

Agenda item: ADM 7

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Note by the Secretary-General

THIRD 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 Chairman of the Independent Management Advisory Committee (IMAC).

Dr Hamadoun I. TOURÉ
Secretary-General

THIRD 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 and external audit, in compliance with IMAC's terms of reference.

This third annual report by IMAC to the ITU Council provides an update on the Committee's coverage and activity since June 2013 and presents nine specific recommendations intended to improve the oversight, internal control and governance arrangements to better meet the organization's current needs.

This year, 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](#) (Guadalajara, 2010); Council [Decision 565](#); Documents [C12/44](#) First annual report of IMAC to the Council and [C13/65 + Corr. 1](#) Second annual report of IMAC to the Council.

1. Introduction

1.1 The current members of IMAC appointed by the Council are:

- Mr Eric Adda
- Dr Beate Degen (Chairman)
- Mr Abdessalem El Harouchy
- Mr Graham Miller
- Mr Thomas Repasch

1.2 Since IMAC's second annual report was submitted to the Council in 2013, IMAC has met twice, on 6-7 November 2013 and 24-26 February 2014. Under IMAC's terms of reference, the findings of the November meeting were submitted to the Chairman of the Council and the Secretary-General. The findings of both the November and February meetings have been consolidated in this third 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 website, accessible via [ITU Council](#).

1.3 Meeting attendance: Dr Degen, Mr El Harouchy, Mr Miller and Mr Repasch attended both the November 2013 and February 2014 meetings, whereas Mr Adda was unable to attend the second meeting.

1.4 Since its last annual report to the Council in 2013, IMAC engaged with all areas of its responsibilities, covering internal audit; risk management; internal control; the organization's audited financial statements and financial reporting; accounting policies and practice; external audit; and

evaluation (noting that as yet there is no formal evaluation function in ITU). IMAC's coverage, conclusions and recommendations are set out below.

1.5 In order to further improve its communication with stakeholders, IMAC met with the Chairman of the Council Working Group on Financial and Human Resources (CWG-FHR) and attended the Working Group's February 2014 meeting for matters relating to the Committee's areas of responsibility. At both the November 2013 and February 2014 meetings, IMAC held substantive discussions with the Secretary-General and Deputy Secretary-General, the Financial Resources Management Department (FRMD), the Internal Auditor, the External Auditor, and other management representatives as appropriate.

2. Follow-up of IMAC's second annual report to the Council in 2013 and status of IMAC recommendations

2.1 IMAC welcomed Council-13's reaction to the Committee's second annual report, the Council's approval of the eight IMAC recommendations, as well as the Council's modification of CWG-FHR's terms of reference to include follow-up of IMAC recommendations.

2.2 To assist the CWG-FHR's follow-up of action taken in response to IMAC's recommendations, IMAC reviewed the implementation status of the eight recommendations it had made in 2013, and presented a report to the third meeting of CWG-FHR in February 2014 (see Annex A: IMAC recommendations - 2013: Status 24 February 2014). Six of the eight recommendations remain outstanding or ongoing and should continue to be monitored by the Council Working Group. The Council Working Group expressed its appreciation for the work of the IMAC, and various delegates expressed their support for particular recommendations.

3. Main issues discussed, conclusions and recommendations

Internal audit

3.1 In discussing the Internal Audit Work Plan for 2014, IMAC expressed concern at limited overall level of resources available to the internal audit unit, especially in the light of the unit's stated objectives for 2014 and the fact that the unit had not been able to implement past audit plans fully. It recommended that in future years the plan present clear and explicit risk assessment and priorities showing the basis on which the audit assignments had been selected. For completeness, the plan should acknowledge the unit's internal consultancy/advisory role, for which no specific tasks and resources might have been scheduled when the plan was approved.

3.2 IMAC reviewed Internal Audit progress reports and was informed, *inter alia*, that service orders would be audited by the respective departments concerned, under the coordination of the Human Resources Management Department (HRMD) and the Legal Affairs Unit, the Internal Auditor being responsible for checking the final product. The Committee noted a marked improvement in follow-up of internal audit recommendations, regarding which it had expressed concern at the November 2013 meeting. Regarding the ratio of direct versus indirect audit activities (IMAC recommendation 2 (2013)), the Committee noted that the ratio could be improved, *inter alia*, by recognizing and reflecting the fact that follow-up of External Auditor recommendations was the responsibility of the Secretary-General and was overseen by CWG-FHR; IMAC agreed to continue to monitor the matter. It noted with satisfaction that the Secretary-General had approved the revised Internal Audit Charter and that the 2014 Internal Audit Work Plan had been approved before the end of 2013, as recommended by the Committee (IMAC recommendation 1 (2013)), and that the progress report in February 2014 indicated that an internal audit peer review would be conducted in 2014 (IMAC recommendation 4 (2013)).

3.3 Regarding operations outside ITU headquarters, the Committee received reports on audits of ITU's area office for CIS (Moscow, Russian Federation) and its offices in the Americas Region, and further information concerning the regional office for the Asia and Pacific Region (Bangkok, Thailand). The Committee regarded the reports as being extremely valid and useful, drawing attention to critical management, financial control, project management, and governance issues which merit further attention by senior management.

3.4 The Committee reviewed with the Internal Auditor his proposed annual report to the ITU Council and discussed ways in which it could be made more comprehensive in the future, to include some assurance on the overall internal control environment, in line with IMAC recommendation 1 (2013).

Recommendation 1 (2014): IMAC recommends that the Internal Auditor make further efforts towards providing more comprehensive annual reporting to the Council in future years.

Recommendation 2 (2014): IMAC recommends that the Secretary-General consider whether internal audit findings, taken as a whole, indicate a need for more rigorous management oversight of field activities.

Recommendation 3 (2014): IMAC recommends that ITU take advantage of the CWF-FHR review of access to ITU documents to seek ways of making internal audit reports more easily available to Member States and other stakeholders.

External Audit

3.5 IMAC met with the External Auditor, Corte dei Conti, at both its November 2013 and February 2014 meetings, noting the External Auditor's commitment to sharing their 2013 report with IMAC by the end of June 2014. IMAC decided to meet with the External Auditor to discuss the report in the first week of July 2014, when the Committee planned to hold its eighth meeting.

3.6 The Committee was pleased to learn that the External Auditor would pursue the evaluation of the Internal Audit function in line with IMAC recommendation 5 (2013). It also noted the External Auditor's intention to hold an informal session at PP-14 in Busan (Republic of Korea) presenting their 2013 report, in order to explain the report and its terminology to delegates.

Internal controls

3.7 IMAC reviewed the Statement of Internal Control for 2013, discussed its content with the Chief of the FRMD and expressed satisfaction that the statement was becoming part of a regular procedure within ITU. IMAC noted the update of progress in risk arrangements reported in the statement. For the future, the statement could be improved by establishing a formal arrangement for the Secretary-General to obtain evidenced assurance on the effectiveness of the internal controls applied in the year, for example certification by ITU senior management that they have discharged their responsibilities for the maintenance of the internal control framework in their respective areas of responsibility.

3.8 IMAC noted with concern that the ethics officer position, on which the Secretary-General relies as part of the control and governance framework, has been vacant since 1 July 2013.

Recommendation 4 (2014): IMAC recommends that ITU appoint an ethics officer as a matter of key priority.

Recommendation 5 (2014): IMAC recommends that the Secretary-General obtain evidenced assurance on the effectiveness of the internal control framework by requiring senior managers to certify that they have discharged their responsibilities for internal control for the year.

Risk management

3.9 In 2013, while noting that its recommendation on risk management was under implementation internally, IMAC recommended that ITU pursue the development of systematic, enterprise-wide risk management arrangements as a matter of priority to support the organization's strategic planning process for 2016-2019, that risk management also be applied to operational planning, and that risk management also become a yearly exercise. IMAC noted at its meeting in February 2014 that the draft strategic plan now identifies a set of strategic risks on which the subsequent operational plans will be based. This represents

considerable and commendable progress in addressing risk at an organizational level. Although the strategic planning process is essentially a four-yearly exercise, the organization therefore is now well placed to establish a risk management process to monitor and manage the changing risk environment on a continuous basis, for example by formalizing a risk register with risk owners, which can be reviewed at top management level on a more frequent (perhaps quarterly) basis as part of the operational business process.

Recommendation 6 (2014): IMAC recommends that the development of systematic risk management arrangements be further pursued and applied to the operational level as a continuous part of the business process, with a risk register, risk owners and regular top management review.

Financial management

3.10 At its meeting in November 2013, IMAC received information regarding a proposal to PP-14 to revise Decision 5 to take account of the creation of IMAC; regarding decisions taken by the Council for withdrawals from the Reserve Account to cater for the fact that RA-15 and WRC-15 had not been included in the financial plan 2012-2015, and for ASHI; and regarding the fact that the recent increase in the mandatory retirement age should have a positive impact on long-term ASHI liabilities. The Council had also agreed to give the Secretary-General flexibility to make transfers between budget categories.

3.11 At its meeting in February 2014, IMAC was briefed on the ITU's draft financial plan for 2016-2019. It showed a deficit of CHF 60 million which, according to the Secretary-General, would be eliminated by the time it was approved by PP-14. Among the assumptions built into the plan were: zero nominal growth in the amount of the contributory unit; CHF 2 million annual allocation for ASHI and other liabilities; CHF 3 million annual expense to pay for construction of a building to replace the Varembe building; and no new posts.

3.12 IMAC noted that the allocation for ASHI liabilities is a gesture to recognize and provide for these significant future costs. The Committee also noted that the Varembe building replacement has been based on ITU's receipt of a CHF 150 million interest-free loan from the Government of Switzerland. The proposed construction project does not appear to be based on a comprehensive business case or on a comparative analysis and costing of various alternative options.

Recommendation 7 (2014): IMAC recommends that ITU should consider whether it is appropriate to develop a comprehensive business case, with costed options, to support its decision on such a major long-term expenditure.

Strategic planning

3.13 IMAC welcomed the presentations made, at its two meetings, on development of the draft strategic plan 2016-2019, noting the significant improvements made and excellent and innovative approaches adopted. IMAC recommended using fewer and clearer key performance indicators (KPIs). IMAC expressed satisfaction that the plan addresses organizational risks. The plan seeks to reflect a more unitary view of ITU, which would offer opportunities to strengthen core capabilities and improve internal cohesion. If successful, the approach should also achieve management and administrative efficiencies.

Recommendation 8 (2014): IMAC commends the progress made on strategic planning and recommends that development be continued in this direction.

IMAC webpage

3.14 In the course of a brief presentation on its webpage, IMAC welcomed the arrangements made and stressed the importance of document accessibility for transparency and good governance.

Recommendation 9 (2014): IMAC recommends that, in pursuit of the principles of transparency and good governance, all documents relating to the Committee should be publicly available. Having regard to CWG-FHR's review of document accessibility, IMAC urges that the Committee's approach be applied by ITU to document accessibility at all possible levels.

4. Future meetings

4.1 IMAC plans to hold its next meetings on 3-4 July and 1-2 December 2014.

5. In appreciation

5.1 In conclusion, the Committee expresses its deep appreciation to the Secretary-General and his staff in ITU for their commitment and cooperation in supporting the work of the Independent Management Advisory Committee. The Committee also thanks the members of the Council Working Group on Financial and Human Resources for its interest and engagement with IMAC on matters critical to the management and governance of ITU.

Annexes: 1

ANNEX A

Recommendations of the Independent Management Advisory Committee - 2013

Status 24 February 2014

| Rec No | Description | Implementation Status | Progress | Responsibility |
|--------------|---|--|--|----------------|
| Rec.1 (2013) | <p>IMAC recommends that the Secretary-General approve the revised Internal Audit Charter to be consistent with the IIA standards, with some further revisions to ensure that:</p> <ul style="list-style-type: none"> - IMAC review the proposed Internal Audit work plan before its approval by the Secretary-General; - that this annual work plan is reviewed and approved prior to the beginning of the year to which it applies; - and that a more comprehensive Annual Report by the Internal Auditor, to include an assurance on the overall internal control environment, be submitted and presented to Council for discussion each year. | <p>Completed</p> <p>Completed</p> <p>Outstanding</p> | <p>The revised Internal Audit Charter developed in consultation with IMAC was approved by the Secretary-General in June 2013 and a revised Service Order was issued.</p> <p>The Annual Report by the Internal Auditor will be submitted and presented to Council 2014 for discussion in accordance with Service Order 13/09. This draft Annual Report will be reviewed by IMAC at the 7th IMAC meeting, 24-26 February 2014.</p> | IAU/SG |
| Rec.2 (2013) | <p>IMAC recommends that the Internal Audit annual work plan focus resources more extensively on direct audit activities and less on audit support activities.</p> | In progress | <p>IA work Plan 2014 reviewed by IMAC at its 6th meeting, 6-7 November 2013. IMAC provided comments to the SG. 2014 Audit plan approved by SG before end of year 2013.</p> | IAU |
| Rec.3 (2013) | <p>In addition, to ensure adequate internal audit coverage, IMAC recommends that ITU reconsider the adequacy of resources allocated to the Internal Audit Unit and the activities assigned to Internal Audit.</p> | Outstanding | <p>No additional resources made available or in prospect.</p> | IAU/SG |
| Rec.4 (2013) | <p>IMAC recommends that Internal Audit pursue the commissioning of a peer review to take place preferably by 2014.</p> | Outstanding | <p>IA Progress report indicates action will be taken in 2014.</p> | IAU |
| Rec.5 (2013) | <p>IMAC recommends that an evaluation of the Internal Audit function be carried out by the External Auditor.</p> | Outstanding | | EA |

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|--------------|--|-----------|--|-----|
| Rec.6 (2013) | IMAC recommends that ITU consider imposing and enforcing a clear and well understood timeframe for the negotiation and signature of Host Country Agreements (HCAs) for its regional and area offices, beyond which alternative measures should be considered. | Ongoing | Concerning Jakarta Office, five alternative text proposals of paragraph 4 of Art III of the HCA have been submitted by the secretariat to the Indonesian Administration on 17 July 2013 and have been discussed end of July between BDT and the Country Authorities. Internal consultation is taking place among the concerned Indonesian Ministries. The secretariat took the opportunity to remind Indonesia of this issue at the upcoming "Connect Asia", 18 November 2013. The Permanent Mission in Geneva would contact the secretariat to solve this issue prior Council 2014. Revision of the HCA for the Bangkok Office is being finalized and expected to be signed soon. The latest Internal Audit report on Americas Regional and Area Offices indicates that the HCA issue has come up again. | LAU |
| Rec.7 (2013) | IMAC recommends that ITU pursue development of systematic, enterprise-wide risk management arrangements as a matter of priority, supported by the allocation of necessary budgetary resources, so that risk management can be incorporated in the strategic planning process for the period 2016-2019. | Ongoing | Report developed by the Intersectoral Task Force on Strategic Risk Management (SRM TF) and used by the Intersectoral Task Force for the elaboration of draft Strategic Plan for the Union 2016-2019. The SRM TF recommendations have been implemented. Strategic Risks integrated in the input document to the CWG on SP & FP and a results framework has been developed in line with Res 151 and applying best practices. ERM has yet to be developed. | SGO |
| Rec.8 (2013) | IMAC recommends that the Secretary-General approve an annual Statement on Internal Control to be issued together with the financial statements. | Completed | The Statement on Internal Control was issued together with the financial statements at Council 2013 and will be in future. | FRM |