The Secretariat should enhance the role and accountability of process owners, to include responsibilities for reviewing and assuring compliance. The development of data analytic tools would provide the basis for the second line and address a key assurance gap within ITU. It is important that a more systematic approach to compliance is adopted. Within the second line activities, ITU's process for risk management are not yet sufficiently mature and systematic to fully support decision making. Developments in these areas will require significant cultural shifts to fully embed these activities in the business operations of ITU.

**14** As Members are aware, ITU has suffered from cases of fraud in previous years. The last fraud risk assessment was performed in 2016 and we have recommended that this is updated. This will ensure the Secretariat has a clear view of the areas more susceptible to fraud, such as project and external office activities, and will help ensure that controls and assurance activity is focused in the areas of greatest risk.

**15** In early 2024, the Secretariat has further developed the Oversight Charter and recruitments for the Chief of Oversight and for evaluation capacity are currently in progress. Since our last report the investigation function has migrated to the Oversight Unit. We continue to stress the importance of a risk-based approach to the Unit's work, focusing on materiality and operational risk to ensure it adds value. It is particularly important during a period of change and with areas such as cyber risk, development of risk and results-based management, and a major construction project, that the Oversight Unit has sufficient capacity and can contract for specialist skills as necessary. As we highlighted last year, the risk-based planning is especially important

during a period of significant change, and as the Secretariat better develops its own identification of risk. As the Oversight Unit evolves it will be important to ensure regular reviews of its effectiveness and to refine plans as necessary.

**16** We understand changes are planned to investigation and retaliation policies. It is important these policies are reviewed against best practice and subject to scrutiny by IMAC once drafted. Recognising the actions being taken by the Secretariat and the development of the Charter, the current gaps in the evaluation function and the independent Ombudsperson represent weaknesses within ITU's current third line arrangements.

### **Transformation programme**

**17** The Secretariat has begun to establish arrangements for delivering the Secretary-General's transformation plans launched in June 2023. A transformation team is being established, together with reporting tools to monitor and track the deliverables within the initiative. A roadmap has been developed, which anticipates delivery of transformation in the period July 2024 to December 2027. Our early observations are that the plans are ambitious and at present there are limited specific resources dedicated to the programme. It will be important to prioritise deliverables to achieve the best cost benefits. There is currently no overall cost attributable to the planned initiatives to 2027, and a reliance on funding from the regular budget allocations may create risk to the achievement of objectives.

**18** Many of the transformation initiatives have been internally generated and there are opportunities to engage external perspectives which could help validate the transformation approach and ensure opportunities for improvement are explored. In our view, transformation should also consider opportunities for efficiencies by other modalities of delivery such as outsourcing and shared services. A significant risk common to all transformation programmes is the risk of cultural inertia and change fatigue. It will be important for the Secretariat to have a clear plan on how it will support staff and monitor their engagement in transformation.

### **New building project**

**19** In 2022 we made substantive observations regarding the status of ITU's planned building project. Since our report in June 2023 there have been continued deliberations and we understand the Management Board, the project Steering Committee and Member State Advisory Group (MSAG) have considered options which will be presented to Council within an overall cost ceiling for delivery by 2031. We continue to emphasise the importance of three key elements of governance, namely a clear assessment of the aims and benefits of the project, to assess its value for money and its successful delivery; the importance of dedicating sufficient resources to external independent project oversight expertise and assurance; and the importance of accurate and assured reporting to ensure informed decision making.



### **Previous recommendations**

**20** We made 19 recommendations on our audit of the 2022 financial statements. The status of these is set out in the appendix. In May 2024, the Secretary-General initiated an exercise to undertake a comprehensive review of all outstanding recommendations. In light of this, we have made limited new recommendations in 2023, but we have clearly indicated where the Secretariat should take action. We will report progress on the implementation of all external audit recommendations and provide our observations on implementation status in our report next year.

# Part One

## Financial management

### Presentation of financial statements

**1.1** As Members will recall, in June 2023 we issued an Interim Audit Report to Council which reported significant issues in respect of ITU's financial reporting. We found the initial 2022 financial statements were not compliant with International Public Sector Accounting Standards (IPSAS). The Secretariat responded positively to the identified issues and while it took some time to resolve these matters, the External Auditor provided an unqualified opinion on the fair presentation of those Statements in January 2024. We reported this outcome to Council Working Group on Financial and Human Resources that month. Our associated final report is contained in Council document C24/41.

**1.2** As highlighted in our January 2024 report and reiterated in our audit planning report for 2023, it was not going to be possible to accelerate both the financial closure and audit processes to recover the timetable from a late certification of the 2022 financial statements in one cycle. The Secretary-General invested significant resources to enhance the capacity of FRM, using external consultants, to provide compliant financial statements and to ensure they would be available in line with the requirements of ITU's Financial Regulations.

**1.3** ITU presented the draft operating report and financial statements for audit on 27 March 2024. Overall, while the financial statements were an improvement on the version presented for audit last year, management's processes for ensuring quality review were not sufficiently robust. Our initial review identified a series of presentational and disclosure matters for ITU to consider and included material misstatements.

**1.4** Revised statements addressing the initial concerns were subsequently provided for audit. During April and May 2024, we performed substantive interim audit work on areas we considered to be higher risk. Our work also included the routine revenue and expense transactions to enable us to have confidence in the transaction processing controls. We have substantially completed our work on:

- revenue and expenses, including payroll costs;
- the compilation and presentation of Statement V;
- the after-service health insurance liabilities;
- borrowings;

- third party funds; and
- bank and investment holdings.

**1.5** Our audit to date has not identified any significant transactional misstatements, we did however, identify the need for further adjustments. These adjustments have been reflected by the Secretariat in the *unaudited* financial operating report presented to Council C24/41. These material adjustments related to two specific areas of the financial statements namely third party funds and the finance revenue/costs. This contrasts to the pervasive misstatements identified in the previous year. In line with good practice, we shared the detail of these adjustments with the IMAC on 22 May 2024, and discussed the wider progress and findings from our audit.

**1.6** We have agreed with the Secretary-General to finalise our audit procedures in July and August, including our final review and engagement quality control procedures, and we anticipate the External Auditor will sign the audit opinion in September 2024. We have agreed to report the overall findings from our financial audit to the IMAC in mid-September allowing them to form their judgement and recommendations to the Secretary-General and Council. We understand our final audit opinion on the financial statements will then be circulated to Council Members.

**1.7** ITU plan to recruit two additional staff to enhance the skills and competencies in FRMD to meet the challenges of financial reporting and reducing the reliance on external consultants. It will be important to ensure that these new people are onboarded in sufficient time to enable ITU to develop models and processes to further enhance its financial reporting. The increased capacity should enable management to enhance its quality review processes.

**1.8** As we have discussed with the Secretary-General, we are committed to building on the progress made and expect to engage with the Secretariat in the Autumn to agree a shared project plan to support delivery of the 2024 audit opinion and report to Council in June 2025.

## **Financial performance**

**1.9** ITU reported an overall deficit of CHF 24.8 million (2022: deficit CHF18.3 million), with total revenues of CHF 180.7 million (2022: CHF 172.1 million) and expenses of CHF 197.2 million (2022: CHF 196.8 million). While overall expenses remained consistent with the previous year, reductions of CHF 2.8 million in employee expenses and CHF 3.9 million in the depreciation charge were offset by increases in other expense categories including a CHF 2.2 million increase in mission expense.

## **The Statement of Comparison of Regular Budget to Actuals**

**1.10** The Statement of Comparison of Regular Budget to Actuals shows revenue and expenses against the approved budget, with actual revenue of CHF 157.0 million and actual expenditure of CHF 155.6 million against the balanced budget of CHF 163.4 million. While ITU reported an overall surplus of CHF 1.4 million against its break-even target, cost recovery revenue was CHF 7.8 million below budget. This

shortfall was primarily due to the decrease in cost recovery revenue for the processing of satellite network filings (SNF). This was partially offset by interest revenue of CHF 2.9 million against the forecast of CHF 300,000.

**1.11** The 2023 revenue forecast for SNF was CHF 18 million with actual revenues of CHF 10.6 million. While the 2024-2025 biennial budget has forecast lower SNF revenues, at CHF 14 million for each year, this remains significantly higher than the average of CHF 10.7 million achieved over the past three years. ITU report that the difference between the budgeted and the actual invoiced amounts arises from a shift between submissions from geostationary satellite networks to non-geostationary satellite systems. Non-geostationary satellite systems are subject to lower fees giving rise to the shortfall.

**1.12** As highlighted in our report last year, it is critical for ITU to retain a focus on accurate forecasting of revenues. ITU should identify areas where cost-recovery activities do not achieve the recovery of full costs. This information should then be used to determine whether the activities should be cross subsidised to achieve the aims of the Union, or to inform the decisions on fee levels. We have noted that the Secretary-General, in Council document C24/16, has assessed the costs associated with the processing of satellite-related filings in 2023 at CHF 19.4 million, resulting in a significant under-recovery when compared to revenue of CHF 10.6 million. If the Union does not recover the full costs of its cost recovery activities this results in cross subsidisation, impacting on the wider operations and aims of the Union.

**1.13** On expenses, overall savings against budget were achieved in all ITU sectors and these are set out in more detail in Note 24 to the financial statements. ITU should reflect on the reasons for the savings achieved and reflect whether this provides any useful insight into the budgeting process, for example, whether the budget assumptions and forecasting are sufficiently taut to encourage savings and efficiencies to enable the budget to be a more useful mechanism for accountability purposes. During our mandate, we will look at the Union's budget setting arrangements, mindful that a review of Results Based Management and budgeting is planned.

## **Financial position**

**1.14** Overall, because of actuarial losses of CHF 19.5 million on the valuation of the After Service Health Insurance (ASHI) and taking account of the deficit of revenue over expenses, the net assets deficit increased to negative CHF 257.3 million (2022: negative CHF 213.1 million).

**1.15** Total assets decreased by CHF 9.4 million to CHF 308.5 million. These assets included cash and investments of CHF 190.9 million (2022: CHF 207.7 million) and property, plant and equipment and intangibles assets with a net value of CHF 89.0 million (2022: CHF 86.6 million). Receivables from core activities increased to

CHF 19.6 million (2022: CHF 17.8 million) after impairment of CHF 35.0 million, reflecting management's consideration that it considers this amount to currently be irrecoverable from Members and other users of services. This amount represents a significant reduction in the assets which should be due to the Secretariat to implement activities.

**1.16** Total liabilities increased by CHF 35.0 million to CHF 565.9 million. Liabilities include contributions received in advance of CHF 50.5 million (2022: CHF 50.8 million), third-party (i.e. donor) funds of CHF 38.7 million (2022: CHF 38.8 million), borrowings of CHF 53.0 million (2022: CHF 48.3 million) and total staff benefit liabilities of CHF 399.4 million (2022: CHF 368.7 million). Of this, CHF 375.3 million relates to the after service health insurance, as shown in Note 17 to the financial statements.

**1.17** ITU's overall financial health has stayed broadly consistent over the past four years, but it continues to report negative net assets primarily due to the unfunded employee benefit liabilities. We use ratio analysis of an organisation's financial health on all our international audits to show how financial positions change over time (Figure 1). They express the relationship of one item of account against another. For example, there are CHF 2.2 of current assets for every CHF 1 of current liabilities, demonstrating that ITU can meet its immediate cash-flow requirements. This is predominantly due to ITU's cash management policies which mean 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. A more accurate measure of financial health is that ITU currently has only CHF 0.5 of assets to cover every CHF 1 of its liabilities, which has been a relatively steady measure of health across the last four years.

Figure 1

### Analysis of ITU's key financial health ratios

Ratio	2023	2022	2021	2020
Current ratio				
Current assets:				
Current liabilities	2.2	2.2	3.2	3.3
Total assets: Total liabilities				
Assets: Liabilities	0.5	0.6	0.5	0.4
Cash ratio:				
Cash and short-term investments:				
Current liabilities	1.9	2.0	2.8	2.9
Investment ratio:				
Cash and investments: Total assets	0.6	0.7	0.7	0.6

Source: ITU financial operating report

## Cash management

**1.18** At 31 December 2023, cash and investments totalled CHF 190.9 million (2022: CHF 207.7 million). ITU's Financial Regulations require that the Secretary-General minimises investment risk while ensuring the liquidity necessary to meet the Union's cash-flow requirements. The Regulations also require that investments are made to achieve the highest reasonable rate of return. During 2023, ITU benefitted from a higher interest yield from its investments and reported investment income of CHF 4.6 million (2022: CHF 1.3 million), much of this was earned on US dollar investments.

**1.19** With the weakening of the US dollar (and Euro) against the Swiss Franc over the year, the value of ITU's foreign currency holdings fell by CHF 6.2 million. This has resulted in a negative return and a loss of CHF 1.6 million on foreign currency holdings. At the year end, our analysis showed that ITU held cash and investment in US dollars of some \$ 100.2 million, while ITU required only \$ 21.5 million to match against its US dollar liabilities. Consequently, the Union was significantly over exposed to currency risk at the end of the financial period, which we consider to be conflicting with the overall aims of the Financial Regulations.

**1.20** In our report on the 2022 financial statements, we considered the ITU's investment guidelines and the role of the treasury committee. Considering ITU's cash resources, we found existing arrangements to be weak and recommended that the investment policy and processes was reviewed, 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. ITU accepted this recommendation and has commenced a review of its associated policies.

**1.21** Given the losses in 2023, we consider it important that ITU take urgent steps to obtain sound independent and expert investment advice and that it update its investment policy, processes and practice. It is critical that treasury management minimises the unnecessary risks associated with currency fluctuations.

## Debtor management

**1.22** To have stable and predictable levels of resource it is important that Members fulfil their obligations in full, and on a timely basis. At 31 December 2023, there were CHF 57.3 million (2022: CHF 53.9 million) of outstanding receivables. The majority of which was from Members and 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. As highlighted last year, ITU invoices Members six months in advance to help manage its cash-flow.

**1.23** Utilising future cash resources to meet current cash demands, 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. We continue to note that ITU's current budgetary processes 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.

## **Project management**

**1.24** In 2023, ITU recognised extra-budgetary revenue of CHF 19.0 million (2022: CHF 18.0 million). It also held third-party funds for ongoing implementation of projects totalling CHF 38.6 million (2022: CHF 38.8 million). ITU's data showed it had circa 340 active projects at 31 December 2023. Our analysis demonstrated 80 per cent of the activity was in just 30 projects and over 100 projects had no activity in 2023. ITU operates many relatively small projects, while also carrying a significant number of projects that appear inactive. In our experience, smaller projects may take disproportionate management effort to manage and implement, and are less likely to recover sufficient overhead costs. While we recognise that small projects can bring important benefits to Members and donors, the Union should consider the cost benefit of such an activity profile. It is our intention to cover the Union's approach to project management and its operation in our audit of the 2024 Financial Statements.

**1.25** As highlighted earlier, several of the adjustments required to the initial draft financial statements related to the extrabudgetary funds. This is an area that ITU should continue to focus upon, including the cleansing of its accounting records and to ensure that the project accounting complies with policies and the reporting standards.

**1.26** Our audit work has confirmed that activities were in line with donor agreements and ITU's wider mandate and, following adjustments, were in all material respects properly presented in accordance with IPSAS. Accounting for projects is a complex area within IPSAS and new standards mean it will be subject to change over the coming years. We have discussed with the Secretariat the importance of early planning for this change, and to reflect on how project and donor agreements might be framed to ensure accounting reflects the ITU's desired accounting intentions and minimise administrative complexity.

## **Employee benefits**

**1.27** In 2023, total employee expenses reported in the financial statements were CHF 150.7 million (2022: CHF 153.5 million), these represent 76.4 per cent (2022: 78.0 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, related allowances and social security benefits, including access to the UN Joint Staff Pension Fund and After-Service Health Insurance.

### **Post-employment benefits**

**1.28** 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 increased to CHF 398.9 million (2022: CHF 368.4 million).

**1.29** The after-service health insurance liabilities totalling CHF 375.3 million (2022: CHF 344.1 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 2023, 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.

**1.30** Given the high level of estimation and judgement in the valuation, we treat this as a significant risk to the audit. Alongside, reviewing the controls in place over the valuation including management's validation of the census data used by the actuary, we consider how management determine that the assumptions used are reasonable and appropriate. We test the veracity of the census data and perform procedures to earn the right to rely on management's expert. Our actuarial team evaluate the assumptions and methodology used to ensure they are appropriate, compliant with IPSAS and in line with industry comparators.

**1.31** 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 (2022: CHF 14 million). These funds have primarily been generated by transfers from the reserve account. Despite this, there are significant unfunded liabilities of circa CHF 360 million. 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.

**1.32** In the Council paper, Document C24/46, the Secretary-General provides an update on the status of the liability, how the funding is currently managed together with an update on system-wide developments. The unfunded liability remains ITU's most significant financial risk and Members should regularly review the existing arrangements for both the provision of services and to confirm that the funding strategy for the costs and liability remain the most appropriate for the circumstances of the Union. In this regard, Council may wish to consider whether there are surplus funds in other reserves, such as the ITU Staff Superannuation and Benevolent Funds which we have noted has limited activity but representing a combined balance of CHF 6.5 million. Management should consider whether it would be appropriate to obtain authority from Members to redesignate these funds to increase the funding level of ASHI.

**1.33** The most significant factors that have impacted the valuation of the liability are the actuarial assumptions, which increased the liability by CHF 19.5 million (Figure 2). These comprise:

- CHF 24.7 million loss 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 reducing from 2.5 per cent to 1.9 per cent which increases the overall liability. ITU uses a cashflow weighted yield curve approach, which reflects the underlying plan's expected cashflows and estimated currency exposures.
- CHF 574,000 gain on demographic assumption changes. Consequently, there have been no significant changes to demographic assumptions over the period.



- CHF 4.6 million gain on experience changes. These cover adjustments required due to the difference between assumptions made and actual results and arise primarily from an update of the census data used in the valuation.

Figure 2

### Evolution of the ASHI defined benefit obligation

	2023	2022	2021
Defined benefit obligation 1 January	344,102	545,636	631,870
Interest cost	8,489	2,703	1,254
Current service cost	10,165	19,685	25,171
Contribution paid	-7,009	-8,412	-9,160
Actuarial assumption changes	-19,524	-215,510	-103,499
Defined benefit obligation 31 December	375,271	344,102	545,636

Source: ITU financial statements

### Medical claims costs

**1.34** The underlying obligations of ITU are the expected claims which will be made in the future, which 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 17.1.2 to the financial statements.

Figure 3

### Medical claims costs

Age range	2023 claims cost (CHF)	2022 claims cost (CHF)
50	3,226	3,138
55	4,038	3,928
60	5,063	4,925
65	6,357	6,184
70	7,995	7,777
75	10,074	9,800

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

**1.35** 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.

**1.36** As reported last year, the medical claims cost assumptions were adjusted based on experience from 2020-2022, after ITU began participation in the UNSMIS. For 2023, the medical claims cost assumption is adjusted with the expected medical inflation up to the measurement date.

**1.37** Given the changes to the plan, in particular the move to UNSMIS and the general changes to global healthcare trends (notably due to the Covid-19 pandemic), in our 2022 report we recommended that ITU should perform a new full medical claims cost study to update the profile and support its future valuations. In its response, the Secretariat is deferring action on this until at least 2025. In our view, a full experience study should be conducted regularly, and preferably on a three year cycle unless there is a robust justification for this to be extended. **We reiterate our earlier recommendation and suggest that ITU address this for the 2024 valuation.**

### UN Joint Staff Pension Fund

**1.38** 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.

**1.39** The characteristics of the UN pension scheme are outlined in Note 17.3 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.

## Part Two

### Governance and internal control

#### Background

**1.40** As we reported last year, effective governance and internal control are an integral part of providing Members with assurance over the use of resources. As the Secretary-General has reflected in her 2023 Statement on Internal Control, there are significant changes being made to oversight and control arrangements. In general, 2023 has seen progress in establishing plans and roadmaps for improvement, and 2024 will see recruitments, amendments to policy and other enabling actions to progress and operationalise these plans.

**1.41** As the Statement on Internal Control highlights, the main basis of the control environment is the internal control framework designed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This is predicated on the concept of the three lines model, namely the functions that own and operate controls, functions and processes that contribute to oversight of compliance and the operation of controls and risk and the functions that independently assure these processes. Overall, we welcome the improved transparency in the Statement on Internal Control, which provides an honest assessment of the internal control environment and the planned improvements, including areas such as risk management, results based management and control activities.

#### Control framework and operation: first line processes

**1.42** Our audit work to date has not identified any significant control deficiencies relating to the framework of control or its operation. We have noted areas for improvement and concur with the findings of the oversight unit on the need to enhance procurement controls. In general, there are significant opportunities to review and refine first-line processes. At present the approach to control is not proportionate and is not based on an assessment of risk.

**1.43** There is scope to make business processes more efficient and proportionate and ensure clarity of the business process ownership. In our experience the concept of the business process owner is under-developed within ITU, and their role, responsibilities and accountability for compliance are areas which should receive attention and focus through the transformation programme.

**1.44** Good practice would be to identify process heavy transaction streams and undertake an end-to end review of the business process, assessing them against risk, cost and time criteria. In our experience, it is possible to make processes more

efficient and to ensure controls are proportionate to the risk and transaction value. This would enable process owners to better focus on higher risk transactions.

#### Financial Regulations

**1.45** The Financial Regulations represent the cornerstone of the internal financial control environment, and many internal controls are established to ensure continued compliance with the requirements of the Regulations. The Secretariat has proposed to the ITU Council through its Working Group on financial and human resources, a modest set of changes to certain Articles of the existing financial regulations to update the Regulations to current practice. For example, they reflect the changes resulting from the cessation of the ITU Telecom event and introduce the concept of fund accounting at ITU. In our view, none of the proposed changes weaken the existing control environment.

**1.46** However, we scope for strengthening and operationalising related policies and practices. For example, in the need to update investment policies. Through our work on the financial statements, we have also discussed with management the need to establish more defined policies around the assumptions used for the ASHI valuation. In addition to the changes currently proposed, we believe there is future merit in a more fundamental review of the Financial Regulations to ensure that they are fully aligned to best practices and support modern resource planning and mobilisation. They should also address important areas such as partnership working. Given the expansion of its project portfolio, the current regulations do not fully reflect the reality of current project implementation modalities.

**1.47** The review of Financial Regulations should be a regular process, to ensure they remain fit for purpose, reflect the structure and activities of the Union and the future planned approaches such as the emphasis on the accountability framework and a more structured results-based management framework. Subject to Council approval of the revised Financial Regulations, our experience suggests there is merit in undertaking a critical review after the first year of operation, to provide an opportunity to address any important omissions or clarifications. This review could incorporate our observations on areas of improvement.

#### **Compliance and risk: second line**

**1.48** As we reported last year, the second line would normally include compliance activity to support process owners in review and oversight of the operation of key controls managed by the first line. This would include the use of data analytic tools and other exception reporting. The Accountability Framework recognises the need for a more holistic approach to quality control and having comprehensive systems in place to provide this assurance is the most significant element of the second line. Arrangements are in place for the provision of assurance letters and a self-assessment of compliance by elected officials and relevant senior management. However, we continue to note that there is currently little objective evidence to underpin the assessment of the control environment and therefore to provide substantive assurance on the Statement on Internal Control.

### Fraud detection and prevention

**1.49** ITU has experienced fraud and cases of malpractice resulting in financial losses to the Union. ITU currently has a largely reactive approach to fraud prevention and detection, based on cases reported. Given the history of fraud and the Secretary-General's commitment to enhancing the control regime, we would recommend that ITU revisits its fraud risk assessment and wider policies. The last fraud risk assessment undertaken by the Union was in 2016. A systematic approach to the assessment of fraud risk and of the quality of mitigations is essential in protecting the Union and in deterring and detecting fraud. This should be accompanied by comprehensive training and awareness raising. These activities should specifically cover risks at External Offices, with recent cases higher fraud risks in this area. This will serve to reinforce a stronger culture of fraud awareness.

**1.50** A fraud risk assessment should encompass consideration of COSO Principle 8 - "Assess Fraud", covering the four key areas of fraud risk to which any organisation may be susceptible. It should also reflect the trends and risks in available data on fraud cases and investigation activity, which from our review indicate high risks in activities in extra-budgetary operations outside headquarters. The definition of fraud should be broader than the areas the previous assessment covered, and encompass consideration of:

- fraudulent reporting: to review arrangements to ensure financial reporting internally and externally is objective, subject to quality control rigour and is reinforced by a culture of honest unbiased reporting;
- safeguarding of assets: that financial assets, property, equipment, intellectual property and data information assets are securely held, safeguarded and controlled;
- corruption: that the policies and processes are sufficient to identify, deter and respond to corruption risks in activities, operations and in the contractors and service providers used by ITU. Staff should be trained sufficiently to play their role in supporting a culture of zero tolerance; and
- management overrides: that management set an appropriate tone to encourage a culture of honest reporting to frame sound decision making and to prevent the risk that information is presented incorrectly or with bias.

**1.51** A strong commitment to fraud prevention and a zero tolerance of fraudulent activity are seen as indicators of organisational maturity by donors when making partnering decisions. Members have high expectations in the light of previous cases, and the Secretary-General has emphasised the importance of enhancing the culture of propriety. The Secretariat is currently reviewing and redrafting its policies in respect of investigations, retaliation and anti-harassment. When making amendments to policies in these key areas, we consider that it is important to compare current policies against best practice and to communicate changes through the IMAC, to ensure that policies have had effective and objective external scrutiny. When launching these revised policies emphasis should be given to associated training.

**1.52** As with many international organisations we consider that instances of fraud are likely to be under reported. This is an issue regularly flagged to the UN Chief Executive Board by the UN Panel of External Auditors. The Secretariat should regularly remind staff of their responsibilities and the use of appropriate channels to report allegations and concerns within the framework which protect them against retaliation. We have noted that the role of the independent Ombudsperson is currently vacant within ITU, and we encourage the Secretariat to finalise appropriate arrangements for this service as early as practicable. The existence of an effective and external Ombudsperson provides extra protection to ensure that internal justice processes are operating fairly and objectively, providing confidence to Members, the Secretary-General and staff.

**ITU should:**

**R1: perform a new systematic assessment of its exposure to fraud risks throughout the Union and consider whether current control activity is sufficiently focused to mitigate the risks that are identified.**

**Management response: ITU accepts this recommendation and will include this in its oversight planning for 2025.**

**R2: a) ensure that its current review of anti-fraud and retaliation policies are assessed against best practice, subject to scrutiny by IMAC; and b) underpin its internal justice arrangements through the introduction of appropriate independent Ombuds processes.**

**Management response: ITU accepts this recommendation and will ensure a proper review of related policies and procedures. This will be done in consultation with IMAC. Management has already been working on a review of the ITU internal justice system. ITU management will be concluding with the establishment of an Ombuds service later in 2024.**

#### Risk management

**1.53** The purpose of a risk management process is to systematically identify, consider and mitigate risks that could adversely affect the organisation and the achievement of its objectives. A systematic process of Enterprise Risk Management (ERM) provides confidence in the management of risk, and a clear route for escalating those which need to be brought to attention and which require greater senior management engagement and oversight. A sound risk process can enhance accountability and support the more efficient use of resources.

**1.54** ITU developed its ERM Policy in 2020 and the Secretariat has committed to revising the Policy during 2024, to reflect structural changes arising from the Accountability Framework, the requirement to enhance the three lines and to reflect

new risk appetites. Additionally, the Secretariat has highlighted the need for risk management to reflect the underlying business objectives. In our view the Union's current ERM processes are not sufficiently mature, and there is a need to embed a culture of risk management within the business operations. We do not consider that risk management supports decision making or represents a complete and systematic assessment of organisational risk.

### **Oversight and assurance: third line**

**1.55** The Secretariat has developed a draft Oversight Charter which brings together the key oversight functions which form the third line. The draft Charter covers all the key features of oversight which we would expect. In operationalising this charter, it will be important to review its effectiveness after the first year of operation. The draft Charter addresses many of the areas we highlighted in our Interim Report to Council, including redesignation of the post to the director level, and obtaining synergies by combining the oversight activities under this post. We noted that In line with good practice, ITU has made the Chief of Oversight post term limited to five years. The draft Charter provides the assurances of compliance with appropriate standards and the safeguards to secure independence.

**1.56** A key feature of the new Oversight Unit will be to ensure a focus on risk and materiality. It is important that work plans are framed by the improvements planned within ERM and compliance, to ensure the focus of the Unit's work is proportionate and addresses the most significant risks. In planning work it will be important to ensure there is a clear assurance map, to identify any oversight gaps. In planning audits, the new unit will also need to continue to assess the skills and capacity available to it to address the risks identified, including in areas such as investigations. Some areas will require specialist inputs, such as IT and cyber and construction risk, and how assurance needs can be met in these specialisms. More widely, it is an opportune point to consider how internal oversight can best serve the overall assurance needs of ITU, and how these might be delivered in a cost-effective manner, including the use of external consultancy.

**1.57** It will be important for the oversight unit to monitor the development and effectiveness of the emergence of the second line activities. In time, these compliance activities should provide a valuable source of data to help inform the assessment of risks to inform the Unit's work plans. Collectively the planned improvements should provide a body of evidence to help support and underpin the assurances given in the Statement on Internal Control. In our view, the Oversight Unit should provide sufficient assurance over the operation of controls to enable an issuance of an annual opinion. We will actively engage with the new Chief of Oversight when they are appointed to share our observations on areas for enhancement.

**1.58** The effectiveness of all the arrangements proposed in the draft Charter will depend on the sufficiency and quality of resources which are dedicated to them. In this respect, together with the oversight of IMAC, a commitment to an external quality assessment in the early years of the arrangements will be helpful in the development of the new unit. This will be particularly important in areas such as the evaluation function, which will be a substantive new discipline within ITU. We support the commitment to risk focused evaluation and consider it an essential component of oversight to give confidence to Members in the effectiveness of ITU's operations. It will provide valuable learning to help management adapt ITU operations. At present, ITU has limited objective assurance over the effectiveness of its activities to inform improvements in performance.



## Part Three

### Transformation programme

**1.59** At the June 2023 Council, the Secretary-General committed to a Transformation Programme for ITU. In our report to that Council meeting, we highlighted the importance of defining a clear target operating model; the need to establish a dedicated unit to support and co-ordinate project management and reporting; and effective assurance and governance arrangements which are objective, independent and expert.

**1.60** The Secretary-General has begun to establish the arrangements for delivering the transformation programme and has articulated this in a Roadmap (C24/73). This Roadmap sets out the vision for transformation activity for implementation between July 2024 and December 2027. The planned activity encompasses critical areas of the enabling functions of the General Secretariat, with planned improvements in governance, systems and processes, people and culture and optimisation of resources. The initiative represents a collection of discreet improvements, rather than changes to the mode of delivering the services, though this remains under consideration. Key performance indicators are being developed to measure progress of planned initiatives, and an indicative timeline for their implementation.

**1.61** At the time of our audit, the transformation plans are at an early stage and recruitments to the Transformation team and the governance arrangements are being embedded. The Secretariat is currently formulating the detailed operationalisation of the plan, and formulating the mechanisms which will be used to control and report transformation activity. There are currently 89 planned deliverables, each of which will contain additional activities and actions necessary to deliver the outcome. Collectively, the planned actions are significant and ambitious, they offer opportunities for improvement, efficiency and effectiveness if delivered well. There is a commitment to measure baselines to demonstrate improvements.

**1.62** To achieve successful transformation, sufficient expertise and financial resources should be dedicated to achieving the results. Many planned activities are mainstreamed into the standard planning and resourcing modalities of the Secretariat. Specifically dedicated resources for 2024 has been limited to CHF 1.3 million and, in our view, this is low for a plan of this ambition. The Secretariat should assess the risks to the plan and seek to ensure that there is clarity in the prioritisation of the transformation activities. Some areas will offer more demonstrable returns for the resources invested, and it is important that these are clearly articulated to ensure that opportunities are maximised. This will be particularly important in areas of IT and system development, which will require more intensive specific investment. At present the Secretariat has not fully costed the planned initiatives.

**1.63** The Secretariat should assess the inter-relationships between the different elements of the programme and continue to think more widely about opportunities to exploit other modalities of delivering functions, such as outsourcing, partnering and shared services operating in lower cost locations. Change initiatives should facilitate greater focus on innovation, encouraging employees to explore new ideas, processes, and technologies that can streamline operations and improve efficiency.

**1.64** While driving change internally may have the benefit of employee buy-in, there are downside risks related to siloed and group thinking and the loss of opportunity to challenge the status quo. We believe there are opportunities to engage external perspectives and facilitation. Objective and independent input to inform the transformation plans will help validate the approach, ensure opportunities are explored and provide greater assurance to the Secretary-General on the achievement of her objectives. This could include expertise in change management to provide objective perspectives, challenge existing norms, and seeking opportunities to streamline business process. We continue to encourage objective challenge of the transformation and for assurance over the progress of the initiative.

**1.65** In many areas the changes could require significant change in organisational culture. In ITU, changes of this scale are unusual, and therefore management should plan for addressing the risks of cultural inertia. It will be important to plan activities to support staff in implementing and embedding changes. This will involve clear communications, support and training and measurement of staff engagement through regular surveys to identify areas for attention. The transformation plan offers substantial opportunities for the Union to improve and enhance its efficiency and effectiveness. We will continue to review management's progress on this initiative over our mandate to provide observations to support the Union in delivering effective and beneficial change.

## New building project

### Background

**1.66** ITU recognises that its current Varembe building has reached the end of its lifespan, and a new construction is required to meet the ongoing needs of the Union. At the June 2023 Council, the Secretary-General reported that the total cost of the project was going to exceed the available financing. Following meetings of the Council Working Group on Financial and Human Resources in October 2023 and January 2024, the Secretariat were directed to reassess the current project.

**1.67** The Management Board, the project Steering Committee and Member State Advisory Group (MSAG) were involved in establishing guiding principles for the redesign. The key principles were for the project to be fit-for-purpose, fit-for-future and meet the statutory and other requirements of a new building. A review of the initial scope was undertaken and conscious of the available budget, an alternative project design has been determined. This aims to address the Union's needs by including conferencing and office space, together with common areas, including a restaurant and delegates' lounge.

**1.68** The Secretariat estimate that the revised project can be delivered with the ceiling of CHF 172.7 million including the CHF 18 million sponsorship funding, which cannot be assured until the respective sponsors agree to the revised design. The new proposal has been set out in Council document C24/7, together with an indicative timeline for the overall delivery anticipating completion by 2031.

### **Financial reporting**

**1.69** Note 27 to the financial statements provides the Secretariat's assessment of the potential impact of decisions on the carrying value of capitalised costs of the new building. These "assets under construction" represent the capitalised element of the design and associated works performed to date. The value of this work may be impacted by the decisions made by the Council in its June 2024 meetings. The disclosures will therefore need to be updated to quantify the likely impact of decisions on the costs which have already been incurred. We anticipate that any changes to the carrying values arising from the decision would be recognised in the valuation reported in the 2024 financial statements. We may include an emphasis of matter in our audit opinion on this issue if we consider the changes to be so material that it would be fundamental to users' understanding of the financial statements. This is not a modification of the audit opinion, but merely using the audit report to draw users' attention to the matter as disclosed in the financial statements by the Secretariat.

### **Our previous recommendations on the building project**

**1.70** In our 2022 report to Council, we emphasised the need to establish a clear set of project benefits against which the Members will be able to measure the success and value for money of the project on completion. We also outlined the importance of clear governance and assurance arrangements to provide Members with confidence on the costs, risk mitigations and overall progress of the project. While recognising the current arrangements, including the role of MSAG and the assistance of a technical expert, we continue to champion the need for resources to be made available to provide a sufficient level of expert and independent assessment for a project of this scale and importance. Accurate and assured information will enable management to make better and more informed decisions to ensure the project stays within its overall parameters.

**1.71** Given the history of this project and its sensitivity to Members, we consider that these mechanisms are fundamental to successful project delivery, to provide assurance to the Secretary-General and in the retention of donor and Members confidence in the project. **We reiterate our earlier recommendations and ITU should consider how to best address this following Council's decision.**

## Part Four

### Prior recommendations

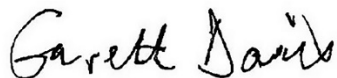
**1.72** We made 19 recommendations on our audit of the 2022 financial statements. The status of these is set out in the appendix.

**1.73** In May 2024, the Secretary-General initiated an exercise to ask ITU process owners and relevant managers to undertake a comprehensive review of all outstanding recommendations. The exercise will identify those recommendations which no longer remain appropriate and establish appropriate deadlines for implementation of the remainder. This will provide a much stronger basis to enforce accountability for implementation and to better track high priority recommendations. The cleansing of the database of all internal and external audit, alongside Joint Inspection Unit and IMAC, recommendations will also provide an opportunity to focus effort and give greater visibility. In light of this, we have made limited new recommendations in 2023, but we have clearly indicated where the Secretariat should take action.

**1.74** Following completion of this exercise, we will report progress on the implementation of all external audit recommendations with IMAC as part of our 2024 audit and provide our observations on implementation status in our report next year.

### Acknowledgments

**1.75** We would like to thank the Secretary-General and her staff for their continuing co-operation and in working with us to return to the normal reporting and audit cycle.



**Gareth Davies**

**Comptroller and Auditor General, United Kingdom - External Auditor**

**30 May 2024**

## Appendix One: Prior year recommendations

Prior year recommendations				
Ref.	Recommendation	Management response	External Auditor's view	Status
2022 interim report R1	enhance the timetable for the preparation of its financial statements to encompass the cleansing of accounting records, the preparation of comprehensive supporting schedules, and detailed and evidenced-based management review of the draft financial statements before their submission to External Audit, to ensure the financial statements are timely and accurate.	ITU accepts this recommendation and ITU had planned its closure process differently for the year end 2023 which included greater oversight and building the necessary schedules to support the Financial Statement process. This process will be further refined during 2024 to ensure that the financial statements will be ready in early 2025 (end February).	ITU delivered the 2023 financial operating for audit in March 2024. We have commented further in this year's report.	Implemented. Closed.
2022 interim report R2	develop an IPSAS accounting manual detailing all adopted accounting policies and to provide guidance to staff on accrual accounting to ensure that the ITU produces reliable and accurate financial statements for the Members.	ITU accepts this recommendation and has had a series of IPSAS trainings held in May 2024 to various stakeholders involved in the closure processes. This has raised awareness of the importance of IPSAS across ITU. Furthermore, ITU has used an IPSAS disclosure checklist to ensure compliance for 2023 and is currently updating its accounting policies to reflect IPSAS compliance.	We note management's response.	In progress.
2022 interim report R3	annually review the financial statement presentation against the disclosure requirements of the reporting standards and ensure that they remain relevant for users and stakeholders and seek the views of the IMAC on any proposed changes.	ITU accepts this recommendation and for the preparation of the 2023 statements ITU has used an independent disclosure checklist in the preparation of its Financial Statements. ITU will update this checklist to reflect the new IPSAS standards and will seek the views of IMAC for further feedback on its Financial Statements.	An appropriate disclosure guide was used in the preparation of the 2023 financial statements.	Implemented. Closed.

2022 interim report R4	review the root causes of the issues identified and consider the skills and capacity needed to fully meet its financial reporting requirements to support the production of reliable and accurate financial statements.	ITU accepts this recommendation and has already reviewed the current resources with the Department of Finance. As a result ITU has taken the step to advertise two key posts that will compliment the skills necessary to produce reliable and accurate financial Statements. This post will be filled early in Quarter 3 of 2024. Furthermore, a review of the entire functions with Finance function is being undertaken.	We note management's response.	In progress.
2022 interim report R5	a) review the frequency, terms of reference and the data used to inform decision making within the senior management meetings and, b) create a systematic suite of reporting. This would provide better evidence of oversight and would lead to documented actions which are followed-up and better evidence the collective management oversight of the Union	ITU accepts this recommendation. ITU has prepared prototype management dashboards with the data points currently available and ITU will continue to work with senior management to produce better information going forward to ensure that it meets senior management needs.	We note management's response.	In progress.
2022 interim report R6	develop a roadmap for the full implementation and embedding of the Accountability Framework to ensure processes are established to deliver evidence-based assurance, and to use the annual Statement on Internal Control to provide visibility of developments to Members.	ITU accepts the recommendation and the 2024 internal control plan approved by the MCG focused on further embedding the ITU Accountability Model and Framework by focusing on outstanding internal control initiatives mentioned in the various component sections of the Framework. In particular for Component 4 – Control Activities, the plan provides for improving the process leading to the issuance of the Statement on Internal Control, including the related internal letters of representation, through prior verification and documented control monitoring activities]	We note management's response.	In progress.
2022 interim report R7	ensure that any transformation programme is sufficiently supported by a programme management office to mitigate identified risks to the change agenda and that this office is appropriately resourced with the right skills to deliver a successful change programme.	ITU accepts the recommendation and the Transformation Team has been established and is currently resourced with the Chief, Transformation Team Unit at D1 level, a Transformation Officer at P3 level, and Transformation/Project Officer at P2 level (Junior Professional Officer funded by the UK). The office also has the support of the ITU Business Intelligence Specialist. Skills within the team include process review, change management, and data analysis and visualisation. It is proposed to add one additional officer, pending approval of funding from Council, focussing on	We note management's response.	In progress.

		organizational development, project management and communications.		
2022 interim report R8	review the governance and assurance arrangements and regularly seek confirmation that the project is appropriately managed, resourced and executed to ensure the risks of a major capital programme are identified and mitigated.	ITU accepts the recommendation and project has established governance and oversight structure which includes members states advisory group (MSAG), steering committee, management board and associated technical experts. Project team has been completed with recruitment of the Head of the project who is supported by External construction project management firm. In addition, Independent Management Advisory Committee is overseeing management of the building project.	We note management's response. We have again highlighted the importance of sufficient resources being dedicated to external review for a project of this scale.	In progress.
2022 interim report R9	develop a clear statement of need for development and the benefits to be derived to enable the Union to effectively assess and achieve value for money from the investment.	Management acknowledges recommendations, The project team has carried out need's reassessment to ensure fit for purpose and fit for future building design which will be presented to the Council for approval. Implementation process envisages competitive bidding for architect and engineering services as well as for general contractor.	We note management's response. We have again highlighted the importance of a clear benefits statement to subsequent evaluation of the project's value for money.	In progress.
2022 final report 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	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. In December 2023 an External Consultancy company was hired by ITU to help the management in the preparation of the 2023 Financial Statements. In March 2024, two positions (P4 & P3) were published with view to improve the skills and competencies in Accounts division.	ITU delivered the 2023 financial operating for audit in March 2024. We have commented further in this year's report.	Implemented. Closed.

2022 final report R2	ensure the financial reporting function is appropriately resourced to deliver against the plan.	As R1 above.	ITU delivered the 2023 financial operating for audit in March 2024. We have commented further in this year's report.	Implemented. Closed.
2022 final report 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. A P4 position was published in March 2024 which will take up this responsibility in the future.	We note management's response.	In progress.
2022 final report 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.  The Treasury Committee had its first meeting in January before the CWG FHR to kick start the review of the investment policy.	We note management's response and reiterate it in this year's report.	In progress.
2022 final report R5	review its debtor management procedures, to ensure more active follow-up and recovery actions.	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.  Through the Financial Circular which is issued quarterly, the management is closely following the ITU Arrears. The Council document is issued annually to inform members and request their support to assist ITU to reduce the outstanding debt.	We note management's response.	In progress.
2022 final report 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	ITU management accepts this recommendation and is proposing changes to its current Financial Regulations and Financial Rules to ensure strengthening of controls around Cash and cash equivalents.	We note management's response.	In progress.
2022 final	regularly perform medical claims cost studies to support the valuation of its employee benefit liabilities	Management accepts these recommendations. On-going: Currently with the contractual agreement between ITU and AON the claims cost studies are factored in depending on the	We note management's response and reiterate the importance of earlier implementation in this year's report.	In progress.



report R7	and develop policies for updating these assumptions between full studies	nature of the report (full valuation or roll forward). The medical claims costs and census data is not updated during a roll forward as by definition, a roll forward is a roll forward from the prior valuation with an update on financial assumptions such as the discount rate and medical trend. The contract with Aon comes to an end after the deliverable of the Final Roll Forward report for the calendar year of 2024 to be delivered in February 2025. A review of the contractual agreement will be implemented to ensure the medical claims cost studies are factored in the valuation yearly. A call for bid will be launched in the 2024 for the new contract which will take this into account.		
2022 final report R8	ensure all third-party data used in the valuation of employee benefit liabilities is appropriately validated.	Management accepts these recommendations. Implemented: Recommendation R8 was fully implemented in 2024 for the data of 2023. Data from UNSMIS was tested against the data of ITUs ERP system to ensure all UNSMIS recorded insured were accurate. A policy to ensure this functioning in the future is under preparation.	We note management's response.	Implemented. Closed.
2022 final report 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.  In 2019-2020, Council was informed through multiple channels of the rationale and process according to which ITU entered into an agreement with UNSMIS. This is reflected in the following documents, inter alia:  Information to Council • Financial operating reports for the years 2019 (C20/42(Rev.1)) and 2020 (C21/42); • Progress Report by the SG on the implementation of the HR strategic plan and of Resolution 48 (C20/54); • External auditor's report for the year 2019 (C20/40);	We note management's response.	In progress.

2022 final report 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.	<p>• Reports by the SG on reports After-Service Health Insurance (ASHI) liability in 2020 (C20/46(Rev.1)) and 2021 (C21/46).</p> <p>Relevant excerpts of these documents are set out below. No Council objections or requests for further discussion on the UNSMIS contract were recorded in relation to any of these reports. IMAC was also informed verbally.</p> <p>Independent actuarial analysis</p> <p>The independent actuarial expert confirmed that the UNSMIS offer was advantageous in light of the ITU's population risk profile, which made it more sustainable for the Union and staff than running a stand-alone plan. AON concluded that "In summary, you can consider that the range of the future equalization lump sum is between 13m and 51m, whereby the 13m can be considered as an "optimistic" scenario. Therefore, we believe the financial proposal of CHF 21 million for future equalization looks like a reasonable proposal by UNSMIS. There is also a past equalization of CHF 19 million which is an arithmetic calculation."</p>	We note management's response and wait to see any proposals on the rationalisation and simplification of the existing reserves and fund balances.	In progress.
		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.		