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| **18 September 2014** |
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| **Report by the Secretary-General** |
| EXTERNAL AUDIT |

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| **Summary**The External Auditor's reports cover: the 2013 audited accounts for: 1 audit of the financial statements for 2013, 2 ITU Staff Superannuation and Benevolent Funds.**Action required**The Council is invited to examine the External Auditor's reports on the accounts for 2013 and to **approve** the accounts as audited.\_\_\_\_\_\_\_\_\_\_\_\_**References**[*Financial Regulations (2010 edition)*](http://www.itu.int/council/finregs/Regl_Fin_10e.pdf)*: Article 28 and additional terms of reference* |



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REPORT OF EXTERNAL AUDITOR

**INTERNATIONAL
TELECOMMUNICATION UNION**

Audit of the financial statements for 2013

28.07.2014

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# INTRODUCTION

The legal basis for the audit carried out by the External Auditors is given in the Financial Regulations (2010 edition): Article 28 and Additional terms of reference.

The present report gives account to the Council of the results of our audits.

The audit considered the ITU Financial Operating Report at 31 December 2013 and the budgetary accounts and their consistency.

The financial periods are governed by the Constitution and Convention of the International Telecommunication Union, and by the ITU *Financial Regulations and Financial Rules* in accordance with the International Public Sector Accounting Standards (IPSAS).

We have carried out the audit of the accounts for the Financial Year 2013 based on INTOSAI standards and, in particular, on IPSAS regime and in line with the additional terms of reference forming an integral part of the Union’s Financial Regulations.

We have planned the working activities according to our audit strategy to obtain a reasonable assurance that the Financial Statements are free from material misstatement.

We have evaluated the accounting principles and related estimates made by Management and we have assessed the adequacy of the presentation of information in the Financial Statements.

Thus, we have obtained through the audit a sufficient basis for the opinion given below.

We have tested, on a sample basis, a number of transactions and relevant documentation and we have obtained sufficient and reliable evidence in relation to the accounts and disclosures in the Financial Statements.

During the audit all questions were clarified and discussed with the responsible officials.

The team had regular discussions with Mr. Alassane Ba, Chief of ITU’s Financial Resources Management Department, and with members of his staff or in other departments, depending on the subject matter under consideration.

The result of the audit was communicated on 1 July 2014.

Pursuant to § 9 of the additional terms of reference governing external audit with regard to comments by the Secretary-General for inclusion in this report, the Secretary-General informed us through his colleagues during the final discussion on 1 July 2014 that his comments would be sent to us. Those comments were received on 8 July 2014 and have been duly incorporated in this report.

We audited the ITU financial operating report on the audited accounts held by the Organization relating to the financial results as at 31 December 2013, presented in compliance with the *Financial Regulations (2010 edition): Article 28,* for the financial year 2013.

A Letter of Representation referring to the Accounts for the Financial Year 2013, signed by the Secretary-General and the Chief of the Financial Resources Management Department, was included in the Financial Statements and it is an integral part of the audit documentation.

Furthermore, we receive also the Statement of Internal Control for 2013, signed by the Secretary-General on 4 June 2014.

We audited also, according to Resolution 11 (Guadalajara 2010) resolves no. 6, the ITU TELECOM World accounts for 2013.

Finally, we wish to express our appreciation for the courtesy shown by all the ITU officials to whom we asked information and documents.



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# AUDIT CERTIFICATE

**Independent Auditor’s Report**

We have audited the financial statements at 31 December 2013 of the International Telecommunication Union (ITU), comprising the Statement of Financial Position, Financial Performance, the statement of changes in net assets, the comparison of budgeted and actual amounts and the cash-flow statement for the year ending on that date, as well as a summary of the main accounting policies and other explanatory notes.

**Responsibility of the ITU Secretary-General for the financial statements**

It is the responsibility of the Secretary-General to draw up and faithfully present the financial statements in line with the requirements laid down in the International Public Sector Accounting Standards (IPSAS) and in the ITU Financial Regulations and Financial Rules. Furthermore, the General Secretariat is responsible for designing, implementing and maintaining the internal control system as it deems necessary to ensure the preparation and fair presentation of financial statements that are free from material misstatement, whether as a result of fraud or errors.

**Responsibility of the auditor**

It is our responsibility to express an opinion on ITU’s financial statements based on our audit. We conducted our audit in accordance with the International Standards of Supreme Audit Institutions, published by International Organization of Supreme Audit Institutions (INTOSAI). Those standards require us to comply with ethical requirements, and to plan and perform the audit in such a way as to obtain reasonable assurance that the financial statements are free from material misstatement. An audit involves performing procedures to gather audit evidence attesting about the amounts and the data provided and disclosures in the financial statements.

The choice of procedures is left to the discretion of the auditor, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or errors. In making those assessments, the auditor considers internal control system in place in the entity for preparation and fair presentation of the financial statements, in order to determine audit procedures that are appropriate in the circumstances, but not with the aim of expressing an opinion on the efficient and effective functioning of the entity’s internal control system. An audit also includes assessment of the validity of the accounting methods adopted and of whether the accounting estimates made by the Secretary-General are reasonable, as well as appraisal of the overall presentation of the financial statements.

We believe that the audit evidence obtained provides a sufficient and appropriate basis for our opinion.

**Emphasis of matter**

The Statement of Financial Position shows a negative Net Asset (-196.2 MCHF) due to the impact of losses recognized directly in the Financial Position of -314.1 MCHF mainly originated by provisions for actuarial liability for the After Service Health Insurance (ASHI). Details of our analysis are included in our report. Measures are being undertaken by the Management. The Management has assured that it will monitor the effectiveness of these measures.

**Opinion**

In our opinion, the financial statements present fairly, in all essential points, the financial position of the International Telecommunication Union as at 31 December 2013, and its financial performance, changes in net asset, cash flows and the comparison of budget and actual amounts, in accordance with IPSAS and the ITU Financial Regulations and Financial Rules.

In accordance with the additional terms of reference governing external audit laid down in Annex I to the ITU Financial Regulations and Financial Rules, we have also issued a detailed report, dated 28 July 2014, on our audit of the financial statements.



# STRUCTURE OF THE ACCOUNTING STATEMENTS

1. The Financial Statements of ITU prepared and presented in compliance with IPSAS 1 included the following elements:

* Statement of financial position – Balance sheet at 31 December 2013 with comparative figures as at 31 December 2012 showing Assets (divided into Current and Non-current assets), Liabilities (split into Current and Non-current liabilities) and Net assets;
* Statement of financial performance for the period which closed on 31 December 2013 with comparative figures as at 31 December 2012 showing the Surplus/Deficit for the financial year;
* A Statement of Changes in Net Assets for the period which closed on 31 December 2013, showing the value of the Net assets including the surplus or deficit for the Financial Year including losses directly recorded in Net assets without being transferred to the Statement of Financial Performance;
* Table of cash flows for the period closed on 31 December 2013, showing the inflow and outflow of cash and cash equivalents, purposely regarding the operational, investments and financing transactions and the treasury totals at the end of the Financial Year;
* Comparison of budgeted amounts and actual amounts for the 2013 financial period;
* Comparison of budgeted amounts and actual amounts for the 2012-2013 biennium;
* Notes to the financial statements providing information about accounting policies and additional information necessary for a fair presentation.

# STATEMENT OF FINANCIAL POSITION 2013

## Assets

2. In 2013 Assets amounted to 356.0 MCHF and they decreased by 4.3 MCHF (-1.2%) in comparison to the value recorded in 2012 (360.3 MCHF).

3. They consisted of Current assets, amounting to 241.1 MCHF, representing the 67.7% on Total Assets (slightly more than in 2012, 67.4%), and of Non-Current Assets, equivalent to 115.0 MCHF, with 32.3% of weight on Total Assets (32.6% in 2012).

## Current Assets

4. Total current assets in 2013 amounted to 241.1 MCHF presenting a decrease of 1.9 MCHF (-0.8 %) as compared to 2012 (243.0 MCHF). The decrease, in overall terms, is due only to Cash and cash equivalent (-20.2 MCHF) and Contributions receivable (-1.2 MCHF), whereas Investments (+16.2 MCHF), Receivables of exchange transactions (+2.2 MCHF) and other receivables (+1.0 MCHF) increased. The basis for the evaluation of current assets is given in the Main Accounting Principles (Note 3).

## Cash and cash equivalent

5. The sub-heading "Cash and cash equivalent", totalling to 59.6 MCHF, decreased of 20.2 MCHF (-25.3%) comparing to 79.8 MCHF in 2012, and it included cash in hand and all the balances of ITU postal banks current account as at 31 December 2013. The above mentioned decrease is mainly due to “Bank current accounts in CHF” (-24.3 MCHF) which weighted around 67.8 % of the total sub-heading. The decrease is partially reabsorbed with the increase in bank current accounts in foreign currency, (+4.2 MCHF). A detailed breakdown of Cash and cash equivalents is shown in the Note 7 of the Financial Operating Report.

6. Under IPSAS 2, an indication is given in Note 7 to the financial statements of liquidities held that are not available. In 2013 an amount of 17.3 MCHF is subject to restrictions, comparing to 12.3 MCHF in 2012.

7. Among cash subject to restriction, the subheading projects financed by external funds doubled, showing an amount of 9.2 MCHF, respect to the amount of 2012 (4.3 MCHF). As also exposed in “Segment reporting” below (see par. 110) it is related to significative increase of the sums earmarked for specific projects (e.g. in Brasil).

8. We asked all the banks having a business relation with ITU to confirm the current accounts’ balances as at 31 December 2013. We verified that the account’s balances were properly recorded into the accounts. All variances detected have been explained and justified. It is worthwhile mentioning that we have not received direct confirmation from four banks (Deutsche Bank Trust Company Americas, Bradesco, Banco do Brasil, Busan Bank), although ITU Management correctly made any effort in order to allow us to receive them.

9. With reference to the missing banks’ confirmations, we received from the Management a copy of the statements as at 31.12.2013 related to all the above-mentioned banks, and we used them for the reconciliation.

### Limitation of signature power below CHF 5’000

10. Upon review of bank signature authority (authorization in committing ITU in financial matters) in field offices, our audit revealed that actually in some field offices power of signature is still provided only to one person and the threshold of 5’000 CHF (as prescribed by Article 16.3 of ITU Financial Regulations to be authorized to sign individually), or 5’000 USD as intended by Management, has not been specified in some cases.

11. We acknowledged that, in any case, Management has been starting to adopt an enforcement of the dual signatures above the limit of CHF 5’000 in Regional and Area offices, with the exception of some of them where only one person has an authorization to sign individually, due to the limited composition of the office. We did not receive the list of authorized signatures directly from four banks.

### Updating of lists of authorized signatures at banks

12. As a result of our audit of banks’ confirmation, we found also discrepancies between the lists of authorized signatures kept by the Management at the Headquarters and the lists that we received as declared by the banks with reference to the accounts of field offices.

13. It is worthwhile also mentioning that Management has already acted sending recently a communication (by e-mail on 11 June 2014) to the Regional offices in order to solve these discrepancies.

**Recommendation no. 1**

14. With regard to field offices’ accounts, we recommend that the Management make efforts to better review and to update signature powers at banks, as appropriate in accordance with ITU Financial Regulations, and to better monitor by Headquarters any changes to bank signature authority, e.g. in case of addition of a signer or in case of deletion of any individual that is no longer authorized.

**Comments by the Secretary-General:**

A reminder has been sent by FRMD to all field offices regarding the importance of the continuous update of the list of staff with signature power declared at banks. Field offices have been instructed to signal to FRMD any staff change having an impact on signatorees lists in order to ensure the correct update and maintenance of these lists.

### Closing and opening of new accounts’ procedure

15. During last year, as we acknowledged, at the Regional office in Brasilia one bank account was closed (at Bradesco bank) and there was the opening of a new account (at Banco do Brasil).

16. According to Article 16.1 of ITU Financial Regulations “the Secretary-General shall choose the banks or other institutions in which the Union’s funds are to be deposited” and, according to Rule 16.1, the Secretary-General “shall also authorize all bank account closures”, as well as the establishment of clear guidelines concerning the criteria in selecting financial institutions is required.

17. With regards to the mentioned case, our audit revealed that the Secretary-General’s authorization, namely of bank account’s closing at Bradesco and opening of account at Banco do Brasil, was missing.

**Recommendation no. 2**

18. Considering that in the Financial Regulations in any procedure of selecting of banks, opening of accounts, funds’ deposit, closure of accounts, the Secretary-General’s authorization is required, we recommend the Management to ensure that a stricter procedure including the mentioned authorization be followed in any case of closing or of establishing of a financial relationship with banks.

**Comments by the Secretary-General:**

The Secretary-General has formally delegated the authorization of opening and closing bank accounts to the Chief of FRMD in 2014.

### Cash-in-hand at field offices

19. On 31 December 2013, the cash-in-hand kept by the ITU in CHF and foreign currencies, amounted to 73 kCHF. We have performed, at year-end, a direct count of cash-in-hand at the Headquarters.

20. Our audit revealed no discrepancies in the reconciliation between our counting and the CHF amount recorded in SAP for the Headquarters.

21. Last year we considered that the differences that we found were non-material in terms of value; nevertheless we recommended Management to strengthen controls over the cash-in-hand at field offices.

22. In this regard, we acknowledge that Management is engaged in the process of standardizing the cash management reports and reviewing the reporting process in order to optimize the reconciliation. We will monitor the further implementation of that recommendation.

## Investments

23. The sub-heading "Investments”, in 2013 amounted to 88.2 MCHF, increased of 16.2 MCHF (22.5 %) comparing to 72.0 MCHF in 2012, and it included fixed-term with maturity not over 9 months from the 31 December 2013. A detailed breakdown of Investments by date of maturity is shown in the Note 8 of the Financial Operating Report. An indication is given in the Note about restricted investments allocated to extra-budgetary projects amounting to 22.8 MCHF in 2013, comparing to 31.1 MCHF in 2012.

24. Last year we were assured by Management about the implementation of IPSAS 28, 29 and 30, and we declared that we would follow-up the issue.

25. In Note 3 of 2013 Financial Operating Report paragraph on Financial Instruments was added. In Note 5 and in Note 8 more detailed information than in Financial Operating Report for 2012 report is presented.

26. In Fixed-term investments we noted a relevant variation in composition by currency, between those with date of maturity end of 2013 and those with date of maturity end of 2012; specifically, it is shown a doubling of investments in CHF and a halving of investments in USD. We consider it consistent with the declared effort to manage and control market risk exposures within acceptable parameters, as in Note 5.

## Receivables

27. Current receivables, whether for exchange or non-exchange transactions, represent a net worth of 83.4 MCHF in 2013 comparing to 82.5 MCHF in 2012. They weighted 34.6% on the total current assets comparing to around 34% in 2012. They represent as stated in Note 9 of the Financial Operating Report the uncollected revenue that Member States, Sector Members and associates have committed to pay to ITU in respect of annual contributions, purchase of publications, satellite network filings or other invoices issued by ITU.

28. Non-current receivables, also inserted and illustrated by the Management in Note 9, whether for exchange or non-exchange transactions, resulted of a value of 9.4 MCHF (15.2 MCHF in 2012), are fully provisioned at 31 December 2013 in line with the principles described in Note 3 to the financial statements. Additional explanations are given under the Note 9 “Receivables”.

## Other current receivables

29. An amount of 9.0 MCHF (7.9 MCHF in 2012) is shown in the closing balance sheet under other receivables. A detailed breakdown of “other receivables” is shown in the Note 11 of the Financial Operating Report.

## Inventories

30. In 2013, items related to publications, souvenirs and supplies have been recorded at a net value of 0.8 MCHF with an increase of 82 kCHF compared to 2012 net value of 0.7 MCHF. In 2012 they decreased of 0.4 MCHF compared to the 2011 net value of 1.1 MCHF. Inventories are detailed in Note 10 of the Financial Operating Report.

31. We acquired and checked the lists of assets, comparing them with those of previous year. No major problems were identified, which may have an impact on the accounts at the closing date (31.12.2013).

## Non-current assets

32. Non-current assets as at 31 December 2013 totalled to 115.0 MCHF; they recorded a reduction of 2.3 (-2%) comparing to 2012 in which they amounted to 117.3 MCHF. In 2012 they recorded a reduction of 4.5 MCHF (-3.7%) as compared to 2011 figures (121.7 MCHF), mainly due to the depreciation of the ITU buildings. The basis for the evaluation of Non-current Assets is given in the Accounting Principles (Note 3).

33. The heading is composed by “Property, plant and equipment” amounting to 112.1 MCHF weighting 97.5% of the total non-current assets (in 2012 it was 116.1 MCHF weighting 99.0% of the total non-current assets) and by “intangible assets” amounting to 2.9 MCHF, 2.5% of weight (in 2012, 1.2 MCHF, 1.0% of weight). They are respectively illustrated in Note 12 and 13 of the Financial Operating Report.

## Property, plant and equipment

34. The heading showed a value of 112.1 MCHF, which is the net value at 31 December 2013`of the capitalised cost for the buildings (122.5 MCHF, 122.4 in 2012), machinery (2.9 MCHF; 3.3 MCHF in 2012), furniture (1.6 MCHF in 2013; the same in 2012), IT equipment (10.1 MCHF in 2013; 9.4 MCHF in 2012), and other assets (0.9 MCHF in 2013 the same in 2012) minus the related depreciation for each categories above listed; in total depreciation amounted to 26.7 in 2013 and 21.6 MCHF in 2012. They are illustrated in Note 12 of the Financial Operating Report.

35. In 2013 is also registered an amount of 0.8 MCHF related to assets under construction, namely a project of heating of the library and another project for the renewing of the low-voltage control-unit.

36. In the Statement of the financial position, according to IPSAS 1, the recognition of buildings as assets is required. This recognition is expressly related to the property of them. For the initial recognition, IPSAS 17 indicates to refer to the costs of these items or to a reliable fair value. Depreciation is charged systematically over the asset’s useful life, and the depreciation method must reflect the pattern in which the asset’s future economic benefits or service potential is expected to be consumed by the entity. The residual value must be reviewed at least annually and shall equal the amount the entity would receive currently if the asset were already of the age and condition expected at the end of its useful life. Land and buildings are separable assets and are accounted for separately, even when they are acquired together.

37. According to the ITU Financial Regulations, Annex II, the External Auditor has to express whether “procedures satisfactory to the External Auditor have been applied to the recording of all assets, liabilities, surpluses and deficits”.

38. In Note 3 of the Financial Operating Report “main accounting principles”, sub paragraph “property, plant and equipment”, it is stated that the initial recognition of buildings was done at the “*intrinsic value*” “*on the basis of the study conducted by an external consultancy*”, in order to define the IPSAS opening balance sheet value. This was considered “historical cost”, and the depreciation was realized referring to an “*estimated useful life*” that for the structure is of 100 years. Land, on which ITU has a free “*droit de superficies*” was not considered in determining the initial value of buildings.

39. In the Note 12 to the Financial Statements, the buildings recognized as non-current assets were Tower, Varembé, Extension C and Cafeteria, and Montbrillant. Relating to buildings, as already stated above, the net carrying amount varied from 112.0 MCHF at 1 January 2013 to 108.6 MCHF at 31 December 2013 (where last year they varied from 115.3 MCHF at 1 January 2012 to 112.0 MCHF at 31 December 2012), due to an addition of 0.09 MCHF, and the depreciation recognized during the year of 3.5 MCHF.

40. The financing of the construction of a building for international organizations is granted by the Swiss Confederation through FIPOI in the form of a loan on favourable terms, i.e. a period of 50 years at an interest rate of 0%, while the land is provided free of charge by the State of Geneva by mean of the “*droit de superficie*”. The value of borrowings from FIPOI is illustrated in Note 16 of the 2013 Financial Operating Report.

41. Last year we recommended to negotiate the extension of the “*droit de superficie*” granted to ITU by the State of Geneva. In January 2013, the Legal Adviser has contacted the Host Country competent Authorities in order to initiate a negotiation process. However, further steps in the negotiation are linked to the decision of replacing of the Varembé building, presently at the attention of the Council and waiting for the decision of the Plenipotentiary Conference.

42. Furthermore, we considered in last year’s Audit Report that depreciation should be in line with the duration of surface right, and found that the depreciation of two buildings was extended for a period not in line with the expiration of the surface right, although the difference in value was considered not material.

43. On this basis, we agreed with the Management to consider an adjustment in the accounts only in case a new agreement on the “*droit de superficie*” would not be reached.

44. Since the activities for the negotiation are temporarily and reasonably suspended, as stated above in paragraph 39, still for financial year 2013 no recalculation of depreciation extension is strictly needed. Nevertheless, we will consider again this issue in future, for updates of the situation.

45. Last year we noted a high number of items not found and recommended an improvement in the effectiveness in tracing these items, and, if the case, writing-off them. Management ensured the continuation of the effort in finding these object.

46. It was registered a value of 392’744 CHF referred to a list of assets not found at the beginning of 2013, and as a result of 2013 inventory assets included in this list, for a value of 251’060 CHF, were found. Considering that part of these assets, for a value of 110’286 CHF have been included in the list of assets scrapped in 2013, at the end of 2013 assets for a value 31’398 CHF still remained not found.

**Suggestion n. 1**

47. Although we acknowledge the efforts and the results of these inventorial activities, we noted that CHF 110’286 of unfound assets were scrapped without being found beforehand. Due to the obsolete nature and the low value of these assets not found and scrapped, this treatment can be accepted for 2013. However, going forward, any asset not localised to be written-off should be signalled as “not found” in the write-off request form as implemented by Assets management Unit.

**Comments by the Secretary-General:**

Starting in 2014, the Asset Management Unit has amended the write-off request form with a field enabling to declare as “not found” the asset written-off. It is to be noted that the assets not found and scrapped were of an age such as not to have any residual net book value.

## Intangible Assets

48. In 2013 Intangible Assets amounted to 2.9 MCHF and they more than doubled compared with the value of 2012 (1.2 MCHF); this increase is due mainly to 3 projects in course of realization: “CRM Fit Gap Analysis and Implementation Services”, “PMS Conference Proposal Management” and Migration Internet/Extranet” (IPSAS 31).

49. As stated by the Management in the related Note 13 in the Financial Operating Report, the capitalization, according to IPSAS 31, regarded internal developments related to the improvements of some specific services offered to members, specifically for the access, management and archiving of ITU documentation.

50. As also highlighted by our predecessor, the SFAO, standard IPSAS 31, “*if correctly applied, will mean that IT projects are broken down into different phases and only the design and implementation phases are to be recognized*”.

51. Although in first application of IPSAS 31, in 2012 ITU annual accounts, no major issues have been found at this regard, in 2013 ITU Financial Statements the high value capitalized for the projects under development deserved further specifications.

52. In this regard, we agreed with Management that for the project “CRM Fit Gap Analysis and Implementation Services”, some training costs had not to be capitalized if related to post-implementation stages.

## Liabilities

53. In 2013 Liabilities amounted to 552.2 MCHF and they decreased by 35.8 MCHF (-6.1%) in comparison to the value recorded in 2012 (588.0 MCHF).

54. They consisted of Current liabilities, amounting to 142.1 MCHF, representing the 25.7% on Total Liabilities (weight in 2012, 24.7%), and of Non-Current Liabilities, equivalent to 410.1 MCHF, with 74.3% of weight on Total Liabilities (in 2012, 75.3%).

## Current Liabilities

55. Total current liabilities in 2013 amounted to 142.1 MCHF presenting a decrease of 2.8 MCHF (-1.9 %) as compared to 2012 (144.9 MCHF). The decrease, in overall terms, is due to the effect, on one side, of the decrease of “Deferred revenue” (-4.3 MCHF) and “Employee benefits” (-0.7 MCHF) and, on the other side, of the increase of the heading “Suppliers and other creditors” (+2.6 MCHF). The basis for the evaluation of current liabilities assets is given in the Accounting Principles (Note 3).

## Suppliers and other creditors

56. An amount of 9.7 MCHF (7.1 MCHF in 2012) is shown in the closing balance sheet under “Suppliers and other creditors”. A detailed breakdown is shown in the Note 14 of the Financial Operating Report.

## Deferred revenue

57. The sub-heading "Deferred revenue”, in 2013 amounted to 128.0 MCHF, decreased of 4.3 MCHF (-3.3%) comparing to 132.3 MCHF in 2012. The majority of this amount comes from contributions from the ITU membership (Member States, Sector Members, Associates) and from revenue for Satellite Network Filing not yet finalized at the end of 2013. A detailed breakdown of deferred revenues is shown in the Note 15 of the Financial Operating Report.

## Provisions

58. The sub-heading "Provisions” in 2013 amounted to 0.90 MCHF, showing a decrease of 0.2 MCHF (-20%) comparing to 1.19 MCHF in 2012. This heading included the provision for litigations (0.52 MCHF) and the provision for free Satellite Network Filing (0.38 MCHF).

59. We have revised the reports issued by the ITU legal advisor and we consider the amount provisioned for possible loss in litigations substantially correct.

## Borrowings and financial debts

60. The amount related to ITU borrowed capital from FIPOI, for the construction and renovation of some of its premises, is correctly recorded as short term (1.5 MCHF, weighting 1.0% on total current liabilities), which corresponds to the instalment to be repaid to FIPOI by ITU in 2014, and as long term (46.8 MCHF, weighting 11.4% on total non-current liabilities). The amounts, also detailed in Note 16 of the Financial Operating Report are also confirmed by the statement dated 7 April 2014 obtained from FIPOI.

## Other current liabilities

61. The sub-headings "Employee benefits” and “Other debts”, in 2013 amounted respectively to 0.5 MCHF (1.2 MCHF in 2012) and to 1.6 MCHF (1.8 MCHF in 2012). A detailed description and breakdown are shown respectively in the Notes 16.1 and 18 of the Financial Operating Report.

62. In particular, short-term Employee benefits, recorded under “Current liabilities”, are related to provision for overtime (0.04 MCHF in 2013) and to provision for accrued leave (0.4 MCHF in 2013). Our checks have not revealed any major issue and the provisions are substantially accurate.

## Non-current liabilities

63. Total non-current liabilities in 2013 amounted to 410.1 MCHF presenting a decrease of 33.0 MCHF (-7.4%) as compared to 2012 (443.1 MCHF). The decrease, in overall terms, is explained by the decrease in employee benefits (-21.1 MCHF, -5.9%). The basis for the evaluation of non-current liabilities is given in the Accounting Principles (Note 3).

64. This heading comprised long-term debts (see paragraph “Borrowings”), third-party funds, allocated or in process of allocation, liabilities against a capitalized fund (Staff Health Insurance Fund – SHIF) for the ITU Health Insurance Scheme and provisions covering obligations of uncertain amount and timing mainly related to post-employment benefits.

## Long term employee benefits

65. The sub-heading "Long term employee benefits”, in 2013 amounted to 335.1 MCHF, decreased by 21.1 MCHF (-5.9%) comparing to 356.2 MCHF in 2012. It weighted 81.7% of the total non-current liabilities and 60.7% of the total liabilities. This heading included the actuarial liabilities for post–employment benefits under the After Service Health Insurance plan (ASHI) (314.1 MCHF; in 2012 was 335.2 MCHF), provision for estimated liabilities for the repatriation grant (11.8 MCHF; in 2012 was 11.7 MCHF) and provision for accrued leave (9.1 MCHF; in 2012 was 9.2 MCHF). A detailed description and breakdown of the employee benefits is shown in Notes 17.2 of the Financial Operating Report.

## Employee benefits: Installation and Repatriation grants

66. The provisions recognized at 31 December 2013 for installation and repatriation grants amounted to 11.8 MCHF (11.7 MCHF in 2012) and are calculated according to the actuarial study commissioned by the Management to CPA Conseil. We have to note that CPA Conseil in his report dated 27 January 2014 calculated an amount of 7’616 kCHF for “*Indemnité de repatriement*” and 3’879 kCHF for “*Frais de repatriement*”, the total amount is 11’495 kCHF, different from that recognized in Financial Operating Report.

### Harmonization of key assumptions

67. Last year we recommended to harmonize the key assumptions of the actuarial studies where circumstances are comparable. We verified that this year CPA assumed a discount rate at 2.00% from 01.01.2013 and 2.50% from 01.01.2014, whereas ASHI discount rate for 2013 is 2.76%; CPA assumed salary increases of 2.50%, whereas ASHI assumption is: increases of 3.86% for Professionals and of 3.32% for General for 2013.

68. After further confrontations with Management, we acknowledge that the assumptions related to the two actuarial calculations performed in 2013 (ITU’s obligation regarding repatriation and ASHI) have been compared according to the suggestion made in our Report of last year. As a result of this comparison, differences of assumptions chosen for the discount rate and for the salary increase have been more clearly stated.

69. Different calculations are actually due to the different timeframe considered. Whereas the repatriation actuarial study is based on the residual service duration for the staff considered in the study (an average of 14 years), the ASHI actuarial study is based on the estimated life of the staff according to UN mortality tables, which is a significantly longer time. This significant difference in the projection of the calculation, which also impacted the salary increase rate, was estimated as lower on a shorter term period.

## Employee benefits: ASHI

70. In 2013, the provision for actuarial liabilities for the post-employment benefits, namely ASHI plan amounted to 314.1 MCHF with a decrease of around 21 MCHF (-6.3%) compared with 335.1 MCHF in 2012. This decrease is mainly due to the changes in the discount rate (2.76% for 2013 and 2.24% for 2012). The calculation based on actuarial assumptions was performed by an actuary, chosen by ITU.

### Key actuarial and economic assumptions are consistent with previous year

71. The choice of actuarial assumptions is the sole responsibility of the organization. The External Auditor checks their plausibility and their consistency with IPSAS 25 and with previous years and validates them.

72. The key assumptions have been reviewed by us and duly discussed with the Management and they are in line with economic trends and rates and consistent with data available at ITU at the moment of our audit, and we validated them.

73. We already stated in our last year report, that, within the UN system, it is not always possible to have consistency in any of the key assumptions used in relation to ASHI. This is explained by the different characteristics of each Agency, such as the number and composition of staff (salary and career advancement, family allowances etc.), and the location (number of staff deployed in field offices), that have effects on forecasted illness and mortality.

74. We also confirm that, in absence of any specific indication on discount rate in IPSAS 25, within UN system, several Agencies make reference to different yield curves related to AA Corporate Bonds, elaborated by different operators, and it is not possible to carry out a direct comparison of the current situation of ITU actuarial liabilities with the liabilities of other Agencies of the UN system.

### Financial health is assured in the short-term, but remedial measures are necessary

75. In 2013 ASHI provisions (314.1 MCHF) contributed considerably to the negative Net Assets (-196.2 MCHF). Being not possible to directly compare the actuarial liabilities of ITU with those of other Agencies, also stated above, it is difficult to undertake a direct comparative analysis between the ITU underfunding with the other one of UN Agencies.

76. Last year of their mandate (2011), our predecessors, the SFAO, wrote “*while this situation in regard to the ITU balance sheet is naturally a matter of concern, the Union’s immediate, short-term financial health is not directly affected*”.

77. In our report on financial statements for 2012 we recommended Management to be assisted by a full actuarial review study in the coming years that it might produce answers, and possible solutions, to this question. Due to the transition to the new service provider, we however think that at the moment it would be not substantial and also not convenient to perform the full actuarial study before the transition will be concluded, probably in 2016.

**Recommendation n. 3**

78. We renew the recommendation n. 6/2012 to the Management to be assisted by a full actuarial review study, to evaluate when the ITU financial health might be compromised, in the long-term scenario, by the provisions of the Health Insurance Scheme; we take into account that the transition to the new scheme (a new scenario) is in progress; therefore, we recommend Management that the full actuarial review study take place after the conclusion of the transition, in 2016.

**Comments by the Secretary-General:**

A full actuarial study will be performed in 2016 according to the recommendation.

### Alternative solutions explored and implemented

79. SHIF maintains a separate accounting of contributions received and benefits paid from ITU and ILO, it is only the performance of the assets that is divided pro-quota. Contrary to ILO, ITU’s financial situation is unbalanced.

80. The ILO Treasurer and Financial Comptroller and HRM Director, in a letter dated 12 February 2012, drew the attention of ITU Management to its situation and suggested that the two organizations discuss an eventual equalization process. He explained that the difference in technical results is primarily attributable to two factors: “(i) the high concentration of ITU insured in the Geneva area where healthcare costs are high” and “(ii) the higher ratio of ITU insured in the ‘retiree’ category as compared to the number of insured in the ‘active’ category (0.61 for the ITU versus 0.44 for the ILO)”. Discussions were initiated between the two organizations on the way forward, but they did not find an agreement on the funding of the SHIF without putting into question the principles of solidarity and mutualization of risks that have governed the Fund.

81. In our report on the Statements of 2012 we recommended Management “*to consider alternatives to the SHIF, inside or outside the UN system*”. Due to the disagreement between the two organizations and also following our recommendation, ITU Management in 2013 mandated an independent consultant to explore alternative solutions that would enable ITU to provide its staff members with health protection, having regard to two different conditions:

1. to assure the same benefits which were enjoyed under the SHIF;
2. ITU financial situation had to be feasible and sustainable in the long term.

82. The consultant invited twelve insurers, with experience in the management of International Medical Insurance. A Working Group was constituted at ITU to review the solutions proposed by the consultant and to identify and recommend to the Secretary-General the most appropriate among them, relating to the aforementioned conditions.

83. After having evaluated all proposals, the offer presented by Cigna/Vanbreda International resulted the most favorable and ITU decided to appoint the two companies for the new staff health insurance scheme, which is called “Collective Medical Insurance Plan (CMIP)”; Cigna is the insurer and Vanbreda International is the claims administrator. Vanbreda International has extensive experience in international medical insurance, also at the level of other UN organizations and EU institutions.

84. The implementation of the new staff insurance scheme started 1 May 2014 and the timing of the transition will complicate the management of the new medical insurance scheme in 2014. We will therefore monitor what kind of impact this change will have on the ITU Financial Statements in the coming years.

85. Due to the fact that the new scheme entered into force in May 2014, we will evaluate other aspects of the new scheme.

## SHIF audited by the Supreme Audit Institution of Canada: no major issues reported

86. It is worthwhile mentioning that SHIF Fund Financial statements have been audited by the Supreme Audit Institution of Canada. We had regular exchange of contacts and information with them not only about the correctness of figures, but also about their plausibility. We also discussed the audit methodology to apply to different key assumptions used by ITU and ILO (in reference to the actuarial study). They did not report to us any major issue related to SHIF.

## SHIF: increase of the reimbursements for medical care in 2013

87. During our audit we noted that in 2013 there was an increase of more than two million CHF in the reimbursements for medical care, with respect to 2012. We carried out an analysis of the nature of this increase for understanding whether possible anomalies would have occurred. Furthermore, it is worthwhile mentioning that also the ITU Management requested us to carry out a specific analysis of the reasons of this increase. On this regard, it is important to specify that a full study on the matter was not feasible in the timeframe of our audit; nevertheless, in the following paragraphs we specify the outcome of our preliminary analysis.

### Sampling and collecting the documents

88. We requested the list of all reimbursed claims and selected a sample of the highest-level reimbursements, for a total of 52 folders, each of them related to one insured (split into staff members, retirees and survivors).

89. The Pension and Insurance Compensation and Medical Issues Service of the ITU gave us the so defined “light version” (a series of reimbursement advices without supporting documents), because they reported us that they gather all medical documentation and claims of each family group only according to the chronological order of arrival of the requests for refunds and of the invoices. With this regard, auditing our sample was not feasible in a short time.

90. For this reason we redrew our sample, selecting documents related to different kinds of expenses. We examined all the sampled documents and we found no frauds, and only one case of double payment of the same invoice. Although the amount was not material, and the error was non-systemic, we draw the attention of the Management to take care of the control system that Vanbreda International will apply in the claims management of the new Health Insurance plan, in particular to have a system to avoid duplicated reimbursements. We will follow-up the implementation in the coming years.

91. From the analysis of the sample, we found reimbursed services not strictly related to health care. We also found that there are differences for the cost reimbursed for the same health service between different health facilities. Without reducing the quality of the health service, we have the opinion that Management might consider applying different ceilings on expenditure, benchmarking them with reasonable and customary expenses.

**Suggestion n. 2**

92. With regard to the refund of medical services, we suggest to the Management to perform a study for evaluating the effect of a sensitive reduction of services not strictly related to health care.

**Comments by the Secretary-General:**

I take note of this suggestion and inform you that Management will follow-up with the new claims administrator on the study mentioned.

**Suggestion n. 3**

93. We suggest Management, without reducing the quality of health service, to consider a threshold on expenditure for health services benchmarking them with reasonable and customary expenses, in order to ensure the sustainability of the cost of the new scheme.

**Comments by the Secretary-General:**

I take note of this suggestion and inform you that Management will explore feasible threshold options with the new claims administrator.

### Statistical analysis of the reimbursements

94. Using the excel files provided by the ITU showing the reimbursements paid in 2013 and in the second half of 2012, we calculated the average and the variance to get a curve of distribution. The histogram graphs are in the Annex 2 of our report.

95. The insured are classified into four categories:

* Staff members;
* Retirees;
* Survivors, who are the relatives of died insured of ITU;
* External voluntaries, whose number is negligible.

96. In the obtained histograms we verified, for example, that the range of the Survivors is shorter than the one of the Staff Members, which is normal because of the bigger age and the superior probability of care needs; so the expenses average for the Survivors is around the double than for the Staff Members. Anyway, despite the not full comparability of the data, we got broadly similar curves into the same categories of insured in the two compared periods; such elements, resulted from our overall analysis, corroborate the reasonabless of the indication we obtained from our audit sample, that were no major anomalies in the ASHI expenses.

## Employee benefits: Pensions (old Funds)

97. As also last year, an amount of 90’000 CHF is recorded in the accounts at closure and it relates to benefit obligations in the form of pensions payable to former staff members under the Staff Superannuation and Benevolent Funds (see also related paragraph 121).

## Net assets

98. Net assets comprised allocated and unallocated own funds, extra-budgetary funds, the non-budgetary result, the surplus for the financial year and the effects of transition to IPSAS. In 2013, Net Assets resulted in a negative value of -196.2 MCHF, with an improvement comparing to -227.7 MCHF in 2012.

99. This year the presentation of Net assets changed for a better compliance with IPSAS 1 and an improved transparency. In particular, we verified that a different presentation in the Statement of Changes in Net Assets actually shows results and adjustment for each fund, as specified in following paragraph 114.

100. In last year Report we recommended (Rec. n. 8/2012) to adapt the current disclosure of Table I “Statement of financial position” and Table III “Statement of changes in net assets” (see paragraph above), and related notes, to the amended text of the Financial Regulations, providing a detailed breakdown of all the components of the Net Assets.

101. We acknowledge that the presentation of Net Assets has been amended and presents a breakdown of the different positions included in the Net Assets, disclosing the Reserve Account in a separate line item and reporting its management in Note 4.

102. All the movements in Net assets are explained in different Tables and Notes of the Financial Operating Report, in particular:

a) Table II “Statement of financial performance”, where is indicated the surplus for the period (2.8 MCHF).

b) Table III “Statement of changes in net assets” with the movements separately for each own funds, and IPSAS effects.

c) Table V “Comparison of budgeted amounts and actual amounts”, where it is indicated the “Surplus/deficit on Fund 1000 covered by withdrawal from Reserve Account” and the “increase in fund 1010 Reserve”. In Table V it is not only listed the “Comparison of budgeted amounts and actual amounts” but it is also disclosed the accounting reconciliation between budget out-turns (actual amount) and amounts recognized in the Financial Statements (in this regard, see also Note 25).

d) Note 3 “Main accounting principles” in the paragraph related to “recognition of Funds”, in particular sub paragraph “Allocated own funds”, and in paragraph related to “Reserve Account”.

e) Note 4 “Management of net assets”, where are listed the movements in the Reserve Account and the reconciliation between “own funds allocated to the organization” – as in Table III – and the Reserve Account.

# UNITED NATIONS JOINT STAFF PENSION FUND

103. The issue of the UNJSPF has been widely considered in our last year report. We have to recall that UN Task Force on Accounting Standards (UNTFAS) replied to our specific question, on 16 February 2013, that “*in the event that the UNJSPF cannot meet its pension obligations, the member organizations bear the liability for such funding under Article 26 of the Regulations of the Pension Fund*”.

104. It was expressly stated by UNTFAS that UNJSPF liabilities have not to be included in ITU Financial Statements.

105. Nevertheless, considering that it is not possible to exclude a future impact of UNJSPF liabilities on members Agencies, we draw again the Council’s attention to this type of “*potentially significant risk*”, as also stated by our predecessors.

# STATEMENT OF FINANCIAL PERFORMANCE 2013

106. This Statement showed the Organization’s operating and financial revenue and expenses classified, disclosed and presented on a consistent basis in order to explain the year’s net deficit or surplus. The result of the period resulted in a surplus of 2.8 MCHF.

## Revenue and Expenses

107. Total revenue amounted to 197.0 MCHF with a relevant increase of 18.7 MCHF (+10.5%), as compared to 2012 (178.3 MCHF), chiefly due to the increase of i) Voluntary contributions (+7.2 MCHF, +72.2%), ii) the other operating revenues (+5.1 MCHF, +12.9), in particular the increase in extra-budgetary revenue related to project support and iii) the finance revenue (+6.0 MCHF, +525.3%), mainly generated in unrealized exchange-rate gains (+6.1 MCHF), as reported in Note 22. Assessed contributions, amounting at 126.9 MCHF, which weighted 64.4% of the total revenue, increased only slightly (+0.3 MCHF +0.2%) from 2012, as reported in Note 21 of the Financial Operating Report.

108. Expenses totalled to 194.4 MCHF with a decrease of 2.1 MCHF (-1.7%), as compared to 2012 (196.3 MCHF). Employee expenses, 196.3 MCHF, which weighted the 75.3% of the total expenses, decreased by 2.1 MCHF (-1.4 %) as reported in Note 23 of the Financial Operating Report. The substantial decrease among employee expenses is registered only for the subheading “Salaries and allowances” (-5.5 MCHF), while there have been increases not only in “ASHI adjustment” but also in “Education grant” and in other employee expenses (+3.3 MCHF).

## Segment reporting

109. A segmented report is given in the Note 24 of the 2013 Financial Statements. The aim of such segmentation is to be able to assign expenses directly to the related segments. The methodology also provides for a distribution of expenses and revenues, primarily by fund and cost center. The most evident variation from 2012 is the increasing of the weight of FIT both among total Revenues (7.1 % in 2013, it was 3.9% in 2012) and total Expenses (8.0 % in 2013, it was 4.5% in 2012).

110. This variation is due, as verified with BDT management, to an increasing of funds received and a speeding of the activities related to some projects. We have to specify that the registered increases of revenues and expenses for this segment are not directly linked one to the other.

### Digitalisation of personnel dossiers

111. Last year we recommended (Rec. 10/2012) a digitalisation of personnel dossiers, with the aim of preventing accidental loss of data and to allow a direct interface of personnel dossiers with SAP HR.

112. Management refers that on 19 April 2013 has been established a “*Detailed Blueprint (DBBP) of the e-Staff Personal File (digital filing) System*”, comprising the HRAD (E&B Service) business process and the mapping of the structure of the staff member (hard) personal file, and that this system is linked to the SAP-ERP\_HCM.

113. We verified that a prototype has been finalized and that a testing phase is currently ongoing. We will monitor the eventual operational start of the system.

# STATEMENT OF CHANGES IN NET ASSETS FOR THE PERIOD WHICH CLOSED ON 31 DECEMBER 2013

114. Table III “Statement of changes in net assets” has changed from previous year Financial Operating Report; this year it represents not only the movements of cumulated allocated and non-allocated own funds, and IPSAS effects, but also movements for each own fund, as reported in Note 4.

115. We register that 2 MCHF have been withdrawn from the surplus of the financial year 2013 to increase ASHI fund in line with Secretary-General comments to our last year Report (Rec. 6/2012). Moreover, other 2 MCHF were withdrawn, with compliance with Financial Regulations and Financial Rules (Art. 10 par. 5 and Art. 12 par. 4) as an exceptional case occurrence, for the “*Health insurance guarantee fund*” dedicated to finance the new Heath Insurance scheme starting in 2014.

# COMPARISON OF BUDGETED AMOUNTS AND ACTUAL AMOUNTS FOR THE 2013 FINANCIAL PERIOD

116. The table V “Comparison of budgeted amounts and actual amounts for the 2013 financial period” is foreseen in compliance with IPSAS 24, which requires that this comparison, arising from execution of the budget itself, should be included in the Financial Statements. The Standard also foresees the disclosure of the reasons concerning the material differences occurred between budget and actual amounts,

117. In the Table V there is also included the accounting reconciliation of the differences between the budget out-turn (actual amounts) and the amounts recognized in the accounting statement. Further details are provided in Note 25 of the Financial Operating Report and we also refer to the Secretary-General’s comments reflected in the Financial Operating Report. The audits showed that transfers of appropriations between Sectors were carried out in conformity with Article 11 of the Financial Regulations.

# TABLE OF CASH FLOWS FOR THE PERIOD CLOSED ON 31 DECEMBER 2013

118. The Table of cash flows identifies the sources of cash inflows, the items on which cash was spent during the reporting period, and the cash balance as at the reporting date.

119. In 2013 ITU reported a cash flow from operating activities of -9.1 MCHF, less negative in comparison with 2012 when there was a value of -13 MCHF. Same in 2013, in 2012 and in 2011 negative cash flow was reported also from finance activities (-1.5 MCHF), represented by the repayment of FIPOI loan. Net cash flows from investment activities (-19.6 MCHF) showed a relevant negative variation from 2012, when the value was 32.3 MCHF; this variation is mainly due to increase in Investments and in Acquisition of property, plant and equipment.

120. The net result in cash and cash equivalents showed an increase of 20.2 MCHF in 2013. We checked the underlying entries by selecting samples from some accounts. The result was that all chosen transactions were properly backed-up by supporting documentation. The Cash Flow Statement is thus verified and confirmed.

# STAFF SUPERANNUATION AND BENEVOLENT FUNDS

121.The Funds reported in Annex B2 of the Financial Operating Report are three, named “*Reserve and Complement Fund*” (with Total Assets amounting to 6.3 MCHF), “*Provident Fund*” (with Total Assets amounting to around 1.5 MCHF) and “*Assistance fund*” (with Total Assets amounting to around 0.2 MCHF).

122. We have audited the three Funds and the underlying transactions without identifying any error and/or misstatement.

123. We considered some slowness in procedure for verifying the permanence in life of beneficiaries and for suspending and cancelling pension treatment. We noted in a specific case that after a negative result of the first step of this procedure (“*Attestation – Preuve de vie*”) of 15 December 2011, still in 2013 monthly payments are registered, although blocked and not sent.

124. For the “*Reserve and Complement Fund*” and for the “*Provident Fund*” in the Liabilities, under the item “*Employee benefits*” are recorded two actuarial provisions respectively of 54 kCHF and 36 kCHF, in line with an actuarial expertise performed in the year 2010.

125. Last year, in line with our predecessors, and in view of the not relevant value of these provisions in comparison with the value of the Assets, we recommended (Rec. 11/2012) to have an actuarial review every 5 years.

126. We acknowledge that Secretary-General last year instructed FRMD to conduct in 2015 a new actuarial study for the old Pension Fund. We will monitor the further implementation of this recommendation.

# UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP), ICT-DF, and TRUST FUNDS

127. Rule 5 in Annex 2 of Financial Regulations provides that “*a separate account for each voluntary contribution or trust fund shall be opened in a special account of the Union*”.

128. In Annex B3 of the Financial Operating Report, there are listed two projects currently related to UNDP activity. Annex B4 of the Financial Operating Report showed the Trust Fund projects. Part of them is financed by a withdrawal from ICT-DF, authorized by a decision of the ICT-DF Steering Committee. Other project are funded with specific contributions and regulated by agreements with donors. In Annex B5, are listed projects related to ICT-DF.

129. We noted that some procedures related to the transferring amounts, for the closing of financial year and/or closing of extra-budgetary projects into financial statements of third-party funds, resulted needing manual corrections by personnel. Clearing of accounts presented technical difficulties due to old transactions, that was not possible to eliminate.

**Suggestion n. 4**

130. In order to reduce the risk of errors, we suggest to consider amendments and improvements of the above mentioned procedures.

**Comments by the Secretary-General:**

In 2013 some old transactions were indeed cleared and the procedure for transfer of balances suggested in the 2010 closure was replaced by the new one adopted end of 2013. This enabled us to properly record project opening balances in 2014.

131. Furthermore, we encontered difficulties and slowing-down in reconciliation activities related to figures reported in Note 20 “Allocated and unallocated extra budgetary funds”. We sampled projects and funds and for all selected projects reconciliation has been succesfully done. Nevertheless, we noted that a direct and immediate reconciliation of the total amounts presented in Note 20 with the accounts registered in the system was not actually offered.

**Recommendation n. 4**

132. Therefore we recommend Management to define shared guidelines regarding the accounting and reporting for extra-budgetary funds in order to semplify the reconciliation of Financial Operating Report Annexes with Note 20.

**Comments by the Secretary-General:**

The accounting and reporting procedures will be documented in order to ensure know-how sharing and the production of audit documentation enabling the efficient reconciliation of extra-budgetary figures.

# ASSESSMENT OF INTERNAL AUDIT UNIT

133. In accordance with the International Standards, such as ISSAI 1610, ISSAI 200 c.2.45, INTOSAI gov 9140 and 9150, one of the tasks of the External Auditor is to carry out the assessment of the Internal Audit Unit (IAU).

134. For the assessment in the UN system, reference is made to the above mentioned general principles and to the Audit Guideline 202 “*Evaluation Of Internal Audit Services In The United Nations Organizations*”, adopted by the Panel of External Auditors of the United Nations, the specialized Agencies and the International Atomic Energy Agency at its 34th session in November 1992, added a new section at its 35th session in November 1993, foreword revised at its 41st session in October 2000. We have proposed, in the meeting Panel of External Auditors in Vienna on December 2013, an update of the guideline. Due to the tight agenda, the argument proposed has not been discussed, and postponed to the next Panel meeting, that will be held in December 2014.

135. Further to our task, also IMAC (Independent Management Advisory Committee) has recommended us to make an assessment of the IAU with the Recommendation no. 5 in its report to the Council of 31st of May 2013 (doc. C13/65-E).

136. Although the Guideline 202 is dated, it was used as the basis for our assessment, for having a common approach within the UN, and the specific checklist has been updated when needed.

137. We have carried out our assessment through interviews and exchange of mails with the Head of IAU, and through the analysis of main documents. We have also analyzed the files related to the audits performed in the last two years by the IAU.

Below, a list of some of the documents we have analysed for the IAU assessment:

* ITU Financial Regulations and Financial Rules (2010 Edition);
* ITU Internal Audit manual, whose chapters (except chapter 1) have not been updated since 2012;
* Internal Audit Charter (10.06.1999, which was replaced by the 27.06.2013 version);
* Internal Audit plan for 2012 (SG-SGO/IA/12-03);
* Internal Audit plan for 2013 (SG-SGO/IA/13-01);
* Internal Audit Plan for 2014 (SG-SGO/IA/13-19);
* Draft Summary of the 168th Meeting of the General Secretariat Management Committee (doc. 169-2 of 4.09.2013);
* Reports of the Internal Auditor on Internal Audit activities:
* C12/INF/2-E of 29.03.2012
* C13/INF/4-E of 05.04.2013
* C14/47-E of 18.03.2014
* Document IMAC-6/14 of 30.11.2013;
* Annual reports of the IMAC:
* C13/-65E of 3.6.2013
* C14/22-E of 31.3.2014
* Internal Audit Report (Audit of ITU Regional Presence – Regional and Area Offices for Asia and the Pacific) – SG-SGO/IA/13-04 of 29.04.2013;
* Internal Audit Report (Audit of ITU Regional Presence –Area Offices for the Commonwealth of Independent States) – SG-SGO/IA/13-13 of 30.07.2013;
* Internal Audit Report (Audit of ITU Regional Presence – Regional and Area Offices for the Americas) – SG-SGO/IA/13-15 of 29.11.2013;
* Other miscellaneous documents.

138. The Internal Audit Unit follows the International Standards, with specific reference to IIA standards, quoted both in the ITU Internal Audit Manual and in the Internal Audit Charter.

139. The Internal Audit Unit is currently composed of two auditors (including the Head of IAU) and an Audit Assistant, working 50% since January 2014 (previously it was a full time post). The background and the professional qualification of the staff are compliant with the required standards and with the aims of their mandate, as shown by the following table:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Level** | **Position in the unit** | **Professional Qualification** | **Highest education diploma** | **Years of IA experience** |
| P5 | Head of IA unit | Certified Internal Auditor (CIA);Certification in Risk Management Assurance (CRMA) | Master’s degree in accountancy | > 20 years |
| P3 | Auditor | CIA | Master in Business Administration | 10-15 years |
| G5 | Audit Assistant |  | MBA Stage 1, Open University; Postgraduate Certificate in Human Resource Management, Open University | < 3 years |

140 The staff is aware of the code of the ethics of the IIA and the Internal Audit Charter encourages acting in accordance with it. The professional staff follows a training plan, on an annual basis, to maintain the certifications and for continued professional education (CPE); the Head of IAU foresees at least a week per year in the audit plan for time spent on formal training by audit staff. He states that there are no budget problems for training, even though they have to ask every time to HR to make available the required sums. This is however a standard and generally applied procedure in ITU for training. Each year the professional staff of IAU complies with the requirements of the IIA in terms of CPE. This process allows them to maintain their certifications. The choice at ITU has been to employ at the professional level in the IAU only individuals with the *Certified Internal Auditor* status.

## Absence of a multi-year Audit plan

141. The Internal Auditor presents an annual Internal Audit work plan, but not a multi-year audit plan (long- or medium-term). Internal Audit Units in other UN Agencies, consulted by the Head of IAU, present only annual audit plan, others a biennal plan. As a reference and in line with good practices, the Audit Manual for Internal Audit Division of UN prescribes (section B.5.1) that the IAD “*shall prepare audit work plans on a three-year rolling cycle, primarily based on risk assessment exercises*”.

**Suggestion n. 5**

142. We suggest to IAU to adopt a multi-year audit plan, on a rolling cycle, based on a risk assessment exercise.

**Comments by the Secretary-General:**

Internal Audit will endeavor to extend the audit planning to a multi-annual basis.

## Although the ERM has not yet been implemented, a risk based plan is necessary

143. We compared the annual work plans for 2012, 2013 and 2014 and we found improvements amongst them. The plans are defined as “*risk-based*”, but it does not result that the Internal Audit has made the risk assessment. We note that the Enterprise Risk Management policy (ERM) has not yet been implemented at ITU. For implementing the P.P. Resolution 151 (rev. Guadalajara 2010), a workshop in “*Strategic Risk Management (SRM) at ITU*” has been performed in May 2013. ITU Management was supported by “*Dalberg Global Development Advisors*” in preparing and facilitating an executive management workshop on SRM.

144. IMAC in its Annual report of 2013 recommended “*that ITU pursue development of systematic, enterprise-wide risk management arrangements as a matter of priority, supported by the allocation of necessary budgetary resources*”; in its Annual report of 2014, IMAC has acknowledged that there have been improvements in the preparation of the draft strategic plan with respect to the risks identification; however, IMAC recommended “*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*”.

145. The principle 2010.A1 of IIA standards prescribes that “*The internal audit activity’s plan of engagements must be based on a documented risk assessment, undertaken at least annually*”. Following the ITU Internal Audit manual, the Head of IAU has a risk register.

146. With relation to this topic, we note that there are no rules on how frequently an audit of each major financial and non-financial function in the organization should be conducted; due to the fact that ERM has not yet implemented, the Head of IAU follows his own risk register and the input of the Management, to determine which audits will be put in the annual work plan.

**Recommendation n. 5**

147. Although we are aware that it might be problematic to perform a risk assessment without an ERM, we recommend the Internal Auditor to enhance the process for producing a “risk-based” audit plan starting from the risk register and from a risk analysis (to be performed yearly).

**Comments by the Secretary-General:**

In line with the recommendation also made by the IMAC, Internal Audit will enhance the planning process and will present in the audit plan elements of the risk analysis and priorities.

## Is the Annual work plan covering sufficiently all the risks?

148. In the 2013 Annual Work Plan (AWP) were planned three audits (two of them referring to the Regional and Area Offices of CIS and of the Americas). No audits were performed at ITU Headquarters in the last two years. Only two audits in 2011 on “*Publications costing*” and on “*Voluntary Contributions*”. However, we noted an improvement in the number of audits planned in the 2014 AWP.

149. Concerning the audits on Regional Offices, we checked some of the supporting documents. According to 2013 AWP, timing was respected and the reports were submitted to the Secretary-General, who transmitted them to the relevant managers; preliminary reviews and discussions with the Management have been properly documented; all the supporting documents related to the audits were shared with auditees, revised and approved by the Head of IAU; the audit reports presented recommendations from which none were not accepted by the Management.

150. As a matter of fact, last year we also have used some of the findings related to Regional Offices.

151. Moreover, we acknowledge that, following the IMAC recommendation n. 1 in the Second Annual report (doc. C13/65-E), the Internal Audit annual work plan for 2014 was submitted to the IMAC before its approval by the Secretary-General.

**Suggestion n. 6**

152. Following our previous recommendation n. 5, linking activity with risk is in our opinion important. Although we have observed in the 2014 AWP a higher number of audits planned at the level of Headquarters, we suggest IAU to specify to Secretary-General and to IMAC during the AWP’s approval exercise, if the number of audits planned is sufficient to cover major risks identified.

**Comments by the Secretary-General:**

Internal Audit will aim to communicate to the Secretary-General and the IMAC whether any gaps in audit coverage would have been identified.

**Suggestion n. 7**

153. Following our previous suggestion n. 5, considering that it might be difficult to cover all risks identified in a given year, we suggest IA to present in a multi-annual work plan a number of audits sufficient to cover, in a given term, major risks identified.

**Comments by the Secretary-General:**

Internal Audit will endeavor to extend the audit planning to a multi-annual basis taking into account the audit coverage of major risks identified by Internal Audit.

## Are the resources for IAU adequate?

154. We share the IMAC analysis on the need of studying a possible improvement of the resources allocated to the IAU; we also take into account the fact that the Secretary-General, for the moment, answered to IMAC that an increase of the resources currently available to the Unit could not be enhanced.

155. We believe that only through the implementation of a sound risk analysis and monitoring of audit time it would be possible to assess whether the resources are sufficient to cover the audit of all the risks and larger areas of the Union.

**Suggestion n. 8**

156. Although we acknowledge the existence of a detailed time monitoring system, we suggest the IAU to link it with all the possible tasks foreseen in an AWP and in a Multi-annual Work Plan (see suggestion n. 7), in order to give more elements and information to the SG for deciding in the future on the adequacy of resources in IAU.

**Comments by the Secretary-General:**

Internal Audit will be given instruction to continue monitoring its time and report on a regular basis progress made versus the AWP.

## Autonomy and independence of the IA

157. The third audit planned for 2013 was related with ITU Internal regulatory framework (Service Orders); it was canceled, due to a change of priorities, by the Secretary-General, who designated the Department concerned – under the coordination of JUR and HRMD – for reviewing the Service Orders.

158. In the budget of IAU a small appropriation for contractual services is provided (5’000 CHF for 2014); on the other hand, the Head of IAU has no authority to manage directly this budget, to retain outside assistance when special skills are necessary. The normal ITU procedure for commitment for expenditure with the relevant authorizations needs to be followed. This could be a potential disadvantage if arise the need to use, for specific audits in sensitive areas, expertise not available in the IAU.

**Suggestion n. 9**

159. We suggest, in the spirit of enhancing autonomy of the IAU, that Head of the IAU introduces, if needed, already in the AWP approval process, indication of the amount needed for hiring specific professional expertise. In this way the Secretary-General, and indirectly IMAC, might approve or not the budgeted amount and then the IAU might handle directly the sum provided for contractual services, if needed during the year, following the ITU procedure for commitments.

**Comments by the Secretary-General:**

During the annual audit planning exercise, or whenever required in the course of the year, the need for specific expertise will be identified by the Head, IAU. This will allow the Secretary-General to make resources available, within the overall budget of the Union.

## Cooperation between the Internal Auditor and the External Auditor

160. With regard to the rules of the ITU Internal Audit Manual, although communication with the External Auditor could always be enhanced, we acknowledge that we received till now timely a constant flow of information from the IAU.

# ANNEX 1

## Follow-up of recommendations in our previous report

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|  | **Recommendation raisedby Italian court of Auditors** | **Comments received from Secretary-General at the time of the issuance of the report** | **Status asreported by ITU Management**  | **Status on actions taken** **by Management as evaluated by Italian** **Court of Auditors** |
| **Rec. 1****2012** | ***Dual signatories should be required for amounts above CHF 5’000***Although we understood from Management about the feasibility of implementing dual signatures in field offices, for example in a field office only a P official could be present, we recommend Management to ensure dual signatories in financial operations with banks for amounts above 5’000 CHF whenever possible, and, in case the responsible officials on the field operates on an ITU’s bank account alone, he should receive an ex-ante authorization from Management. | These procedures are applied whenever possible. For Field offices where dual signature is not possible due to specific constraints (legal constraints for some Countries for bank signatures), specific authorizations and monitoring will be applied. |  The procedures are applied according to the Secretary-General comment.Furthermore, a review of the authorized signatures has been conducted and the field offices officers in charge officially reminded to report actively any staff changes impacting the authorized signatories. Moreover, FRMD internal note regarding the delegation of signature has been updated to reflect latest changes in staff as well as the 5’000 USD threshold for field offices.  | Not implemented in 2013, also considering what stated by ITU Internal Audit in its reports on Regional and Area offices issued in 2013.We also take note that an implementation is ongoing in 2014. |

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|  | **Recommendation raisedby Italian court of Auditors** | **Comments received from Secretary-General at the time of the issuance of the report** | **Status asreported by ITU Management** | **Status on actions taken****by Management as evaluated by Italian****Court of Auditors** |
| **Rec. 2****2012** | ***Cash-in-hand at field offices***We consider the difference that we found due to reconciliation issue, as non-material in terms of value. Nevertheless we recommend Management to strengthen controls over the cash-in-hand, also having as a reference the recommendation made by Internal Audit in its reports related to the ITU Regional Presence. | Cash reconciliation is currently done on a monthly basis in field offices. Any counting within a month will result in reconciliation issues due to this fact. Financial Resources Management Department (FRMD) will ensure that a review of the current process is done in 2013. Recent internal audit reports have already identified these issues as well as internal control procedures to mitigate the related risks. Management has already agreed with these recommendations and further action will be taken in 2013. |  FRMD is currently engaged in the process of standardizing the cash management reports and reviewing the reporting process in order to optimize the reconciliation. The roll-out will be finalized in 2014. | Not implemented in 2013, also considering what stated by ITU Internal Audit in its reports on Regional and Area offices issued in 2013.We also take note that an implementation is ongoing in 2014. |

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|  | **Recommendation raisedby Italian court of Auditors** | **Comments received from Secretary-General at the time of the issuance of the report** | **Status asreported by ITU Management** | **Status on actions taken****by Management as evaluated by Italian****Court of Auditors** |
| **Rec. 3****2012** | ***“Droit de superficie”***Considering that it is important and in ITU’s interest to extend the “droit de superficie” granted to ITU by the State of Geneva since 1967, we recommend Management to start, as soon as possible, the negotiations in this respect with the competent Host Country Authorities. | In January 2013, the Legal Adviser has already successfully contacted the Host Country competent Authorities in order to initiate a negotiation process. | The Host Country competent Authorities welcomed the request from ITU in principle and confirmed their interest as well as the fact that further developments will be triggered by decisions related to the replacement of the Varembé building, which are currently still under discussion. |  PendingWe take note of the information on this issue given by the Management. |

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|  | **Recommendation raisedby Italian court of Auditors** | **Comments received from Secretary-General at the time of the issuance of the report** | **Status asreported by ITU Management** | **Status on actions taken****by Management as evaluated by Italian****Court of Auditors** |
| **Rec. 4****2012** | ***Assets’ recording in the register***[…] we have performed a physical stock checking of some fixed assets categories, such as a sample of items of furniture and IT equipment and we have traced them into the accounts. We observed that the ITU responsible in Facilities Management Division (HRMD Department) have not found some of the assets during the physical stock checking at year end (around 0.73% of the acquisition value of the assets concerned). We are aware that controls have detected part of these assets not found at year end, however we recommend Management to continue its research and to write-off the item that will not be found during 2013. |  I will instruct FRMD to coordinate with the Facilities Management Division to ensure the continuation of efforts in 2013 and will clarify the existence and treatment of the items not captured in the stock checking. |  The process of the identification and localisation and/or write-off of the assets not found during the stock checking has been initiated in past years and is progressing according to plan.  | Ongoing |

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|  | **Recommendation raisedby Italian court of Auditors** | **Comments received from Secretary-General at the time of the issuance of the report** | **Status asreported by ITU Management** | **Status on actions taken****by Management as evaluated by Italian****Court of Auditors** |
| **Rec. 5****2012** | ***Employee benefits: Repatriation grants***However, this difference in key assumptions [between CPA and AON Hewitt] has not a significant impact on the final calculation, in particular the lower discount rate utilized by CPA has an effect of being more prudential in the final value, nevertheless, we recommend Management to use similar key assumptions in all actuarial studies made where circumstances are comparable, in particular regarding the discount rate used. | I take note of this recommendation and will instruct FRMD to ensure the harmonization of the chosen key assumptions in the actuarial studies when relevant in 2013. | This recommendation has been taken into account for the actuarial reports related to year-end 2013. The key assumptions have been compared to ensure the use of similar assumptions when the circumstances are comparable and consistency when the conditions (especially the time period to be considered) are different. | Closed |

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|  | **Recommendation raisedby Italian court of Auditors** | **Comments received from Secretary-General at the time of the issuance of the report** | **Status asreported by ITU Management** | **Status on actions taken****by Management as evaluated by Italian****Court of Auditors** |
| **Rec. 6****2012** | ***Remedial measures for Negative Net Asset due to post-employment benefits*** Since ASHI provisions contribute considerably to the negative Net Assets, although financial health is assured in the short-term, it is not possible to evaluate in this period when the ITU financial health might be compromised Therefore, we recommend Management to be assisted by a full actuarial review study in the coming years that it might produce answers, and possible solutions, to this question. | I take note of this recommendation and inform you that a process to perform a full actuarial review and define different scenarios is in progress to evaluate corrective measures for diminishing the unfunded ASHI obligation. | ITU has transferred its insurance plan from the Staff Health Insurance Fund (SHIF) to Cigna-van Breda on 1st May 2014. A full actuarial study will take place in 2016. Corrective measures have already been taken and will be monitored and adjusted in order to ensure the financing on a pay as you go basis as well as the funding of the ASHI obligation on a long-term basis. Thus, the ITU contribution to the SHIF has been increased from 3.31% to 3.91% for the 2014-2015 budget. The ASHI reserve has been created and CHF 2 million transferred into it from the budgetary surplus 2013. Moreover, according to Res. 1359, CHF 4 million from ITU Reserve Account have been allocated to a reserve for ASHI long-term funding. Furthermore, the draft Financial Plan for 2016-2019 will include further corrective measures in order to ensure the long-term funding of the ASHI obligation. It is to be further noted that the increase of the discount rate used in the 2013 actuarial valuation impacted the net assets positively and significantly as the actuarial gains amounted to CHF 26.5 million. | ClosedSee new recommendation related to ASHI actuarial review. |

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|  | **Recommendation raisedby Italian court of Auditors** | **Comments received from Secretary-General at the time of the issuance of the report** | **Status asreported by ITU Management** | **Status on actions taken****by Management as evaluated by Italian****Court of Auditors** |
| **Rec. 7****2012** | ***Principle of mutuality between ITU and ILO is not respected***[…] ILO will not accept the “principle of mutuality” as defined by our predecessors, and therefore, we recommend Management to consider alternatives to the SHIF, inside or outside the UN system. | Since the beginning of 2013, ITU is in the process of studying alternatives to the SHIF. |  ITU has transferred its insurance plan from the Staff Health Insurance Fund (SHIF) to Cigna-van Breda on 1st May 2014. |  Closed |

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|  | **Recommendation raisedby Italian court of Auditors** | **Comments received from Secretary-General at the time of the issuance of the report** | **Status asreported by ITU Management** | **Status on actions taken****by Management as evaluated by Italian****Court of Auditors** |
| **Rec. 8****2012** | ***Net assets***Following the discussion at the Council of last year (on July 2013) about the relation between Reserve Account and Net Assets, we noted that the Financial Regulation was not in line with the accounting practice, therefore, Management proposed to Council Working Group on Financial & Human Resources (CWG-FHR) an amendment to the Financial Regulations. At the date of issuance of the Report the amendments have not yet been approved. In case of approval, we recommend in the next Financial Operating Report to adapt the current disclosure of Table I “Statement of Financial position” and Table III “Statement of changes in net assets” (see paragraph above), and relate notes, to the amended text of the Financial Regulations, providing a detailed breakdown of all the component of the Net Assets. | Pending the decision regarding the proposed modifications of ITU Financial Regulations and Financial Rules during the Council 2013, I have instructed FRMD to consequently adapt the presentation and disclosures related to Net Assets. | The presentation of Net Assets has been amended and will present a breakdown of the different positions included in the Net Assets, disclosing the Reserve Account in a separate line item. The proposed presentation has been submitted to the external auditors for review and validation. | Implemented |

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|  | **Recommendation raisedby Italian court of Auditors** | **Comments received from Secretary-General at the time of the issuance of the report** | **Status asreported by ITU Management** | **Status on actions taken****by Management as evaluated by Italian****Court of Auditors** |
| **Rec. 9****2012** | ***Possibilities to offset Negative Net Assets***We acknowledge the fact that Management is tackling some of the points, for instance, there is the intention to increase the level of ITU contributions to SHIF (3.91%) as proposed in the draft budget and we recommend constantly evaluating if actions taken are indeed structural measures, aimed at decreasing the level of underfunding. | I take note of this recommendation and inform you that a process to perform a full actuarial review and define different scenarios is in progress to evaluate corrective measures for diminishing the unfunded ASHI obligation. | Please refer to the status updates for recommendations 6 and 7  | OngoingWe take note of the efforts made by ITU Managements.  |

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|  | **Recommendation raisedby Italian court of Auditors** | **Comments received from Secretary-General at the time of the issuance of the report** | **Status asreported by ITU Management** | **Status on actions taken****by Management as evaluated by Italian****Court of Auditors** |
| **Rec. 10****2012** | ***Digitalisation of personnel dossiers***Although our analysis of the correspondence of the data inserted in the IT System with personnel dossiers did not revealed any major issue, we recommend the Management to start to evaluate the cost-effectiveness to digitalise personnel dossiers, not only in order to prevent that an accidental event might bring to loose fundamental data, but also to allow a direct interface of personnel dossiers with SAP HR. | I take note of this recommendation and inform you that HRMD is exploring this possibility. | The Detailed Blueprint (DBBP) of the e-Staff Personal File (digital filing) System has been established on 19 April 2013.This DBBP comprises the HRAD (E&B Service) business process and mapping of the structure of the staff member (hard) personal file. The system is linked to the SAP-ERP\_HCM. The prototype has been finalized taking into account the recent updated SharePoint version (2013). A testing phase is currently on-going.The e-Staff Personal File system should be operational in the first quarter of 2014. | In progressWe take note of the recent implementation. |

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|  | **Recommendation raisedby Italian court of Auditors** | **Comments received from Secretary-General at the time of the issuance of the report** | **Status asreported by ITU Management** | **Status on actions taken****by Management as evaluated by Italian****Court of Auditors** |
| **Rec. 11****2012** | ***STAFF Superannuation and Benevolent Fund***Last year our predecessors, the SFAO, declared that “it has not proved necessary to conduct a new actuarial study. Given that the commitments in question are relatively minor, the 2010 study is sufficient”. Therefore, in line with our predecessors, and in view of the not relevant value of these provisions in comparison with the value of the Assets, we recommend to have an actuarial review every 5 years. | I take note of this recommendation and have instructed FRMD to conduct in 2015 a new actuarial study for the old Pension Fund. | The actuarial study will be commissioned in 2015 as recommended. | In progress |

## Follow-up of recommendations issued by SFAO

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| **Report** | **Recommendation raisedBy Swiss Auditors** | **Comments received fromSecretary-General at the time of the issuance of the Swiss report** | **Status as reported by ITU Management related to Swiss Auditors’ report** | **Comments received fromITU Management related toprevious Italian Court of Auditors’ Report** | **Status on actions taken** **by Management as evaluated by Italian** **Court of Audit** |
| **Rec. 1****2010****reiterated****in 2011** | I recommend that ITU makes the necessary corrections in regard to valuation of inventories and adapts its IT system accordingly, in order to ensure correct valuation of inventories in line with IPSAS. | A draft policy for the valuation of inventories was submitted to the External Auditor’s colleague in November 2011. This policy determined rules for the valuation of inventories of publications with depreciation calculated linearly. We will conduct a study of the costs of publications that will include staff costs so as to demonstrate our approach and have it validated by the new External Auditors in 2012. | Inventories valuation policies are in the process to be reviewed by our new External Auditors. | Inventories valuation policies have been defined and the changes to be integrated into the publication management system (DPS) have been defined and implemented as of 1 May 2014 and guidelines have been issued to users. The first weeks of DPS data is in the process of being analyzed and the valuation methodology tested.  | Closed |

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| **Report** | **Recommendation raisedBy Swiss Auditors** | **Comments received fromSecretary-General at the time of the issuance of the Swiss report** | **Status as reported by ITU Management related to Swiss Auditors’ report** | **Comments received fromITU Management related toprevious Italian Court of Auditors’ Report** | **Status on actions taken** **by Management as evaluated by Italian** **Court of Audit** |
| **Rec. 2****2008****Rec. 3****2009** | Transactions carried out manually outside the SAP environment are sources of error and dysfunction and generate additional tasks which may not be reflected in the job descriptions of the staff concerned. These tasks, conducted without any real backup, lead to delays. I once again invite ITU to move as quickly as possible to integrate the BCS project management tool into the SAP software.Accordingly, I invite ITU:– To make a decision on possibly incorporating into the Grant Management (GM) module all projects that are not operationally and financially closed, to enable correct calculation and distribution of interest on investments in connection with projects.– To define the main technical cooperation processes and assign corresponding responsibilities.– To implement the necessary training measures for efficient use of the new SAP environment in the technical cooperation area. | The two recommendations 1/2008 and 2/2009 are closely linked. In 2011 the Financial Resources Management Department, the Telecommunication Development Bureau (BDT) and the Information Services Department conducted a study into whether it would be necessary to introduce a second accounting system in USD, with the support of consultants. This study concluded that training in the GM module should be stepped up, so as to make maximum use of the specificities of this module. Some progress has been made as regards the administrative management of projects. All projects on which there has been no action for several years have been closed and any remaining funds placed in a suspense account (for the reimbursement of donors, use in other projects, etc.). Donors are contacted to decide the subsequent use of these funds. As regards the SAP GM system, a study or gap analysis was conducted in 2011 in order to determine the development requirements that would allow for the optimal and adapted use of the system. | SAP Grant Management (GM) was implemented by ITU in January 2010 for the financial management of technical cooperation projects. The related financial processes have been reviewed in 2011 and are in the process of being optimized and the users retrained. | SAP Grants Management (GM) was implemented by ITU in January 2010 for the financial management of technical cooperation projects. The related financial processes have been reviewed in 2011 and are in the process of being optimized and the users retrained. This process is still under progress due to budgetary constraints. | Ongoing |

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| **Report** | **Recommendation raisedBy Swiss Auditors** | **Comments received fromSecretary-General at the time of the issuance of the Swiss report** | **Status as reported by ITU Management related to Swiss Auditors’ report** | **Comments received fromITU Management related toprevious Italian Court of Auditors’ Report** | **Status on actions taken** **by Management as evaluated by Italian** **Court of Audit** |
| **IT Audit****2011****Rec. 4** | Inadequate management of task separation (SAP SRM)I recommend that ITU's business managers identify sensitive access rights and possible task-separation conflicts, so that the IS teams can subsequently identify particularly risky access rights at the technical level and adjust the corresponding SAP profiles. | The Enterprise Resource Planning Division has already redefined, as a first step, the roles of existing SAP users. It agrees with the External Auditor that an SAP solution for the management of governance, risk and compliance (GRC) would be useful for the management of access rights and for addressing conflicts and risks associated with the separation of tasks. The IS Department will be submitting to the ICT Committee a proposal for investment in GRC software and services. | We were informed that the cost of a software application for the management of “governance, risk and compliance” (GRC) can go up to 500’000 CHF. We are also aware that strict and accurate procedures in the Access Authorization process implemented in April of 2012, manually operated (i.e. with decisions double-checked on paper) is intended to obtain good results in separation of tasks. Our opinion is that this recommendation, since the Management chose to work around it for economic reasons, has not been completely implemented. In our view Management should consider again the use of a software if its cost will lower in the future. | IS submitted a proposal to the ICT Committee to fund the procurement of GRC software and the implementation services. The fund request was not accepted. A new SAP Access Authorizations process has been put in place (since April 2012) that should mitigate access risks.This process is available for review by the external auditors in order to consider this recommendation as implemented. | Implemented |

## Follow- up of suggestions in our previous report

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|  | **Suggestion presentedby Italian court of Auditors** | **Comments received from Secretary-General at the time of the issuance of the report** | **Status asreported by ITU Management** | **Status on actions taken****by Management as evaluated by Italian****Court of Auditors** |
| **Sugg. 1****2012** | Availability of financial reporting for field officesIt is worthwhile mentioning that all the banks account operational in field offices are reconciled and supervised by ITU Management on a periodical base. However, due to the fact that amounts are not inserted directly in the accounts by the field officials, entry of all the movements in the IT accounting system (SAP) is performed periodically at the level of Headquarters. Management is aware of this issue, therefore we suggest to continue the efforts for implementing a suitable financial reporting at level of field offices. | I take note of this suggestion and inform you that a significant part of the identified issues related to financial reporting will in principle be solved by training field offices relevant employees. | This issue is in progress with the standardization of the financial reporting from field offices, which roll out is expected to be finalized in 2014.  | Ongoing |

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|  | **Suggestion presentedby Italian court of Auditors** | **Comments received from Secretary-General at the time of the issuance of the report** | **Status asreported by ITU Management** | **Status on actions taken****by Management as evaluated by Italian****Court of Auditors** |
| **Sugg. 2****2012** | Implementation of IPSAS 28, 29 and 30Management assured us about its involvement in the implementation of IPSAS 28, 29 and 30 and we will follow-up the issue. Therefore, we suggest Management to eventually reconsider the classification of “Investments” in non-current assets, and to assess whether the investments will be held to maturity or not. | I take note of this suggestion and confirm that this will be taken into account during the implementation of IPSAS 28, 29 and 30 in 2013. | IPSAS 28, 29, 30 have been implemented with minimal impact regarding the recognition and valuation of the financial instruments, due to the nature of ITU financial instruments, which were already recognized and value accordingly to the standard implemented and the options included in these standards.The financial operating reporting disclosures have been amended to produce IPSAS 30 compliant information.  | Implemented |

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|  | **Suggestion presentedby Italian court of Auditors** | **Comments received from Secretary-General at the time of the issuance of the report** | **Status asreported by ITU Management** | **Status on actions taken****by Management as evaluated by Italian****Court of Auditors** |
| **Sugg. 3****2012** | ProvisionsWe have revised the reports issued by the ITU legal advisor and we consider the amount provisioned for possible loss in litigations substantially correct. Moreover, the ITU legal advisor reported us that a litigation process has an average time of two years and a half before its settling at ILO Tribunal. Therefore, according to the possible time of settling, we suggest for the coming years to reclassify under non-current assets the amount provisioned for litigation. | I take note of this suggestion and confirm that this will be taken into account in 2013. | We have considered this suggestion and would welcome the possibility to retain the present disclosure method, since classifying this provision as a long term provision would result in the disclosure in the front of the Statement of Financial situation in a separate line of very sensitive information. Moreover, the uncertainty regarding the duration of the case can be an argument in favor of retaining the classification as “short term”. | Ongoing |

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|  | **Suggestion presentedby Italian court of Auditors** | **Comments received from Secretary-General at the time of the issuance of the report** | **Status asreported by ITU Management** | **Status on actions taken****by Management as evaluated by Italian****Court of Auditors** |
| **Sugg. 4****2012** | Possibilities to offset Negative Net AssetsAs remedial measures are necessary, these drivers [as mentioned in par. 92] have to be considered by the Council: whereas the first driver is not within the Management’s remit, we suggest Management to address the other drivers.  | I take note of this suggestion and this will be taken into account noting that some of the drivers listed in the suggestion are sensitive and will need to be addressed at a United Nations level to ensure a common approach of the issue. | Please refer to the status updates for recommendations 6 and 7  | Ongoing |

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|  | **Suggestion presentedby Italian court of Auditors** | **Comments received from Secretary-General at the time of the issuance of the report** | **Status asreported by ITU Management** | **Status on actions taken****by Management as evaluated by Italian****Court of Auditors** |
| **Sugg. 5****2012** | However, this difference in key assumptions has not a significant impact on the final calculation, in particular the lower discount rate utilized by CPA has an effect of being more prudential in the final value, nevertheless, we recommend Management to use similar key assumptions in all actuarial studies made where circumstances are comparable, in particular regarding the discount rate used. | I take note of this recommendation and will instruct FRMD to ensure the harmonization of the chosen key assumptions in the actuarial studies when relevant in 2013. | Please refer to the status updates for recommendations 5 | Closed |

# ANNEX 2 – Histograms of the SHIF reimbursements

**2012 (Second Half)**

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**2013**

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