|  |  |
| --- | --- |
| **Council 2020 Geneva, 9-19 June 2020** |  |
|  |  |
|  |  |
| **Agenda item: ADM 18** | **Document C20/44-E** |
| **27 April 2020** |
| **Original: English** |
| Report by the Secretary-General | |
| REPORT OF THE INTERNAL AUDITOR ON INTERNAL AUDIT ACTIVITIES | |

|  |
| --- |
| Summary  This report covers the internal audit activities for the period from May 2019 to April 2020.  **Action required**  This report is transmitted to the Council **for consideration**.  \_\_\_\_\_\_\_\_\_\_\_\_  References  [*ITU Financial Regulations and Rules (2018), Article 29*](https://www.itu.int/en/council/Documents/Financial-Regulations/S-GEN-REG_RGTFIN-2018-PDF-E.pdf) |

# Introduction

1. This report is transmitted to the ITU Council and responds to Article 29 of the Financial Regulations (2010). In accordance with the ITU Internal Audit charter,[[1]](#footnote-1) this report is submitted to the Secretary-General and presented to the Council for consideration. The current report covers activities from the period between May 2019 and April 2020.
2. For the period reported on, the Internal Audit Unit comprised three Professional staff – a P.5 (Head of the Unit), a P.3 (Internal Auditor), and a P2 (Junior Internal Auditor). A General Services staff (Audit Assistant) was working in the Unit on a full-time basis. Thus, currently the Unit consists of three professional posts and one General Services post.
3. Internal Audit (IA) confirms that it conducts its audits in accordance with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics established by the Institute of Internal Auditors (IIA),[[2]](#footnote-2) as well as with the provisions of the ITU Internal Audit Charter.[[3]](#footnote-3) In addition, IA confirms that, for the period reported on, its staff had no managerial authority over, nor responsibility for any of the activities audited and did not perform accounting or operational functions within ITU.

# Orientation and scope of the internal audit activities

1. In line with the IA Charter, the IA plan for 2019 was reviewed by the Independent Management Advisory Committee (IMAC) at its 22nd meeting and on 26 March 2019 approved by the Secretary-General. For 2020, there was not yet an IA plan drawn up, mainly because the IA has been heavily involved in investigations work which continues well into 2020, and will continue until the investigator position has been adopted and an incumbent recruited. IA’s work on investigations is based on the Internal Audit Charter stipulating also that *IA shall investigate allegations, or presumptions, of fraud or mismanagement* as well as that *Internal Audit may provide consulting services within ITU*.
2. IA systematically shares copies of internal audit reports with the ITU External Auditor and with the IMAC. In accordance with ITU Financial Regulation 29.5, final internal audit reports can be made available to Member States or their designated representatives. A facilitated mechanism for accessing internal audit reports has been put in place since October 2015. During the period reported on, no requests for accessing internal audit reports were received via the online mechanism.

# Objectives and conclusions of the assurance engagements

1. The objectives of the assurance engagements were to assess: (i) the governance aspects of the Union’s operations audited; (ii) the risk management practices; and (iii) the effectiveness of (internal) controls. The priority of the recommendations resulting from the audit work is classified according to the impact and likelihood of the deficiency (high, medium, low).

Based on the various assurance engagements performed in the past, IA concluded that, overall, there is a need to improve governance and risk management of the processes reviewed and to render the controls more effective in the various areas audited. Improvement in these areas would allow IA to provide to the Secretary-General reasonable assurance that there is adequate governance and risk management, and that controls are effective. Recommendations made to management are being actioned, with the support of the Secretary-General, and this will further strengthen ITU to fulfil its mandate.

1. The implementation of recommended actions is followed up by IA, as and when required.

*The following assurance engagement has been conducted:*

***Inspection of regional/area office activities – projects, regional initiatives and actions***

1. IA conducted an audit inspection of Regional/Area Office (RO/AO) activities covering the period from January 2008 to March 2019. This inspection reviewed sampled projects, initiatives and actions conducted by BDT RO/AO, but also some Global Projects with impact in the Regions.
2. IA concluded, as critical (a. below) and high priority (b. below) matters on a number of issues as follows:
3. Projects management guidelines were found to be outdated, with also significant deficiencies at the project planning stage. At the levels of the project manager, the project coordinator (PRJ) and the regional director, accountability, roles and responsibilities were found to be unclear. It was recommended that – subsequent to the finalization of the new project management guidelines – the responsibility, roles, and accountabilities of the abovementioned functions are reviewed and clarified. The review would include a Project Governance structure with clear linkages to Results Based Management and ITU’s accountability framework. Furthermore, with respect to the recruitment and use of experts (SSAs), the risk management is inadequate and controls are ineffective. It was recommended that suitable procedures and practices for the Union to adequately handle the recruitment and management of SSAs are urgently considered.
4. For two major projects in the sample it was found that there were specifically significant deficiencies at the level of planning, set-up, implementation, monitoring, use of experts, and procurement. It was recommended that concrete plans and a roadmap on how to continue/complete the implementation of these two projects be adopted. Risk management for all projects and operational plan actions were considered inadequate. It was recommended that BDT-wide procedures, tools and standards for risk management at the project level and for regular budget actions are developed. BDT information and communication tools were found to be ineffective and it was recommended that such tools are identified with a view of better supporting the BDT, in particular enhancing capturing, monitoring, and reporting on projects, initiatives, and regular budget actions. For BDT events in the regions it was found that the monitoring is inadequate and that there is a high risk that the resources are not efficiently and effectively utilized. It was recommended that dedicated a priori and a posteriori controls over the organization of events (workshop, seminar, conferences) be implemented. It was also recommended that current systems and controls related to project monitoring be assessed with a view of (i) identifying enhancements at the level of information sharing and (ii) taking appropriate measures against project managers that fail to report adequately and timely on project implementation.
5. The BDT Director and Chief, HRMD agreed to all the recommendations made, and are committed to implement them promptly. Furthermore it is noted that an IT assessment is underway with a complete revamp of BDT tools planned, including the development of real time dashboards. Some actions for implementing the recommendations are already being taken or completed.

# Investigations by Internal Audit

1. IA, in its investigative capacity, completed two investigations and is in the process of conducting six investigations. IA also provided extensive support to external investigators for two investigations.
2. Two investigations were completed by IA:
   1. A formal investigation into a complaint related to (i) alleged inappropriate behavior towards the complainant by two former supervisors, (ii) alleged breach of the anti-fraud policy by two former supervisors, and (iii) alleged retaliation for reporting misconduct by the complainant against one of the supervisors. An external investigator was tasked by ITU, and supported by IA staff, to investigate alleged inappropriate behavior towards the complainant by two former supervisors (the whole investigation was completed in October 2019 and outcome reported to the ITU Secretary-General); and
   2. A formal investigation into a complaint related to alleged ongoing access – by a staff member – to potentially confidential and sensitive information outside the mandate of that staff member’s position (investigation completed in December 2019 and outcome reported to the ITU Secretary-General).
3. Six investigations by IA are ongoing: three are further to complaints related to alleged non-authorized outside activities of a three distinct staff members, one is further to a complaint related to a staff member’s alleged fraudulently obtaining allowances and/or entitlements, one is further to a complaint related to several staff members’ alleged encouraging, witnessing and/or actively sharing externally of potentially confidential/sensitive information, and one is further to a complaint related to a staff member’s alleged destruction and/or concealment of ITU records.
4. Extensive support was provided to an external investigator recruited to conduct:
   1. A further investigative process aimed at establishing whether there were any systemic or individual shortcomings and/or any dereliction of management responsibilities in the supervision and oversight of the activities in the regional office where the major fraud was uncovered in 2018 (completed in January 2020); and to another investigator recruited to conduct:
   2. A formal investigation into alleged inappropriate behavior of an ITU staff member versus a number of other staff members (investigation still ongoing).

# Consulting services by Internal Audit

***Selection process for the ITU External Auditor***

1. Upon recommendation by the IMAC, the Secretary-General requested IA to lead, for the secretariat, the process of selecting a new External Auditor. At its 2018 session, the Council appointed the individuals recommended by the six regional telecommunication organizations to serve as members of an Appraisal Committee and report to Council 2019 on the outcome of its work. With the support of the ITU secretariat, the Appraisal Committee conducted its work on the tender process for identifying a Supreme Audit Institution (SAI) of an ITU Member State that best meets the criteria set out in a Request for Proposal (RFP) for auditing the accounts of the Union.
2. IA continued throughout the process to assist the members of the Appraisal Committee for conducting their work and provided guidance on procedural and audit technical matters as appropriate. A report of the Appraisal Committee’s work is submitted separately to the Council for its consideration.

***Selection process for the forensic audit (Council Decision 613)***

1. Council 2019 adopted Decision 613 instructing the Secretary-General to conduct a forensic audit. IA developed an “Expression of interest” (EOI) document jointly with the Procurement Division, and further also finalized the “Request for Proposal” (RFP) with the help of a consultant. The RFP closed on 15 April 2020 and the selection process for the company to perform the forensic audit is underway.

# Follow-up of internal audit recommendations

1. Throughout the period reported on, IA continued to follow up on recommendations made in previous audit reports. Further progress was noted over the last 12 months and statistics on the implementation (as at 15 October 2019) are as follows:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019(\*)** | **Total** |
| Number of audit reports | 2 | 0 | 4 | 4 | 7 | 4 | 5 | 4 | 2 | **32** |
| Rec. – Total | 17 | - | 113 | 55 | 34 | 22 | 30 | 26 | 15 | **312** |
| In Progress | 0 | - | 5 | 2 | 1 | 8 | 13 | 16 | 9 | **54** |
| Delayed | 3 | - | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **3** |
| Closed | 14 | - | 108 | 53 | 33 | 14 | 17 | 10 | 6 | **255** |
|  |  |  |  |  |  |  |  |  |  |  |
| % of rec. In Progress | 0% | - | 4% | 4% | 3% | 36% | 43% | 62% | 60% | **17%** |
| % of rec. Delayed | 18% | - | 0% | 0% | 0% | 0% | 0% | 0% | 0% | **1%** |
| % of rec. Closed | 82% | - | 96% | 96% | 97% | 64% | 57% | 38% | 40% | **82%** |
| (\*) up to date |  |  |  |  |  |  |  |  |  |  |

1. An overview of the criticality of the recommendations still in progress is as follows:

1. The critical recommendations from 2019 stem from the management letter that IA issued, further to the investigation into the fraud case (see paragraph above on *Investigations*). They relate mainly to the need for reinforcement of procurement-related controls, regional/area office oversight, and control procedures with respect to the hiring of external experts (under Special Service Agreements). For 2018, the critical recommendation was related to the need for issuing a procurement manual (which would strengthen controls in that area). For earlier made recommendations, Management informed IA (and IMAC) regularly of the progress.

**Audit methodology related aspects**

1. As is mandated by the Institute of Internal Auditors, a Quality Assessment should be carried out at a minimum of once every 5 years and the ITU therefore commissioned a Quality Assessment Review (QAR) to be carried out in February 2020. After a tendering exercise, the ITU contracted a former Chairman of the Global IIA, to undertake the QAR. The assessor has been able to confirm that the Internal Audit function of the ITU generally conforms to the Standards and the Code of Ethics.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Service Order 13/09, promulgated by the Secretary-General on 27 June 2013 [↑](#footnote-ref-1)
2. Institute of Internal Auditors, [www.theiia.org](http://www.theiia.org) [↑](#footnote-ref-2)
3. Service Order 13/09, promulgated by the Secretary-General on 27 June 2013 [↑](#footnote-ref-3)