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Report by the Secretary-General

SIXTH ANNUAL REPORT OF THE INDEPENDENT MANAGEMENT ADVISORY COMMITTEE (IMAC)

I have the honour to transmit to the Member States of the Council a report from the Chairperson of the Independent Management Advisory Committee (IMAC).

Houlin ZHAO
Secretary-General

SIXTH ANNUAL REPORT OF THE INDEPENDENT MANAGEMENT ADVISORY COMMITTEE (IMAC)

Summary

This document presents the annual report of the Independent Management Advisory Committee (IMAC) to the ITU Council. It contains conclusions and recommendations for the Council's consideration in the areas of internal audit function, risk management and internal controls, financial statements, accounting, external audit and evaluation, in compliance with IMAC's terms of reference.

This sixth annual report by IMAC to the ITU Council provides an update on the Committee's coverage and activity since June 2016 and presents specific recommendations intended to improve the oversight, internal control and governance arrangements to better meet the organisation's current needs.

IMAC is inviting the Council to approve its recommendations in order to further encourage effective response and timely action in the interests of enhanced accountability.

Action required

The Council is invited **to approve** the IMAC report and its recommendations.

References

[Resolution 162](#) (Rev. Busan, 2014); Council [Decision 565](#); Documents [C12/44](#) (First annual report of IMAC to the Council), [C13/65 + Corr. 1](#) (Second annual report of IMAC to the Council), [C14/22 + Add.1](#) (Third annual report of IMAC to the Council), [C15/22 + Add.1-2](#) (Fourth annual report of IMAC to the Council); [C16/22 + Add.1](#) (Fifth annual report of IMAC to the Council).

1 Introduction

1.1 IMAC serves in an expert advisory capacity to assist the Council and the Secretary-General in exercising their governance responsibilities for financial reporting, internal control arrangements, risk management and governance processes, and other audit-related matters mandated by the IMAC Terms of Reference. IMAC therefore assists in enhancing transparency, strengthening accountability and supporting good governance. IMAC does not carry out audit, nor duplicate any executive or audit functions, internal or external, but helps to ensure the best use of audit and other resources within the ITU's overall assurance framework.

1.2 The current composition of IMAC comprises the following members:

- Dr. Beate Degen (Chairperson)
- Mr. Abdessalam El Harouchy

- Mr. Graham Miller
- Ms. Aline Vienneau
- Mr. Kamlesh Vikamsey

1.3 Since IMAC's fifth annual report (Document [C16/22 + Add.1](#)) and subsequent Addendum 1 submitted to the Council in 2016, IMAC met on 10-12 October 2016, 2-3 March 2017 and 9-11 May 2017. The findings of the October, March and May meetings have been consolidated in this sixth annual report to the Council. Reports of the Committee's meetings and its annual reports, as well as other key documents, are available to the ITU membership on [IMAC's area](#) of the ITU public website, accessible also via [ITU Council](#).

1.4 IMAC meetings attendance: Dr. Degen, Mr. El Harouchy, Mr. Miller and Mr. Vikamsey attended all three meetings. Ms. Vienneau attended two of the three IMAC meetings.

1.5 Since its last annual report to the Council in 2016, IMAC engaged with all areas of its responsibilities, including internal audit; risk management; internal control; evaluation; the audited financial statements and financial reporting; and external audit.

1.6 The Chair of IMAC participated remotely in the CWG-FHR meeting on 1 February 2017, briefing the Member States on matters relating to the Committee's areas of responsibility.

1.7 The Chair of IMAC also participated in the 1st Meeting of the UN Oversight Committees, which was held on 28 November 2016 at the United Nations Headquarters in New York with the participation of oversight committees of 19 UN system entities. The main objective of the meeting was to exchange information on common challenges and potential good practices in the conduct of the oversight committees' work. The participants discussed current and emerging risks, (including in relation to fraud and corruption), cyber-security and digital transformation, and the maturity of enterprise risk management approaches across the UN system.

1.8 In the course of its meetings, IMAC held substantive discussions with the Secretary-General and Deputy Secretary-General, the Strategic Planning and Membership Department, the Financial Resources Management Department, the Ethics Officer, the Internal Auditor, the External Auditor and other management representatives as appropriate.

2 Follow-up of IMAC's fifth annual report to the Council in 2016 and status of IMAC recommendations

2.1 To assist the Council on the follow-up of action taken in response to IMAC's recommendations, IMAC reviewed the implementation status of its previous recommendations: 10 of IMAC's 14 recommendations from 2016 have been implemented; all of the 6 recommendations from 2015; all of the 9 recommendations from 2014; 7 of the 8 recommendations from 2013; and 5 of the 6 recommendations from 2012.

2.2 The Committee commended the progress made on the implementation of its previous recommendations and noted that the implementation rate is improving; recommendations are now being implemented in a faster way and deadlines are being included in recommendations that are in progress.

2.3 Detailed statistics on the implementation rate of IMAC's recommendations are presented in Annex 1.

3 Main issues discussed, conclusions and recommendations for 2017

Financial management

3.1 IMAC reviewed the ITU's Financial Operating Report for 2016 and discussed the financial results and issues with management. IMAC noted that the External Auditors have provided an unqualified audit opinion, which as in 2015 includes an emphasis of matter relating to the negative net asset arising from actuarial liabilities for long-term employee benefits. An emphasis of matter does not modify the unqualified audit opinion, but draws attention to a matter that in the External Auditor's judgement is of such importance that it is fundamental to users' understanding of the financial statements.

3.2 IMAC commends management on again achieving the welcomed result of an unqualified audit opinion.

3.3 IMAC noted that all recommendations from the previous IMAC Annual Report with regard to financial management have either been addressed or are in progress.

3.4 In areas where IMAC recommended that financial reporting could be improved, ITU has implemented the Committee's recommendations and made improvements to the financial statements for 2016 which are presented to the 2017 Session of Council. With regard to the recommendations made in relation to the actuarial valuation and ASHI, and coordination with the UN Working Group on ASHI issues, these are still in progress.

3.5 IMAC is grateful to the Financial Resources Management Department for the positive way that they have assisted the Committee's work and cooperated with the Committee to contribute to an effective working relationship.

Risk management

3.6 In terms of risk management arrangements at ITU, IMAC has been continuously engaged with the Strategic Planning and Membership Department, and has provided advice and inputs in taking forward the emerging risk management procedures.

3.7 Since the last IMAC annual report the Committee has noted impressive progress by the Secretariat, taking forward the preparation of a Risk Management Policy and developing a Risk Appetite Statement for ITU.

3.8 IMAC endorsed the Risk Management Policy and the Risk Appetite Statement and encourage ITU management to put the policy into practice.

3.9 IMAC will continue to monitor and provide advice as required on risk management arrangements.

<p>Recommendation 1 (2017): Following submission by the Secretary-General to Council, IMAC recommends that ITU approve and put into practice the Risk Management Policy and Risk Appetite Statement.</p>

External audit, and the External Auditors' Report for 2016

3.10 IMAC continued to have regular meetings with the External Auditors discussing the approach and progress of the audit, and emerging issues.

3.11 The Committee considered and discussed with the audit team the External Auditor's Report on the Audit of the ITU Financial Statements for 2016 which are submitted to Council. The Committee made inquiries of the External Auditor and confirmed assurances on the process, extent, findings and recommendations of the audit; the auditors' independence; follow up to previous External Audit recommendations; and other technical matters. IMAC commends External Audit for the timely submission of its audit report to permit IMAC consideration notwithstanding the extremely challenging timetable required to support the timing of the Council Session this year.

3.12 The Report of the External Auditor provides a comprehensive and helpful report for Council containing 12 formal recommendations and four suggestions for management's attention. In addition to the auditors' observations on ITU's financial statements and financial performance, a major part of the External Audit Report provides an extensive performance audit commentary and recommendations on procurement. Many of the recommendations can be addressed by management in the context of the preparation and adoption of a comprehensive and overarching procurement manual (which the organisation currently lacks) and some improved policies and procedures.

3.13 ITU does not have the extent or value of operational procurement that many other UN entities are involved in. IMAC believes that a number of basic functions and core requirements can be addressed effectively, at acceptable cost and effort by considering the cost/benefit of proposed developments, and drawing on existing practice in use in other organisations. This includes learning from examples elsewhere in the UN system and not "reinventing the wheel". IMAC believes this approach (benchmarking) can be applied to the area of procurement, but also to others, such as ethics. IMAC considers that it is appropriate for ITU's arrangements to be not only adequate and effective but also proportionate to the organization's size, nature and circumstances. At its autumn meeting in 2017 and with the benefit of the External Auditor's recommendations, IMAC will consider procurement further, with the aim of providing additional advice to management.

3.14 IMAC commends the Council's attention to the External Auditor's observations and audit Recommendation 1 concerning the significant issues and challenges arising from the impending high level of potential staff retirees, and the absence of both an updated HR strategic plan with a succession planning strategy. IMAC believes that this situation presents considerable risk to ITU. In the context of ITUs rapidly changing environment and the potential need to sharpen ITUs long-term purpose, it is imperative that the staffing gap is addressed both more urgently and more widely, to ensure ITU has the profile of skills and competencies which will be needed for the future. IMAC will follow up on this topic in its next meeting to further analyse the emerging risk.

3.15 Annex 1 of the External Auditor's Report provides information on the status of the implementation of audit recommendations from previous years.

Internal audit

3.16 ITU's Internal Audit Unit continued to receive IMAC's attention over the last year. IMAC reviewed the planning and progress of internal audit activities, and reviewed the results of the 2016/2017 audit reports.

3.17 IMAC reviewed the following Internal Audit reports:

- Inspection of the External Experts Contracts;
- Audit of Trust Funds;
- Corporate Fraud Risk Assessment;
- Audit of Learning, Training, and Professional Development;
- Audit of IT Contracts, Rental, and Maintenance Services;
- Audit of Gender Equality and Mainstreaming in ITU.

3.18 The Committee also noted the annual Report of the Internal Auditor on Internal Audit Activities which is submitted to the 2017 Session of Council (Doc. [C17/44](#)). This report provides an overview of the audits conducted within the reporting period (March 2016 – February 2017), giving a summary of the individual reports available, which IMAC commends to the Council's attention.

3.19 In more than half of the audit reports, Internal Audit was of the opinion that the governance, risk management processes and internal controls related to the areas examined were not sufficiently adequate and effective.

3.20 IMAC noted that Internal Audit had identified deficiencies and inadequate procedures, in a number of cases on issues of high significance, in its reports. The Committee encourages management to prioritize action and reinforce procedures in the areas covered by the audit recommendations, ensuring that Internal Audit recommendations, once agreed, are implemented without delay.

3.21 IMAC also noted in the 2017 list of internal audit topics the audit of ITU's Gender Equality and Mainstreaming Policy. While this topic is an important subject area for the Union's management to address, it did not arise from a clearly identified internal audit risk. In IMAC's opinion, such a review and assessment could more appropriately have been carried out by other management expertise within the organization, rather than by the limited resources and professional audit expertise of the IAU. In its 2015 annual report, IMAC had already noted that some subject areas examined by IAU audit would best be examined by management, for example the audit report on the use of paper internally in the Secretariat.

3.22 IMAC was briefed in more detail on the risk assessment methodology on which Internal Audit plans are based and noted the degree of detail and analysis that is available to support the annual planning. The Committee looks forward to continue receiving this information to support its review of draft annual audit plans, ensuring a well-grounded risk-based Internal Audit plan of work.

Recommendation 2 (2017): IMAC recommends that Internal Audit should take forward the adoption of multi-year risk based audit planning, including a rolling cycle of coverage, to ensure adequate oversight of key areas and operational activities over time, ensuring best use of Internal Audit's limited resources.

Recommendation 3 (2017): As IMAC recommended in 2016, it is important that the limited resources of IAU are used to examine those areas which represent the highest priority risks for the organization.

Recommendation 4 (2017): To ensure timely management of responsiveness to Internal Audit recommendations, IMAC recommends all Internal Audit recommendations agreed by line management should incorporate timelines or deadlines for their implementation.

Ethics

3.23 The ITU now has an Ethics Officer function in place and the Committee is according to its terms of reference monitoring the development of ethics policies and procedures in the organization.

3.24 As a matter of good governance practice, and to ensure the transparency and effectiveness of ITU's arrangements to the public and to external entities or third parties having dealings with the organization, it will be important that relevant elements of ITU's ethics arrangements are well-known and readily available.

Recommendation 5 (2017): IMAC recommends that the ITU's ethics policy, practice and procedures are placed on the organization's public website as they are developed.

Compliance and fraud risk management

3.25 Since the last IMAC Annual Report, and in light of the general findings and concerns raised in Internal Audit reports, IMAC has begun to engage in a dialogue with management on the overall control environment at ITU, particularly in relation to compliance and fraud risk management. This is a focus which brings together operational considerations involving internal audit, financial management, legal, procurement and human resources.

3.26 This area is important particularly in relation to fraud risk, where the organization currently has no policy on fraud, including bribery and corruption, and where there are many aspects of compliance and risk management which need to benefit from improved arrangements.

3.27 Internal Audit commissioned a Fraud Risk Assessment for ITU, following recommendations by the UN Joint Inspection Unit. IMAC commends the fact that a proper assessment has been carried out to address the issue.

3.28 IMAC has reviewed the Fraud Risk Assessment report which underlines the areas where ITU is either considered to be exposed to some fraud risk or which potentially contribute to increasing the likelihood of fraud occurring. The assessment is based on regulatory frameworks where transactions, processes, guidelines and procedures would alert, detect or deter fraud; and interviews to determine how key ITU personnel perceive the organization's vulnerability.

3.29 IMAC is of the view that there are useful recommendations in this report: The committee wishes to encourage the Secretariat to proceed with a sense of priority but without compromising the various functions which will be involved in the implementation of the recommendations. In terms of the different skills and professional expertise needed to take forward the improved arrangements, it will be necessary to maintain a distinction between the skills and professional competencies appropriate to different functions (for instance between the roles of line management, Internal Audit and the Ethics Office). It is important that the arrangements and solutions developed are proportionate to the size and need of the organization. For example, in IMAC's view, there is a clear distinction between compliance, control and ethics; and anti-fraud

training is not necessarily the role of the Ethics Office, which could be compromised if it were to become a fraud prevention mechanism. IMAC will continue to monitor and provide advice to management on the development of the anti-fraud arrangements in ITU.

Recommendation 6 (2017): IMAC recommends that as a matter of priority and good management, the Secretariat should establish a formal anti-fraud policy and associated training/education and other measures consistent with good practice. The solution is recommended to be proportionate to the size of the organization and ensures functions are not compromised by conflicting objectives.

Oversight of field activities

3.30 Against the background of previous Internal Audit findings, IMAC has received briefings from the Telecommunication Development Bureau (BDT), on developments in addressing issues in relation to field operations, in particular compliance with security and financial requirements, budget and project management, and management oversight.

3.31 IMAC encourages BDT to continue to take steps to ensure adequate corporate management oversight of operations and management practices in the field, in particular to ensure compliance with the requirements of ITU's financial/management rules and regulations; and compliance with UN safety and security standards at field offices.

ITU Headquarters construction project

3.32 IMAC received briefings on how the HQ premises construction project is being taken forward and, in light of the importance of the project for the organization, intends to regularly continue the Committee's interaction with the ITU team involved in the project implementation.

3.33 The Committee acknowledged and appreciates the professionalism and transparency in the way the project is being taken forward, and the progress which is being made.

3.34 IMAC is pleased to see that the ITU is engaging a professional expert with specific large construction project expertise. In light of the technical complexity and risk involved in such large construction and infrastructure projects, and to provide management and the Council with assurance that the project is managed with due regard to economy, efficiency, effectiveness and the environment, IMAC considers that ITU should consider the merits of seeking the assistance of particular expertise in auditing the processes and procedures in place for this project.

3.35 IMAC would also encourage all regional groups to nominate members for the Member States Advisory Group on Premises (MSAG).

3.36 The Committee encourages ITU management to continue the positive work in this topic.

Recommendation 7 (2017): IMAC recommends that ITU considers the merits of engaging auditing capacity with particular expertise in this area and, in due course, conducting an independent audit on the account established for the construction of the building.

Evaluation

3.37 During its last meeting in May 2017, IMAC was provided with a report on an ITU evaluation feasibility study. The Committee commends ITU management for taking forward the initiative to elaborate the need and potential arrangements for an evaluation function, and stands ready to provide advice to ITU management should this be required.

3.38 The Committee will examine the feasibility study report at its next meeting.

4 Other matters

4.1 IMAC will next meet in autumn 2017.

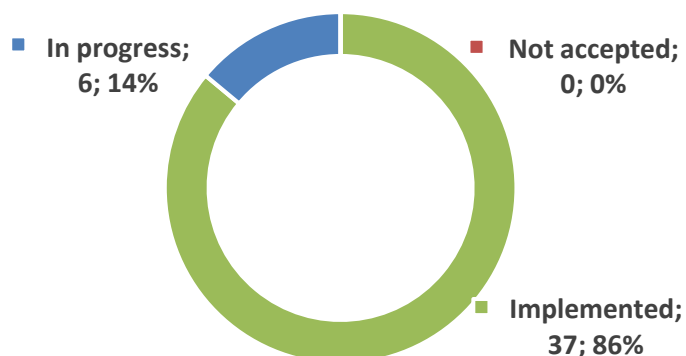
4.2 IMAC members wish to express their continuing appreciation to Member States, the CWG-FHR, the CWG-HQP, the Secretary-General and ITU officials for their support, cooperation and positive attitude in supporting the effective functioning of the Committee.

4.3 IMAC's membership, responsibilities, terms of reference and reports are available on the IMAC area of ITU's public website: <http://www.itu.int/en/council/Pages/imac.aspx>.

ANNEX 1: STATISTICS ON IMPLEMENTATION OF IMAC RECOMMENDATIONS

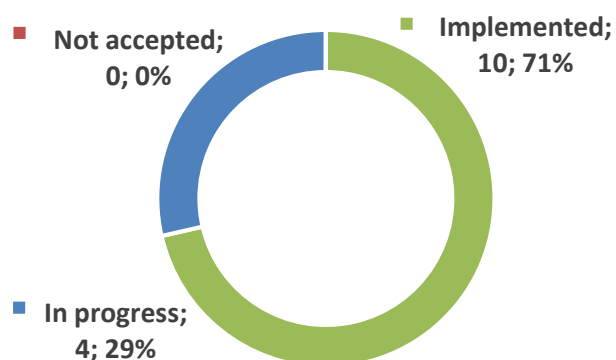
All IMAC Recommendations 2012-2016

Overall status of IMAC Recs. 2012-2016	No.	%
Total	43	100
Implemented	37	86
In progress	6	14
Not accepted	0	0



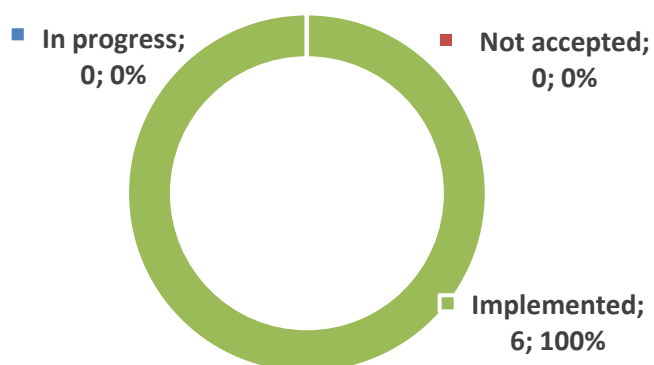
IMAC Recommendations 2016

Status of 2016 IMAC Recommendations	No.	%
Total	14	100
Implemented	10	71
In progress	4	29
Not accepted	0	0



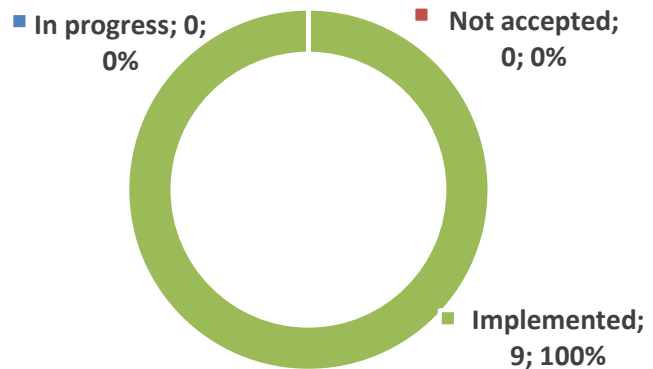
IMAC Recommendations 2015

Status of 2015 IMAC Recommendations	No.	%
Total	6	100
Implemented	6	100
In progress	0	0
Not accepted	0	0



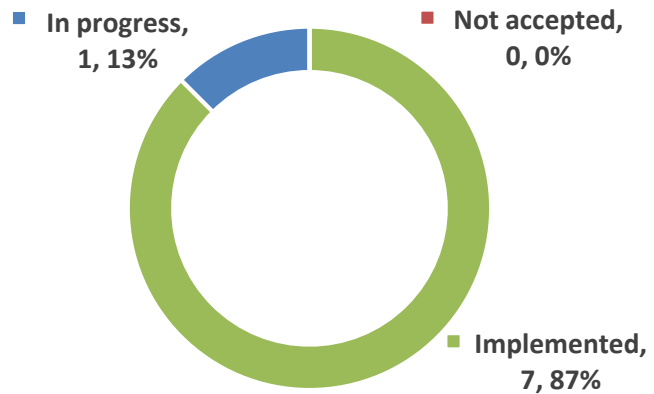
IMAC Recommendations 2014

Status of 2014 IMAC Recommendations	No.	%
Total	9	100
Implemented	9	100
In progress	0	0
Not accepted	0	0



IMAC Recommendations 2013

Status of 2013 IMAC Recommendations	No.	%
Total	8	100
Implemented	7	87
In progress	1	13
Not accepted	0	0



IMAC Recommendations 2012

Status of 2012 IMAC Recommendations	No.	%
Total	6	100
Implemented	5	83
In progress	1	17
Not accepted	0	0

