



# *Corte dei conti*

## **LA SEZIONE DI CONTROLLO**

### **PER GLI AFFARI COMUNITARI ED INTERNAZIONALI**

Composta dai Magistrati:

Dott.	Ermanno	GRANELLI	Presidente
Dott.ssa	Maria Annunziata	RUCIRETA	Consigliere
Dott.	Giacinto	DAMMICCO	Consigliere
Dott.	Carlo	MANCINELLI	Consigliere

Nell'Adunanza del 10 maggio 2017

Visto il mandato di *external auditor* dell'*International Telecommunication Union (ITU)* conferito alla Corte dei conti dal *Council* dell'ITU e comunicato dal *Secretary-General* dell'Unione in data 12 giugno 2012, nonché il rinnovo per un ulteriore biennio come comunicato dal *Secretary-General* dell'Unione in data 27 maggio 2015;

Visti i principi INTOSAI;

Visti i principi internazionali di audit applicabili all'attività delle Istituzioni superiori di controllo (*International Standards of Supreme Audit Institutions –ISSAI*);

Visti i *Financial Statements* dell'ITU per l'anno finanziario 2016;

Visto il *Report* relativo all'*Audit of the financial statements for 2016 – ITU* approvato nell'adunanza del 5 maggio 2017 ed inviato al *Secretary-General* dell'ITU per le controdeduzioni;

Vista la risposta del *Secretary-General* dell'ITU, con nota del 10 maggio 2017;

Uditi i relatori Consiglieri Maria Annunziata Rucireta, Giacinto Dammico e Carlo Mancinelli ed esaminato e discusso su loro proposta il *Report* relativo all' *Audit of the financial statements for 2016 - ITU*;

**DELIBERA**

di approvare il *Report* relativo all' *Audit of the financial statements for 2016 - ITU*;

**DISPONE**

di trasmettere copia di detto *report* al *Secretary-General* dell'*International Telecommunication Union (ITU)*.

**I RELATORI**

F.to Maria Annunziata Rucireta

F.to Giacinto Dammico

F.to Carlo Mancinelli

**IL PRESIDENTE**

F.to Ermanno Granelli

Depositata in Segreteria il 5 giugno 2017

Il Dirigente

F.to Maria Teresa Macchione



*Corte dei conti*

REPORT OF THE EXTERNAL AUDITOR

**INTERNATIONAL TELECOMMUNICATION UNION  
(ITU)**

**Audit of the Financial Statements for 2016**

**10 May 2017**

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## INTRODUCTION

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

This report informs the Council of the results of our audit.

The audit considered the ITU's Financial Operating Report at 31 December 2016, 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's *Financial Regulations and Financial Rules* in accordance with the International Public Sector Accounting Standards (IPSAS).

We carried out the audit of the accounts for the Financial Year 2016 based on INTOSAI standards and on the IPSAS regime and in line with the additional terms of reference that form an integral part of the Union's Financial Regulations.

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

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

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

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

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

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 2 May 2017.

Pursuant to §9 of the Additional terms of reference governing the 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 4 May

2017, that his comments would be sent to us. Those comments were received on 9 May 2017 and were duly incorporated in this report.

We audited the ITU financial operating report on the Organization's accounts relating to the financial results as at 31 December 2016, presented in compliance with Article 28 of the *Financial Regulations (2010 edition)*.

A Management report referring to the accounts for the Financial Year 2016, signed by the Secretary-General and the Chief of the Financial Resources Management Department, was included in the Financial Statements and is an integral part of the audit documentation.

Furthermore, we also received the Statement of Internal Control for 2016, signed by the Secretary-General on 21 March 2017.

We have highlighted the results of our audit activity as "Recommendations" and "Suggestions". Whilst Recommendations fall under the follow-up process carried out by the Council Working Group on Financial and Human Resources, Suggestions are only followed up by the External Auditor. However, in principle, the ITU Council, possibly following advice from the Independent Management Advisory Committee (IMAC), may ask the Secretary-General to implement a "Suggestion", where deemed necessary.

We also audited the ITU TELECOM World accounts for 2016, in accordance with Resolution 11 (Guadalajara 2010) resolves no. 6.

We underline that this year entered into force the revised International Auditing Standard (ISA) 700 ("forming an opinion and reporting on financial statements"), modifying the format and the information that must be included in the audit certificate. During the last meeting in December 2016, the Panel of United Nations External Auditors dealt with the above-mentioned issue. We informed Management on the changes made in the audit certificate.

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



## *Corte dei conti*

### **AUDIT CERTIFICATE**

#### **Opinion**

We audited the financial statements of the International Telecommunication Union (ITU), which comprise the statement of financial position as at 31 December 2016, the statement of financial performance, the statement of changes in net assets, the table of cash flows and the comparison of budgeted amounts and actual amounts for the 2016 financial period, as well as notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the International Telecommunication Union (ITU) as at 31 December 2016, and its financial performance, its changes in net asset, its cash flows and its comparison of budgeted and actual amounts for the year then ended, in accordance with IPSAS and the Financial Regulations and Rules of the ITU.

#### **Basis for Opinion**

We conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), and the ITU Financial Regulations and Rules. In the field of financial statements audit, the ISSAIs are a direct transposition from the International Standards on Auditing (ISAs). The Corte dei conti applies the provisions of the ISAs as far as they are consistent with the specific nature of its audits. Our responsibilities under these standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the ITU in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Nations system, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Other Information**

The ITU Secretary-General is responsible for the other information. The other information comprises the presentation of “financial key indicators”, shown by the Secretary-General in his foreword to the financial operating report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the ITU Secretary-General and Those charged with governance for the Financial Statements**

The Secretary-General is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards (IPSAS), and for such internal control as the Secretary-General determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Secretary-General is responsible for assessing the ITU’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Secretary-General either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the ITU’s financial reporting process.

### **Auditor’s Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ITU's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ITU's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the ITU to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion, the transactions of ITU that have come to our notice or that we have tested as part of our audit have been, in all significant respects, in accordance with the ITU Financial Regulations and Rules and its legislative authority.

In accordance with the ITU Financial Regulations and Rules (Article 28) and the additional terms of reference governing External Audit (Annex I to these Financial

Regulations and Rules), we have also issued a detailed report on our audit of the ITU Financial Statements for 2016.

**Emphasis of matter**

We draw attention to the fact that the Statement of financial position shows a negative Net Asset (-419.1 MCHF), mainly due to the impact of 575.1 MCHF in actuarial liabilities relating to long-term employee benefits recorded in the financial position. Details of our analysis are included in our report. Measures are being undertaken by Management, which has assured us that it will monitor the effectiveness of these measures. Our opinion is not modified in respect of this matter.

Rome, 10 May 2017

*Arturo Martucci di Scarfizzi*

*President of the*

*Corte dei conti*

A handwritten signature in black ink, appearing to read 'Arturo Martucci di Scarfizzi', written in a cursive style.

## **STRUCTURE OF THE ACCOUNTING STATEMENTS**

1. The ITU's Financial Statements, prepared and presented in compliance with IPSAS 1, include the following elements:
  - Statement of financial position – Balance sheet at 31 December 2016 with comparative figures as at 31 December 2015 showing Assets (divided into Current and Non-current assets), Liabilities (divided into Current and Non-current liabilities) and Net assets;
  - Statement of financial performance for the period ended 31 December 2016, with comparative figures as at 31 December 2015 showing the Surplus/Deficit for the financial year;
  - Statement of changes in Net Assets for the period ended 31 December 2016, showing the value of the Net assets including the surplus or deficit for the Financial Year as well as losses directly recorded in Net assets without impacting the Statement of financial performance;
  - Table of cash flows for the period ended 31 December 2016, showing the inflow and outflow of cash and cash equivalents, 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 2016 financial period;
  - Notes to the financial statements providing information about accounting policies and additional information necessary for a fair presentation.

## **STATEMENT OF FINANCIAL POSITION 2016**

### **ASSETS**

2. In 2016, Assets amounted to 373 million Swiss Francs (MCHF), an increase of 0.7% compared with the value recorded in 2015 (370.3 MCHF).
3. They consisted of Current assets, amounting to 268.9 MCHF, representing the 72.1% of Total Assets (in 2015, they represented 70.8%), and Non-Current Assets, amounting to 104.0 MCHF, representing 27.9% of Total Assets (29.2% in 2015). The basis for the evaluation of Assets is given in the Main Accounting Principles (Note 2).

## **Current Assets**

4. Total Current assets in 2016 amounted to 268.9 MCHF, representing an increase of 6.8 MCHF (+2.6%) as compared to 2015 (262.1 MCHF). Examining the movements in the sub-headings, we observe that the overall increase is due to an increase in “Cash and cash equivalents” (+52.9 MCHF), offset by a decrease in “Investments” (-46.8 MCHF); “Receivables of exchange transactions” increased (+3.1 MCHF), whereas “Receivables of non-exchange transactions” decreased (-3.7 MCHF); “Other receivables” increased (+1.4 MCHF), Inventories remained at about the same value (-0.03 MCHF).

## **Cash and cash equivalent**

5. The sub-heading “Cash and cash equivalent”, totalling 108.4 MCHF, increased by 95.4% compared to 55.5 MCHF in 2015; it included cash in hand and all the balances of ITU postal and bank current accounts as at 31 December 2016. The increase was mainly due to “Bank current accounts in CHF” (+39.8 MCHF), which made up around 69.1% of the total sub-heading, and “Bank current accounts in foreign currencies” (+14.8 MCHF), which made up around 23.9% of the total sub-heading. The increase originated from a transfer from “Investments”, due to a diversification policy introduced in 2015. A detailed breakdown of Cash and cash equivalent is shown in Note 6 of the Financial Operating Report.
6. We asked all the banks with business relations with ITU to confirm the current accounts’ balances as at 31 December 2016. We verified that the accounts balances had been properly recorded in the accounts. All variances detected in the banks’ confirmations were explained and justified. It is worth mentioning that we did not receive direct confirmation from four banks. This limited our work in this area, although Management did everything it could to enable us to receive them.
7. With reference to the missing bank confirmations, Management provided us with a copy of the statements as at 31.12.2016 relating to all the above-mentioned banks, and we used them for the reconciliation.

## ***Updating of lists of authorized signatures at banks***

8. As a result of our audit of the bank confirmations, as in previous years, we found differences between the lists of authorized signatures kept by Management at Headquarters and the lists that we received from the banks. Due to the fact that not all the confirmations had been received, we could not reach a conclusion over

the signatories. We acknowledge that Management acted promptly, communicating with the banks in order to solve these discrepancies.

### **Investments**

9. In 2016, the sub-heading “Investments” amounted to 65.0 MCHF, a decrease of 46.8 MCHF (-41.9%) compared to 2015 (111.8 MCHF), and it included fixed-term investments with maturity of not more than 6 months from 31 December 2016. A detailed breakdown of Investments by date of maturity and the reason for the decision to decrease investments in 2016 are shown in Note 7 to the Financial Operating Report.
10. In Note 2 of the Financial Operating Report, regarding Main Accounting Principles, the specific paragraph on Financial Instruments provides information on the disclosure of Investment. In accordance with IPSAS, Note 4 provides information about the Financial risk management; in particular, all Investments are exposed to a credit risk, as well as interest rate, liquidity, currency and market risks.

### **Receivables**

11. Current receivables, whether for exchange or non-exchange transactions, had a net worth of 85.5 MCHF in 2016, compared to 86.2 MCHF in 2015. They represented 31.8% of the total current assets compared to around 32.9% in 2015. As stated in Note 8 to the Financial Operating Report, they represent the uncollected revenue that Member States, Sector Members and Associates are committed to paying to ITU for annual contributions, the purchase of publications, satellite network filings and other invoices issued by ITU.
12. Non-current receivables, also inserted and illustrated by Management in Note 8, whether for exchange or non-exchange transactions, amounted to 7.5 MCHF (14.9 MCHF in 2015). They were fully provisioned at 31 December 2016 in line with the principles described in Note 2 to the financial statements. Additional explanations are given under Note 8 “Receivables”.

### **Other current receivables**

13. An amount of 9.4 MCHF (8.1 MCHF in 2015) is shown in the closing balance sheet under other receivables. A detailed breakdown of “other receivables” is shown in Note 10 to the Financial Operating Report.

## **Inventories**

14. In 2016, items related to publications, souvenirs and supplies were recorded at a net value of 0.55 MCHF, a decrease of 0.03 MCHF compared to the 2015 net value of 0.58 MCHF. Inventories are detailed in Note 9 to the Financial Operating Report.

## **Non-current assets**

15. Non-current assets as at 31 December 2016 totalled 104.1 MCHF; they showed a reduction of 4.1 MCHF (-3.8%) compared to 2015, when they amounted to 108.2 MCHF, mainly due to the depreciation of the ITU's buildings.
16. This heading was composed of "Property, plant and equipment", amounting to 101.4 MCHF, or 97.5% of total Non-current assets (in 2015 it was 104.9 MCHF, or 97.0% of total Non-current assets) and by "Intangible assets", amounting to 2.6 MCHF, or 2.5% of the total (in 2015, it was 3.2 MCHF, or 3.0%). These are illustrated in Notes 11 and 12 of the Financial Operating Report respectively.

## **Property, plant and equipment**

17. This heading showed a value of 101.4 MCHF, which was the net value, at 31 December 2016, of the capitalised cost minus the related depreciation for each category listed here: buildings (a net value of 100.6 MCHF was recorded in 2016; 103.9 MCHF in 2015); machinery (0.07 MCHF in 2016; 0.09 MCHF in 2015); furniture (0.02 MCHF in 2016; 0.2 MCHF in 2015); IT equipment (0.7 MCHF in 2016; 0.7 MCHF in 2015). These are illustrated in Note 11 to the Financial Operating Report.
18. IPSAS 1 requires that, in the Statement of the financial position, buildings should be recognised as assets. For the initial recognition, IPSAS 17 states that reference must be made 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 must 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.
19. According to Annex II to the ITU Financial Regulations, 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".

20. In Note 2 to the Financial Operating Report “Main accounting principles”, sub paragraph “Property and equipment”, it is stated that the initial recognition of buildings was performed 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 the “historical cost”, and the depreciation was realized referring to an “*estimated useful life*” which was 100 years for the structure. The land on which ITU has a free-of-charge “right of superficies” was not considered in determining the initial value of the buildings. In the past years we issued a recommendation related to the renegotiation of the Host State Agreement (please refer to the follow-up table, Annex 1) and, when this agreement has been finalised, residual book values should be adjusted accordingly.
21. In Note 11 to the Financial Statements, the buildings recognized as non-current assets were the Tower, Varembé, Extension C and Cafeteria, and Montbrillant. In respect of buildings, as stated above, the net carrying amount varied from 103.9 MCHF at 1 January 2016 to 100.5 MCHF at 31 December 2016, due to a depreciation of 3.4 MCHF recognized during the year.
22. The Swiss Confederation grants funding for the construction of buildings for international organizations through the “Fondation des immeubles pour les organisations internationales” (FIPOI), in the form of a loan on favourable terms, i.e. a period of 50 years at an interest rate of 0%. The land is provided free of charge by the State of Geneva via a “*droit de superficie*” (right of superficies). The value of borrowings from the FIPOI is illustrated in Note 15 to the Financial Operating Report.

### **The Asset Register**

23. We obtained and checked the lists of assets, and we carried out a physical stock-check on a sample of items recorded in the fixed asset register. Please refer to the follow-up tables for our previous recommendations and suggestions (see annexes).

### **Intangible Assets**

24. In 2016, Intangible Assets amounted to 2.6 MCHF, a decrease of 0.6 MCHF (-18.8%) compared to the value for 2015 (3.2 MCHF).
25. As stated by Management in Note 12 to the Financial Operating Report, capitalization, according to IPSAS 31, regarded internal developments related to

improvements of some specific services offered to members, specifically for the access, management and archiving of ITU documentation.

## **LIABILITIES**

26. In 2016, Total Liabilities amounted to 792.1 MCHF, an increase of 78.6 MCHF (+11.0%) in comparison with the value recorded in 2015 (713.5 MCHF). They consisted of:

- a) *Current Liabilities*, amounting to 147.3 MCHF, representing 18.6% of Total Liabilities (in 2015, they represented 20.1%, totalling 143.0 MCHF), and
- b) *Non-Current Liabilities*, totalling 644.8 MCHF, representing 81.4% of Total Liabilities (in 2015, non-current liabilities represented around 79.9%, totalling 570.4 MCHF).

### **Current liabilities**

27. Total Current liabilities in 2016 amounted to 147.3 MCHF, representing an increase of 4.3 MCHF as compared with 2015 (143.0 MCHF). The increase, in overall terms, was mainly due to the effect, of the increase in “Deferred revenue” (+1.4 MCHF), “Suppliers and other creditors” (+1.9 MCHF) and “Employee benefits” (+0.6 MCHF). The basis for the evaluation of Current Liabilities is set out in the Accounting Principles (Note 2).

### **Suppliers and other creditors**

28. An amount of 9.1 MCHF (7.2 MCHF in 2015) is shown in the closing balance sheet under “Suppliers and other creditors”. A detailed breakdown is shown in Note 13 to the Financial Operating Report.

### **Deferred revenue**

29. The sub-heading “Deferred revenue” amounted to 129.0 MCHF (127.6 MCHF in 2015). The majority of this amount comes from contributions from the ITU’s membership (Member States, Sector Members, Associates) and from revenue for Satellite Network Filing not yet finalized at the end of 2016. A detailed breakdown of deferred revenues is shown in Note 14 to the Financial Operating Report.

### **Provisions**

30. In 2016, the sub-heading “Provisions” amounted to 1.4 MCHF (1.0 MCHF in 2015). This heading included the provision for litigation (0.9 MCHF) and the

provision for free Satellite Network Filing (0.5 MCHF). A detailed breakdown of provisions is given in Note 17 to the Financial Operating Report.

31. Provisions for litigation varied from the initial value of 2016 (804 KCHF) to the final (31.12.2016) value of 909 KCHF. The provisions were actually increased by 200 KCHF, had 4 KCHF of unrealized gain, and were used for 99 KCHF.

### ***Financial responsibility***

32. We observe that if the ITU is condemned by the ILOAT to pay damages to a staff member who has been recognized as victim of a serious misconduct by another staff member, there is no procedure instituted against the offender, for the ITU to recover the totality or parts of such damages.

### ***Suggestion n. 1***

33. We therefore suggest considering the possibility of establishing a procedure for recovering any amounts that the ILOAT might condemn ITU to pay to a staff member because of a serious misconduct to another staff member.

### ***Comments by Secretary-General***

We agree with this suggestion. ITU Management will draw the attention of officials at all levels on the possible consequences, in particular as far as potential financial responsibility is concerned, of serious misconduct towards another official and will take appropriate measures within its regulatory framework.

### **Borrowings and financial debts**

34. The amount related to the ITU's capital borrowed from FIPOI for the construction and renovation of some of its premises was recorded as short-term (1.5 MCHF, or 1.0% of total Current Liabilities), corresponding to the instalment to be repaid to FIPOI by ITU in 2016, and as long-term (42.3 MCHF, or 6.6% of total non-current liabilities). The amounts, detailed in Note 15 to the Financial Operating Report, are also confirmed by the statement obtained from FIPOI dated 16 December 2016.

### **Other Current liabilities**

35. In 2016, the sub-headings "Employee benefits" and "Other debts" amounted respectively to 1.1 MCHF (0.5 MCHF in 2015) and 5.1 MCHF (5.3 MCHF in 2015).

A detailed description and breakdown are shown in Notes 16.1 and 19 to the Financial Operating Report respectively.

36. In particular, short-term Employee benefits, recorded under “Current liabilities”, are related to the provision for overtime (0.06 MCHF, it was 0.08 in 2015) and the provision for accrued leave (1.0 MCHF, it was 0.4 in 2015). Our checks did not reveal any major issue and the provisions are substantially accurate.

### Non-current liabilities

37. Total Non-current liabilities in 2016 amounted to 644.8 MCHF, representing an increase of 74.4 MCHF (+13.0%) as compared with 2015 (570.4 MCHF). The increase, in overall terms, is explained by the increase in Employee benefits (+80.1 MCHF, +16.2% compared to 2015). The basis for the evaluation of Non-current liabilities is set out in the Accounting Principles (Note 2).
38. This heading comprised long-term debts (see the paragraph on “Borrowings”), third-party funds, allocated or in the process of allocation, liabilities for the ITU Health Insurance Scheme and provisions covering obligations of uncertain amount and timing, mainly related to post-employment benefits.

### Summary of employee benefits

39. Employee benefits are disclosed in the Financial Statements under “Current liabilities” and under “Non-current liabilities”, totalling 576.2 MCHF in 2016, as summarised in the table below.

<i>Liabilities</i>	<b>Year (kCHF)</b>		<b>Variance 2016-15</b>	
	<i>2016</i>	<i>2015</i>	<b>kCHF</b>	<b>%</b>
<u>Current</u>	1'094	481	613	127.4%
<u>Non-current</u>	575'123	495'025	80'098	16.2%
<b>Total</b>	<b>576'217</b>	<b>495'506</b>	<b>80'711</b>	<b>16.3%</b>
<i>Composition of Non-current</i>				
Post retirement Plan (ASHI)	551'911	472'801	79'110	16.7%
Pensions	54	90	-36	-40.0%
Installation/repatriation	14'667	12'925	1'742	13.5%
Accrued leave	8'491	9'209	-718	-7.8%
<b>Total</b>	<b>575'123</b>	<b>495'025</b>		

### Long-term employee benefits

40. As shown in the table above, in 2016, the sub-heading “Non-current liabilities” (related to long term employee benefits) amounted to 575.1 MCHF, an increase

of 80.1 MCHF (+16.2%) as compared with 495.0 MCHF in 2015. It represented 89.2% of total Non-current liabilities and 72.6% of total liabilities. This heading included the actuarial liabilities for post–employment benefits under the After Service Health Insurance plan (ASHI) (551.9 MCHF; in 2015 it was 472.8 MCHF), a provision for estimated liabilities for the repatriation grant (14.7 MCHF; in 2015 it was 12.9 MCHF) and a provision for accrued leave (8.5 MCHF; in 2015 it was 9.2 MCHF). A detailed description and breakdown of the employee benefits is shown in Note 12.2 to the Financial Operating Report.

#### **Employee benefits: Installation and Repatriation grants**

41. As shown in the previous paragraph, the provisions recognized at 31 December 2016 for installation and repatriation grants amounted to 14.7 MCHF (12.9 MCHF in 2015) and were calculated according to the actuarial study that Management commissioned the actuary, and illustrated in its report of March 2017.

#### **Employee benefits: ASHI**

42. In 2016, the provision for actuarial liabilities for the ASHI plan amounted to 551.9 MCHF, representing an increase of 79.1 MCHF (+16.7%) compared to 472.8 MCHF in 2015. This was mainly due to the decrease in the discount rate to 0.92% in 2016, from 1.32% in 2015, and to the differences between reality and expected experience during the current financial year. This calculation, based on actuarial assumptions, was performed by the actuary.

#### **Negative Net-assets influenced by actuarial liabilities**

43. The considerable amount of the ASHI's actuarial losses (322.6 MCHF) has a significant impact on the ITU's Net Assets and, for this reason, as in the past years, we focused part of our audit on the correctness and reliability of the Employee Benefits values.
44. The choice of actuarial assumptions is the sole responsibility of Management. The External Auditor checks their plausibility and their consistency with IPSAS 25 and with previous years and validates them.
45. As in previous years, our team made use of a group of public actuaries, who were experts in social benefits. They carried out a review of the key assumptions related to 2016, which were duly discussed with Management. We found that these assumptions were in line with economic trends and rates and were also consistent with data available at ITU at the moment of our audit, and we validated them.

46. To carry out their audit, our actuaries recalculated the valuations prepared by the actuary (AON Hewitt Consulting) chosen by ITU; they also performed an in-depth analysis of all actuarial valuations and assumptions in order to review their plausibility and the algorithms used. Management and the actuary fully cooperated with the review. The work of our actuaries confirmed that the amounts recorded in the accounts were substantially correct.
47. We take note that, following recommendation n. 3 in our report on the 2014 Financial Statements, Management in 2016 performed a call for bids to choose a new actuary, in order to carry out the full actuarial study and also the annual IPSAS 25 valuations. The actuary chosen was AON Hewitt Consulting.

**A full actuarial study is to be carried out.**

48. In our report on the Financial Statements for 2014, we recommended that Management should perform a full actuarial study in the coming years: this is necessary so as to obtain answers, and possible solutions, to the question of adequate funding, in order to ensure that the ITU Health Insurance Scheme is not underfunded, in the long-term, on a pay-as-you-go basis (please refer also to paragraph 47 above).
49. We acknowledge that Management is fully cooperating with the External Auditor, providing us with all the documents related to the study, in order to allow us to verify, with the support of our actuaries, the analysis of the situation and the effectiveness of the proposed solution.

**Separation from the “SHIF”: contrast in the settlement**

50. In our last year report, we mentioned that the separation from the SHIF, the health insurance scheme operated by the ILO, in which ITU participated until 2014, had not yet been fully completed, because there were disagreements between the two agencies on the sum to be paid to ITU by the SHIF, relating to two key points:
  - a) on the basis of the separation, claims for reimbursement could be submitted to the SHIF by ITU insured members until 31 January 2016. Obviously, after that date there was still need for time to process reimbursements. The ILO charged ITU five months full administrative costs (up to May 31, 2015), as if all ITU members were asking for repayments on the old fund. ITU argues that there was actually a very small number of files, so the administrative costs could not be charged to ITU to that extent;
  - b) the second point concerns the liquidation of the SHIF guarantee fund, to whose establishment and maintenance ITU participated with a contribution of 23% of

the fund: ITU had assumed that, following the principle of the proportionality of its contribution and the principles of mutuality and solidarity, ITU would be paid a percentage of the fund valuation corresponding to the percentage of its paid contribution to the fund; ILO did not agree on this figure and offered a much lower sum.

51. Management informed us that the situation is still in progress and that ITU is exploring all possible solutions.

#### **Employee benefits: Staff Superannuation and Benevolent Funds (ITU closed Pension Funds)**

52. As in previous years, an amount of 54'000CHF was recorded in the accounts at closure; 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 123).

#### **NET ASSETS**

53. Net assets comprised allocated and unallocated own funds, extra-budgetary funds, the non-budgetary result, the surplus/deficit for the financial year and the effects of the transition to IPSAS. In 2016, Net Assets resulted in a negative value of -419.2 MCHF, a decrease as compared with -343.2 MCHF in 2015.
54. All the movements in Net assets are explained in various Tables and Notes in the Financial Operating Report, in particular:
  - c) Table II "Statement of financial performance", which shows the deficit for the period (-11.7 MCHF).
  - d) Table III "Statement of changes in net assets", showing the movements separately for each own funds, and IPSAS effects.
  - e) Table V "Comparison of budgeted amounts and actual amounts", which also discloses the accounting reconciliation between budget out-turns (actual amount) and amounts recognized in the Financial Statements (in this regard, see also Note 25).
  - f) Note 2 "Main accounting principles" in the paragraph related to the "recognition of Funds", in particular the sub-paragraph on "Allocated third party funds", and the paragraph related to the "Reserve Account".
  - g) Note 3 "Management of net assets", which lists the movements in the Reserve Account.

## **STATEMENT OF FINANCIAL PERFORMANCE 2016**

55. This Statement shows 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 was a deficit of -11.7 MCHF.

### **Revenue and Expenses**

56. Total revenue amounted to 176.5 MCHF, an increase of 2.2 MCHF (+1.3%) as compared to 2015 (174.3 MCHF), mainly due to increases in i) Voluntary contributions (+1.0 MCHF, +10.9%), ii) Other operating revenues (+4.9 MCHF, +13.1%), including, in particular, an increase in extra-budgetary revenue related to project support, publication sales and satellite network filing. Assessed contributions, amounting to 122.9 MCHF, corresponding to 69.6% of total revenue, decreased by 3.6 MCHF (-2.8%) compared to 2015. The detailed breakdown of revenues is reported in Note 21 to the Financial Operating Report.
57. Expenses totalled 188.2 MCHF, a decrease of 1.9 MCHF (-1.0%) as compared to 2015 (190.1 MCHF). Employee expenses, 147 MCHF, representing 78.1% of total expenses, decreased by 3.8 MCHF (-2.5%), as reported in Note 22 of the Financial Operating Report.

### **Personnel**

58. We reviewed a number of randomly selected payslips related to staff members of various categories and grades (GS and Professionals) based in Headquarters and field duty stations. Our sample also included consultants employed under Special Service Agreements (non-staff personnel). We checked the accuracy of the amounts against the relevant remuneration package and sought evidence in personal files for any allowance granted. Our substantive testing did not reveal any errors or major issues, so we consider that we obtained reasonable assurance that the values recorded in the accounts were correct.
59. The year 2016 saw some new developments relating to human resources management. Amongst them, there was the adoption of a revised Professional compensation package for staff in the Professional and Higher categories (following Resolution 70/244 of the UN General Assembly), aiming to ensure overall cost containment. This was due to be implemented in two phases: the unified single rate salary scale (irrespective of dependency status) was introduced on 1st January 2017; the new scheme for educational grants will be effective from January 2018. In addition, a new ITU Competency framework was

adopted, which is linked to the ITU strategic goals as specified in the 4-year rolling Operational Plans. The (Core and Managerial) competencies will be integrated into the new electronic performance evaluation tool (Personal Performance Appraisal system), currently under development.

60. Conversely, no action was taken in the course of 2016 about non-staff personnel. In our last reports, we had drawn attention to the continued use of external consultancies, who were partly engaged to perform ongoing regular tasks instead of specialized tasks for which the expertise or capacity was not available within the organization. In response to our suggestion n. 7/2014, Management reported the intention to review the current situation and promulgate a new policy for SSA contractors. On the same line, the report on implementation status of JIU recommendations from the "Review of management and administration in the ITU" stated that "a comprehensive evaluation of the situation with a view to establishing a new regulatory framework" would be presented to the 2017 session of the Council. In May 2017, we were provided with a draft document on the use of consultancies. The document aims to provide guidelines on the correct use of SSA contracts and to establish a unified recruitment process across the organization. It requires that they are limited in time, with clear indication on conditions for renewal (non-recurring), and that they are only let for specialized tasks with measurable outputs (deliverables). However, we understand that internal consideration is still pending and the guidelines will be presented to Council for information only.
61. In 2016, the number of persons with at least one consulting service contract was as follows: SG: 128 (excluding translators); TSB: 61; BR: 12; BDT: 239. In 2015, the corresponding figures were as follows: SG: 159; TSB: 94; BR: 32; BDT: 293. The remuneration total amount was 4.7 million CHF in 2016; it was 6.1 million CHF in 2015.
62. Although these figures show a reduction in the last biennium, departure from the current practice is likely to cause operational difficulties, and the possibility of introducing more flexible contractual modalities for temporary appointments (such as Individual Contractor Agreements-ICAs, already in use with other organizations) is being considered for specific support functions.
63. Management carries out annual statistics and is aware of a massive amount of projected retirements over the next 10 years: 248 positions (more than 30%) will become vacant in the period 2017-2026, with the biggest number leaving in 2018 and 2023 (29 and 32 staff members respectively). The category with the highest number of members retiring is Professional and Higher categories, representing

50.4% of the total projected retirements and 32.8% of the Professional and Higher positions as at 31.12.2016. Additional retirements were also the result of the voluntary separation program, implemented in 2016 and allowing for early departure in 2016 and 2017, as a consequence of the increased mandatory separation age. This affected 30 staff members in 2016 and 2017 (projection).

64. The number of voluntary resignations should also be considered. Staff resign more than in the past, with a peak of 16 persons in 2015 and 13 persons in 2016.
65. However, Management has not yet updated the HR strategic plan nor adopted a succession planning strategy. For the time being there is no formalized procedure for transferring the knowledge of retirees, no coordination between recruitment process and succession, no phased retirement scheme, no indication on the strategy to be pursued in terms of generational change. The number of staff who, having reached the mandatory separation age, have been detained by authorization of the SG was 5 in 2016 (and 3 for the moment in 2017); those who have had SSAs are 4 in 2016 (and 1 for the moment in 2017).
66. In more general terms, it is necessary to question the compatibility of a staff cost containment policy in the long term (in the various forms set out in Decision 5: lapse factor, reduction of grades of vacant posts, internal recruitment over external recruitment, non-replacement of vacancies) and the maintenance of high profile strategic objectives.

***Recommendation n. 1***

67. Considering the retirement projection for the next ten years and the risk of discontinuity potentially involved, we recommend that Management should adopt a formal succession planning strategy, to be integrated in the HR Strategic Plan. This strategy should specify critical roles and positions against ITU objectives and needs, and set out plans for the immediate future (transfer of knowledge) and for the longer term (based, amongst other things, on the inventory of skills provided in the recent Competency framework to identify the internal potential to take over).

***Comments by Secretary-General:***

HRMD will consult the Bureau and GS Departments to develop a succession planning strategy aimed at preserving institutional knowledge and ensuring continuity in the delivery of the mandate of the Union.

## Procurement

68. Procurement represents part of the expenses analysed in the paragraph above and accounted as “Contractual Services”, “Rental and maintenance of premises and equipment”, “Equipment and supplies”, and “Shipping, telecommunication and service expenses”.
69. Audit findings and conclusions related to Procurement are summarized in the following paragraphs.

### ***Absence of “key guidelines” in the Financial Regulations and Financial Rules***

70. During our audit we found that the Financial Regulations and Financial Rules contain no general principles for procurement.

#### ***Recommendation n. 2***

71. We therefore recommend that Management should submit to the Council a proposal for amending the Financial Regulations and Financial Rules in order to be consistent with the procurement principles found in Service Order which shall be aligned.

#### **Comments by Secretary-General:**

ITU takes note of this recommendation and shall consider preparing a proposal for Council.

### ***The United Nations Global Marketplace***

72. The United Nations Global Marketplace (UNGM), which is the common procurement portal of the UN system of Organizations, has a United Nations General Assembly mandate to: 1) Enhance transparency and increase harmonization of UN procurement practices 2) Simplify and streamline the registration process for vendors 3) Increase procurement opportunities for vendors from developing countries 4) Create one common UN global procurement portal.
73. During our audit we were told by PROC that ITU regularly published all the tenders above CHF 50'000 on UNGM and that the contract notice below CHF 50'000 are published on UNGM on a case by case basis.

**Recommendation n. 3**

74. We acknowledge that ITU regularly publishes all the tenders above CHF 50'000 on UNGM, however, in order to enhance the level of transparency of the procurement process, and, overall, in order to achieve the objective envisaged by the mandate of the United Nations General Assembly, we recommend that it should also regularly publish all the tenders (for goods and services) below CHF 50'000.

**Comments by Secretary-General:**

ITU takes notes of this recommendation and affirms that the purpose of publishing on the UNGM is to allow for international competition, which is a requirement for tenders above CHF 100'000 as per the current Service Order. It is the current practice to also publish tenders above CHF 50'000 (and below CHF 100'000) on UNGM. At times when the circumstances so require, international competition may also be sought for lower value tenders.

***Adoption of a Procurement Manual and a codified procedure at ITU***

75. ITU's procurement is ruled by the following legislative framework:
- a. "Basic Rules for Procurement of Equipment for ITU Technical Cooperation and Assistance Projects (approved by the Administrative Council in 1968) and the Manual of Administrative Procedures for the application of these Basic Rules as established by the Secretary General in 1968 and updated in 1987 and 1991 for entry into force on 1<sup>st</sup> January 1992;
  - b. "Service Order 14/06 Rules and procedures governing the placement of contracts".
76. We focused our audit on Service Order 14/06 and a limited sample of procurements carried out according to this Order.
77. During our audit we found that Service Order 14/06 only covers basic general procurement principles. In addition, Service Order 14/06 is not implemented with policies and procedures that should serve as guidance to all staff members involved in the various stage of the procurement process.
78. Internal Audit Unit (IAU) recommended in its Report SG-SGO/IA17-02 "*that the preparation of an ITU Procurement manual is fast-tracked, with indication of, among other things applicable procurement methods, processes involved, applicable thresholds etc.*"

***Recommendation n. 4***

79. We share the Internal Auditor's view and recommend the adoption of: **A)** a Procurement manual covering all the steps of the procurement process according to the UN best practices on the subject and, also; **B)** implementation measures with policies and procedures that should serve as guidance to all staff members involved in the various stage of the procurement process.

***Comments by Secretary-General:***

ITU accepts this recommendation. A Procurement Manual is currently being prepared which will cover all steps of the procurement process and provide guidance on policies and procedures to all staff involved in the various steps of the procurement process.

80. According to point 2.1.1. of Service Order 14/06 "*a written procedure for contracts involving an estimated amount of less than CHF 20.000 shall be drawn up by the procurement division*". During our audit we have detected the absence of this written procedure.

***Recommendation n. 5***

81. We therefore recommend that ITU introduce a written procedure to be followed by ITU's staff for procurement cases below CHF 20.000.

***Comments by Secretary-General:***

ITU accepts this recommendation. This will be included in the new Procurement Manual.

***Suggestion n. 2***

82. Furthermore we suggest that ITU should revise the threshold for soliciting a minimum of three quotations to guarantee the sound financial management of the process.

***Comments by Secretary-General:***

ITU agrees with this suggestion. This will be included in the new Procurement Manual.

### ***Enhancing the transparency of the procurement process***

83. During our audit we detected that PROC did not notify individually unsuccessful vendors that their bid had not been accepted and, moreover, we have noticed the absence of this requirement in Service Order 14/06.

#### ***Recommendation n. 6***

84. We acknowledge that ITU Procurement Management publishes regularly all the contract award notices on UNGM, however, in order to enhance the level of transparency of the procurement process, we recommend that ITU should: **A)** inform individually all participating bidders as soon as the procurement process has been concluded or cancelled; **B)** arrange, if requested, a briefing with the unsuccessful/excluded bidders that participated in the procurement process, in order to give them the possibility to better compete for future solicitations; **C)** inform, during the briefing, vendors that were unsuccessful, on the reasons of why their bid was not successful.

#### **Comments by Secretary-General:**

It is the current practice of ITU to send letters of regrets (e-mail for below CHF 50'000) to all unsuccessful vendors informing that their bid has not been retained. The bid document invites vendors to request information about the assessment of their bid. ITU accepts the recommendation to also inform vendors in the letter of regret that they may request for information about the assessment of their bid and that this shall be included in the new Procurement Manual.

85. Furthermore, we found in some procurement files that the Invitation to bid (ITB) did not envisage “pass/fail” (or compliant/non-compliant) criteria to be fulfilled by vendors, during the technical evaluation of their bids, in order to exclude them from the procurement process or consider them to be technically compliant for commercial evaluation. We also noticed the absence of this requirement in Service Order 14/06.

#### ***Recommendation n. 7***

86. We recommend that ITU should ensure that clear pass/fail (or compliant/non-compliant) criteria are applied consistently for all ITBs.

**Comments by Secretary-General:**

It is the current practice of ITU to apply clear pass/pass fail criteria for all ITBs, which are determined prior to the issuance of the ITB. This practice shall be included in the new Procurement Manual.

***Enhancing the role of the Appraisal Committee***

87. According to UN best practices the task of the evaluation team is to ensure that suppliers and their bids satisfy the requirements of the solicitation documents, and evaluate the offers according to the predefined evaluation criteria.
88. In addition, we found that ITU's procurement rules do not envisage that, Evaluation reports should summarize technical and commercial points given by the Appraisal Committee, in order to obtain a clear ranking of the bid recommended for the contract according to the criteria set out in the tender dossier.
89. For instance, in one procurement file we audited, one of the bids received within the deadline was not fully complete. The missing part of the bid was sent late and the proposal was not rejected, even though, according to the Request for proposals, "*any proposal received after the above mentioned expiry date will not be considered*".
90. During the technical evaluation the Appraisal Committee applied completely different criteria and weighting from the ones predefined in the Request for Proposals. Moreover, in its evaluation report, the Appraisal Committee did not summarize the points given to the bids resulting from the technical and commercial evaluation as envisaged in the Request for Proposals, and the contract was awarded to the vendor offering the lowest price.

***Recommendation n. 8***

91. We recommend that, in order to conduct the procurement process in a fair and transparent manner and taking into consideration best value for money: **A)** the Appraisal Committee should, during the evaluation process, apply the evaluation criteria and method as pre-defined in the solicitation document/tender dossier. In addition, we consider inappropriate the criteria set out in the RFP that “*bidders availability in mid November (2012) will be an important criteria of selection*” because it could restrict competition by limiting the participation of other vendors in the procurement process (in fact, in the procurement audited, the contract was only signed in February 2013); **B)** the Appraisal Committee should prepare clear Evaluation reports summarizing technical and commercial points in the bids, in order to have a clear ranking of the bid recommended for the contract according to the criteria set out in the tender file; **C)** in the event of exceptions from the principle of automatical rejection of late offers received, SO 14/06 should clearly state in which cases these exceptions apply.

***Comments by Secretary-General:***

It is the current practice of ITU to establish the evaluation criteria and evaluation methodology prior to the issuance of any tender and that the resulting evaluation reports clearly present the points awarded to each bidder and their individual ranking. This practice shall be included in the new Procurement Manual.

***Enhancing the mandatory technical assessment***

92. In our limited sample we found that in the Request for proposals (RFP) did not envisage mandatory or minimum requirements (or points) to be obtained by vendors, during the technical evaluation of the bid, in order to be excluded from the procurement process or to be considered as technical compliant for commercial evaluation.

***Recommendation n. 9***

93. We recommend, as envisaged in the UN best practices, that for RFPs, only proposals meeting the mandatory and minimum requirements (or points) should be considered for commercial evaluation and commercial bids from vendors considered not to be technically compliant with the tender specifications should not be evaluated.

**Comments by Secretary-General:**

It is the current practice of ITU to only evaluate the commercial proposals of vendors which are technically compliant. This practice shall be included in the new Procurement Manual.

***Disclosing the budget available for providing guidance on offers***

94. In one of the procurement audited the RFP invited vendors to take into account the fact that ITU's allocated budget for the project was modest (CHF 45'000). That budget was not disclosed to the vendors.
95. ITU's evaluation of the proposal was based on the best value for money criterion: Technical (30 points), Commercial and administrative (70 points).
96. During the evaluation process all bids received above the budget allocated to the project were automatically excluded. The contract was awarded to the only 1 vendor offering a price within the budget.

***Suggestion n. 3***

97. When ITU decides to start a procurements process allocating limited resources for buying goods or services, in order to increase competition and avoid the automatical exclusion of vendors, we suggest that it discloses, where appropriate, the maximum budget available.

**Comments by Secretary-General:**

ITU agrees with this suggestion and will when appropriate, disclose the maximum budget.

***Monitoring the vendor performance***

98. During our audit we detected that ITU's procurement rules did not include a performance evaluation of the vendor's execution of the contract.
99. In its Report SG-SGO/IA17-02, the Internal Auditor "*assessed if the supplier's performance was formally evaluated before a contract could be renewed but could not find evidence that this was done. Contractors' evaluation, even for contracts that are not renewable/extendable, would ordinarily help Management*

to know if utilization of resources allocated for IT contracts was efficient and economical”.

**Recommendation n. 10**

100. We share the Internal Auditor’s view and we recommend setting up a vendor’s performance evaluation in order to monitor its performance and measures actual contract achievements with regards to quality, delivery, timeliness, cost control, compliance with terms of reference (TOR) or statement of work (SOW), as well as all other performance indicators established in the contract.

**Comments by Secretary-General:**

ITU accepts this recommendation. A policy on vendor performance management shall be included in the new Procurement Manual.

***Introducing a Declaration of Absence of Conflict of Interest in the procurement process at ITU and absence of a policy on Procurement Ethics, fraud and corruption***

101. During our audit, we found that ITU’s procurement rules did not provide for a Declaration of absence of a Conflict of Interest (DACI) to be provided each time by staff involved in the procurement process.

102. Furthermore, we found that there were no procedures to identify who was responsible for verifying the absence of a conflict of interest and had the power to investigate the reliability of a DACI.

103. During our audit we found that there was no written policy on Procurement Ethics, Fraud and Corrupt Practices for all the staff involved in the procurement process.

**Recommendation n. 11**

104. We recommend that Management should adopt a policy on Procurement Ethics, Fraud and Corrupt Practices and that it should provide a definition of “conflict of interest” at ITU.

**Comments by Secretary-General:**

ITU accepts this recommendation and will prepare such a policy for adoption.

## Ethics Framework

105. The Ethics Officer's position was created with Resolution 1308, which was approved by the Council (C09/121, para. 3.21) in December 2009. In 2016 (1st November) the position of Ethics Officer, which had been vacant since 2013, was filled.
106. Considering that the post had been vacant for a long time (see also IMAC Recommendation n. 4/2014, which stated that "*IMAC recommends that ITU appoint an ethics officer as a matter of key priority*"), a review of the ethics-related provisions in the legal framework is appropriate so as to consider potential updates and enhancements. The Ethics Office is undertaking such a review, in consultation with other relevant offices.

### ***Recommendation n. 12***

107. Through the Ethics Office, a comprehensive review of the ethics-related provisions in the legal framework is underway. Further to this review, we recommend that Management update, enhance and fully comply the legal provisions for ethics-related matters, particularly in key areas such as procurement and HR Recruitment (see also Recommendation n. 11). This should be informed by reference to best practices in the UN system as appropriate to the specific needs and circumstances of ITU.

### **Comments by Secretary-General:**

ITU accepts this recommendation, which is consistent with the overall ethics strategy that is being pursued by Management and the Ethics Office.

## Publications

108. Revenues from the sales of Publications and "others" totalled 19 MCHF, recording an increase from the previous year (16.7 MCHF) and exceeded the budget (18.5 MCHF) by 0.5 MCHF. Almost half of the revenues came from the "ship station" publications.
109. Last year, we observed a decrease in the paper publications and, on the contrary, the increasing sales of digital publications: these trends were not confirmed in 2016, where there was recorded a substantial increase in the hardcopies sold for the new editions of the publications "MMM" and "Radio Regulations".
110. Consequently, this increase in revenues related to hardcopy sales also had an effect on the cost of delivered publication, considering that, as stated by

Management, the production of paper copies is more expensive than CD/DVD ROM.

***Suggestion n. 4***

111. In order to reduce publications costs and at the same time increasing revenues from this source of funding, we therefore suggest that greater efforts should be made to increase the sales percentage of publications in digital formats.

**Comments by the Secretary-General:**

ITU agrees with the suggestion and confirms that this objective is being carried-out, in order to cut unnecessary costs.

**Union's headquarters premises**

112. In 2016 the Final Report of the Council Working Group on "Options for the Union's HQ Premises over the long term" was delivered by the Chairman. This report concluded that the option "replacement of Varembe with a single building that also accommodates the necessary functionality of the Tower" was the most cost-effective option, assuming a successful sale of the Tower.

113. ITU Council 2016, with Decision 588 of 10 June 2016, approved the conclusion of the CWG-HQP and the related information document prepared by the Secretary-General.

114. ITU obtained the first tranche of the loan from FIPOI, for 12 MCHF, to be used in the 2017-2019 period.

115. An Advisory Group was appointed and the architecture competition for the design of a new Headquarters building, which will end next 19<sup>th</sup> of June 2017, was also advertised on [www.simap.ch](http://www.simap.ch).

116. We will monitor any further steps in this complex ongoing operation.

**STATEMENT OF CHANGES IN NET ASSETS FOR THE PERIOD WHICH ENDED ON 31 DECEMBER 2016**

117. Table III "Statement of changes in net assets" 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.

## **TABLE OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2016**

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 2016, the ITU reported a cash flow from operating activities of +0.7 MCHF, positive, but decreasing from the value recorded in 2015, which totalled +1.7 MCHF. A negative cash flow was also reported from finance activities (-1.5 MCHF), represented by the repayment of FIPOI loan. Net cash flows from investment activities (45.6 MCHF) showed a relevant positive variation from 2015, when the value was -26.8 MCHF, mainly due to the decrease in investment.
120. The net result in cash and cash equivalents showed an increase of 52.9 MCHF in 2016. We checked the underlying entries by selecting samples from some accounts. The result was that all chosen transactions were properly backed by supporting documentation. The Cash Flow Statement is thus verified and confirmed.

## **COMPARISON OF BUDGETED AMOUNTS AND ACTUAL AMOUNTS FOR THE 2016 FINANCIAL PERIOD**

121. Table V "Comparison of budgeted amounts and actual amounts for the 2016 financial period" is drawn up 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 provides for the disclosure of the reasons concerning the material differences occurring between budget and actual amounts.
122. Table V also includes an 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 to the Financial Operating Report and we also refer to the Secretary-General's comments reflected in the Financial Operating Report.

## **STAFF SUPERANNUATION AND BENEVOLENT FUNDS**

123. Three Funds are reported in Annex B2 of the Financial Operating Report: the "*Reserve and Complement Fund*" (with Total Assets amounting to 6.3 MCHF, no substantial variations from 2015), the "*Provident Fund*" (without Total Assets in 2016, they were 1.5 MCHF in 2015) and the "*Assistance fund*" (with Total Assets amounting to around 0.3 MCHF, in 2015 they were 0.2 MCHF).

124. For the “*Reserve and Complement Fund*” in the Liabilities, an actuarial provision of 54 kCHF is recorded under the item “*Employee benefits*”, in line with an actuarial valuation performed in 2010. In 2015, further to the same provision for this fund, a provision of 36 kCHF was recorded for the “*Provident Fund*”.
125. As stated in Note 2 of the Financial Operating Report, these funds “*are the set of funds that guarantee the pensions of employees who were in service prior to 1 January 1960, the date on which ITU became affiliated to the United Nations Joint Staff Pension Fund. In 2016, the Reserve and Complement Fund paid out 26 retirement pensions and 25 survivor’s pensions; and the Assistance Fund served to assist staff members and pensioners in difficult financial situations*”.
126. According to Decision 596 (Document C16/141-E of 7 June 2016), the “Provident fund” has been closed in 2016; the remaining funds have been transferred as follows: 100 KCHF to the “Assistant fund” and 1,146 KCHF to the CMIP fund.

#### **UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP), INFORMATION COMMUNICATION TECHNOLOGY DEVELOPMENT FUND (ICT-DF), AND TRUST FUNDS**

127. Rule 5 in Annex 2 of the 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 two projects currently related to UNDP activity. Annex B4 of the Financial Operating Report showed the Trust Fund projects. These are partly financed by a withdrawal from ICT-DF, authorized by a decision of the ICT-DF Steering Committee. Other projects are funded with specific contributions (exposed in Annex B5) and regulated by agreements with donors. Annex B6 lists projects related to ICT-DF.
129. ITU own funds allocated to projects increased in 2016 to 7.6 MCHF from the 2015 value of 6.4 MCHF. On the other hand, third-party funds allocated to projects in 2016 decreased to 23.6 MCHF from 28.7 MCHF in 2015.
130. The amount of ITU own fund allocated for projects was mostly increased by the transfer of funds from ICTDF. Third-party funds awaiting allocations increased in 2016 to 3.8 MCHF (they were 2.9 MCHF in 2015).

#### **THE INTERNAL AUDIT UNIT (IAU)**

131. This part of our report briefly looks at the relationship between the External Auditor and the Internal Audit Unit.

132. In our last year report we considered as closed all the recommendations and suggestions related with the assessment of the Internal Audit function, that we carried-out in our report on the FS 2013.
133. We acknowledge the cooperation received from the IAU's staff members, who are also tasked with providing logistical support to the External Auditor. IAU is sharing its audit reports with the External Auditor, as well as its audit plans.
134. As required by best practices, we continue to monitor the IAU's activity.

#### **FOLLOW UP TO PREVIOUS RECOMMENDATIONS AND SUGGESTIONS**

135. Annex I collects all our previous recommendations and the comments received from ITU Management at the time of the delivery of the Report. Annex II collects all the recommendations issued by our predecessors, the SFAO, and the comments received from the ITU's Management at the time of the delivery of the Report. Annex III shows the follow-up to all our suggestions.
136. The recommendations that are evaluated as "closed" will not be included again in next year's Audit Report, unless they need an annual follow-up.

## ANNEX 1 – Follow-up to recommendations in our previous reports

	Recommendation raised by Italian court of Auditors	Comments received from Secretary-General at the time of the issuance of the report	Status as reported by ITU Management	Status on actions taken by Management as evaluated by the Italian Corte dei conti
Rec. 1/2015	<p><b><i>The accuracy of the Asset Register need to be improved</i></b></p> <p>In this regard, we <u>recommend</u> that Management increase its efforts to recognize, label and capitalize the fixed assets located at ITU, in order to have a more accurate record of assets, through procedures and processes that will bolster coordination between different Departments.</p>	<p>The Secretariat will pursue the efforts already made to ensure that all assets are recorded in the respective databases.</p>	<p><b>Update as of end April 2017</b></p> <p>Improvements were made by a close collaboration between the different Departments in terms of consistency of data in the two SAP modules intended for asset accounting and equipment management at headquarters and the regional offices. In addition, a Service Order on inventory and protection of ITU equipment has been issued.</p>	Ongoing
Rec. 2/2015	<p><b><i>A revision of the depreciation's coefficients is needed</i></b></p> <p>In this regard, we <u>recommend</u> that Management should review the different categories' lifetimes and their related depreciations according to UN practices. Where categories are updated, an adjustment of net book value will be needed.</p>	<p>The secretariat will further analyse this recommendation and its potential consequences.</p>	<p><b>Update as of end April 2017</b></p> <p>A study on the useful life was carried out in relation to other international organizations based in Geneva. The possible change in some categories' lifetime is under consideration and the decision to implement this recommendation is related to the construction of the new ITU building.</p>	Ongoing
Rec. 3/2015	<p><b><i>A "Fixed assets management" merits further implementation</i></b></p> <p>We consider that the asset management framework needs further improvement, therefore we <u>recommend</u> that Management should: i) consider the feasibility of assessing the status and the level of utilization of assets; ii) monitor regularly the obsolescence of items, also with a view to assessing the accuracy of the Asset Register; iii) extend these processes and procedures to all ITU Departments and Regional offices.</p>	<p>The secretariat will further analyse this recommendation and make report on the findings and conclusions to the external auditors.</p>	<p><b>Update as of end April 2017</b></p> <p>A detailed study was undertaken in 2016 concerning the level of utilization of assets under the responsibility of the ITU staff, which made it possible to identify the obsolete equipment in a significant way in order to update the accounting records. New procedures are being prepared for the management of equipment and its protection at headquarters and regional offices.</p>	Ongoing

	Recommendation raised by Italian court of Auditors	Comments received from Secretary-General at the time of the issuance of the report	Status as reported by ITU Management	Status on actions taken by Management as evaluated by the Italian Corte dei conti
<p><b>Rec. 4/2015</b></p>	<p>Given the purpose of the valuation required by IPSAS 25 and the directions provided in paragraph 92 to 94 thereof, <u>we recommend</u> that, in the years to come, Management should ask the actuary to use a discount rate equal to the yield on long-term Swiss government bonds.</p>	<p>Management notes this recommendation and will discuss the matter with the appointed actuary to determine the most appropriate approach, taking into consideration the best practices of the UN organisations</p>	<p><b>Update as of end April 2017</b></p> <p>A new actuary has been chosen further to a Call for bids. This topic was discussed with them taking into consideration the recommendation made by the UN ASHI working group and submitted to the General Assembly in December. This recommendation is based on the work of the UN IPSAS task Force, which agreed, in principle, that a thirty-year yield curve for high-quality corporate bonds would be identified each year for each of the three currencies in which health insurance benefits are most commonly paid: US Dollar; Euro; and Swiss Francs.</p>	<p>Ongoing</p>
<p><b>Rec. 5/2015</b></p>	<p>We acknowledge the fact that Management is providing information to council and membership in a transparent manner on the regional presence in several documents and reports. However, in order to better respond to Resolution 25 requirements and in conformity with IPSAS, <u>we recommend</u> adding a segment disclosure on the Regional Presence to the Financial Operating Report that will set forth details on the appropriations and actuals of the regional offices.</p>	<p>This recommendation will be taken into consideration in the framework of the preparation of the 2016 financial operating report that will be submitted to Council at its 2017 session. A specific note relating to the regional presence together with a financial table will be included in the 2017 financial operating report.</p>	<p><b>Update as of end April 2017</b></p> <p>A specific note relating to the regional presence together with a financial table has been included in the 2016 financial operating report.</p>	<p>Closed</p>

	Recommendation raised by Italian court of Auditors	Comments received from Secretary-General at the time of the issuance of the report	Status as reported by ITU Management	Status on actions taken by Management as evaluated by the Italian Corte dei conti
<p><b>Rec. 2/2014</b></p>	<p>We <u>recommend</u> Management to start a tender procedure to select the actuary for performing the IPSAS 25 related actuarial valuations</p>	<p>Procurement rules are and will be scrupulously followed when proceeding to the tender for the IPSAS 25 actuarial valuations.</p>	<p>The ITU is linked by contract up to the end of 2015.</p> <p>In line with the procurement rules and regulations in force, a call for bids will be published at the beginning of 2016.</p> <p><b>Update as of end January 2016:</b> Discussions between HRMD and FRMD to define the ITU requirements will start beginning of March and, the call for bids should be published by the end of April.</p> <p><b>Update as of end February 2016:</b> In March 2016, the Financial Resources Management Department (FRMD) in collaboration with the Human Resources Management Department (HRMD), will define the requirements related to a global actuarial study for IPSAS 25. The relevant Call for Bids is scheduled to be published by the end of April 2016</p> <p><b>Update as of end April 2017:</b> A new actuary has been chosen to perform the IPSAS 25 related valuations. The result of the study is included in the Financial Operating Report 2016.</p>	<p>Closed</p>
<p><b>Rec. 3/2014</b></p>	<p>We <u>recommend</u> Management to perform a full actuarial review study, to evaluate when the ITU financial health, in the long-term scenario, might be compromised by the provisions of the Health Insurance Scheme. However, considering that the transition to the new scheme is still in progress, this study has to be performed after the separation from the SHIF and after sufficient data is available under the CMIP, not before the end of 2016. This recommendation replaces the previous n. 6/2012 and n. 3/2013, which are to be considered closed.</p>	<p>It is taken note of this recommendation. A full actuarial study will be performed according to the recommendation.</p>	<p>As recommended a full actuarial study will be performed at the end of 2016 based on the data and results provided by the Collective Medical Insurance Plan (CMIP).</p> <p><b>Update as of end-January 2016:</b> The requirement of this study will be included in the main actuary study related to IPSAS 25 (Rec 2/2014)</p> <p><b>Update as of end April 2017:</b> New actuaries have been chosen to perform a full actuarial study of the Health Insurance Scheme. The result of the full study will be known mid 2017</p>	<p>Ongoing</p>

	Recommendation raised by Italian court of Auditors	Comments received from Secretary-General at the time of the issuance of the report	Status as reported by ITU Management	Status on actions taken by Management as evaluated by the Italian Corte dei conti
<p><b>Rec. 4/2014</b></p>	<p>As remedial measures are needed, these drivers might be considered by the Council: we <u>recommend</u> Management, to monitor these drivers to ensure adequate pay-as-you-go and long-term funding</p>	<p>The funding of the health Insurance on a pay-as-you-go basis as well as of the ASHI actuarial liability is of upmost concern for the Union and is carefully monitored. The drivers mentioned here above have been, among others, taken into account while planning the transition to the CMIP and producing the 2014-2015 budget, the 2016-2019 financial plan as well as the 2016-2017 budget, which will be presented during Council 2015. The continuous monitoring of the CMIP results with regular pro-active communication with all the stakeholders and timely proposed adjustments and decisions will enable the funding on a pay-as-you-go-basis.</p>	<p>The Management follows this recommendation and monitors carefully the different drivers to ensure ITU's good financial health.</p> <p><b>Update as of end April 2017:</b> The management still monitors carefully the drivers and will review and adjust it based on the results of the global actuarial study performed at the end of 2016. Each year ITU Management presents the situation of the After-Service Health Insurance (ASHI) liability. ITU will continue to focus on cost containment with the service provider and has proposed an increase in the percentage of contributions for the CMIP members and for ITU in the 2016-2017 budget in order to ensure the financing of health insurance on a pay-as-you-go basis. Furthermore, ITU will continue to fund the ASHI reserve as far as possible according to the budgetary surpluses.</p>	<p>Ongoing</p>
<p><b>Rec. 3/2012</b></p>	<p><b>“Droit de superficie”</b> 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.</p>	<p>In January 2013, the Legal Adviser has already successfully contacted the Host Country competent Authorities in order to initiate a negotiation process.</p>	<p>The competent Host Country 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 Varembe building, which are currently still under discussion.</p> <p>PP-14 decided the creation of a Council Working Group. The CWG will, with the support of the Secretariat, examine the status of HQ premises of the Union and continue to analyse the options so far submitted and any other proposal by Member States, for prudent treatment of the premises into the long-term future, in order to prepare a recommendation for Council. The first meeting of the CWG took place on 28 January 2015.</p> <p><b>Update as of end-January 2016:</b> The work of the CWG on options for the Union's HQ premises over the long term is still on-going. A second meeting was held on 28 September 2015.</p> <p><b>Update as of end April 2017:</b> The Council, by its Decision 588, decided to replace ITU's Varembe building</p>	<p>Ongoing</p>

	Recommendation raised by Italian court of Auditors	Comments received from Secretary-General at the time of the issuance of the report	Status as reported by ITU Management	Status on actions taken by Management as evaluated by the Italian Corte dei conti
			by a new construction that would also include the offices and facilities of the Tower building and complement the Montbrillant Building. In this context, the "droit de superficie" currently enjoyed by the ITU until 2079 for all of its buildings will have to be renegotiated with the Swiss authorities. However, the ITU has already obtained the insurances from the Swiss authorities that the conditions presently granted to the ITU cannot be revised downwards and that the 2079 deadline will not, in any event, be questioned. A working group composed of representatives from the ITU, the Canton of Geneva (landowner), the Swiss Confederation and FIPOI will be set up in early 2017 to discuss specifically the issue of the "droit de superficie".	
Rec. 4/2012	<p><b>Assets' recording in the register</b></p> <p>[...] 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.</p>	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.	<p>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.</p> <p><b>At the end of 2014</b> the value of non-found assets has been significantly reduced by 83% of the 2012 value.</p> <p><b>Update as of end-January 2016:</b> The level of the identification of the assets which have not been found will be known by the completion of the physical inventory on 31 December 2015.</p> <p><b>Update as of end April 2017 :</b> The situation of recovered assets had improved as at 31 December 2016 compared to 2014 and previous years. The same effort was made during 2016. By way of comparison, the value of the assets not found on 31 December 2012 was 392'744 CHF, compared to 22,024 CHF on 31 December 2016</p>	Ongoing

	Recommendation raised by Italian court of Auditors	Comments received from Secretary-General at the time of the issuance of the report	Status as reported by ITU Management	Status on actions taken by Management as evaluated by the Italian Corte dei conti
<p><b>Rec. 10/2012</b></p>	<p><b><i>Digitalisation of personnel dossiers</i></b></p> <p>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.</p>	<p>I take note of this recommendation and inform you that HRMD is exploring this possibility.</p>	<p>The Detailed Blueprint (DBBP) of the e-Staff Personal File (digital filing) System was established on 19 April 2013.</p> <p>This DBBP comprises the HRAD (E&amp;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.</p> <p><b>Update as per end of January 2015:</b> The first phase of creating the tool is completed. The e-Staff Personal File (digital filing) System is now operational.</p> <p>The next phase of the exercise concerning HRAD (E&amp;B Service) focuses mainly on two different tendencies which are :</p> <ol style="list-style-type: none"> <li>1) Reduction of previous storage places (cupboards and computerized directories) to reorient Archive document flows toward the new e-filling system.</li> <li>2) Reduction of numbers of paper documents by revised working methods (repetition, overlap, unnecessary printing, etc...). There will always be paper documents as the original signed documents must be kept for legal reasons and to certify the accuracy of information recorded in the SAP- ERP_HCM.</li> </ol> <p><b>Update as of end-January 2016:</b> The digitalization is ongoing. HRMD is undertaking a fundamental review of all its procedures and document flow in view of creating a centralized, structured and secure electronic information management infrastructure to support the delivery of HR services.</p> <p><b>Update as of end April 2017:</b> The project is still underway. As forecasted, one staff of the HRM Dept. is working on this project.</p>	<p>Ongoing</p>

## Annex II – Follow-up to recommendations issued by SFAO

Report	Recommendation raised By Swiss Auditors	Comments received from Secretary-General at the time of the issuance of the Swiss report	Status as reported by ITU Management related to Swiss Auditors' report	Status as reported by ITU Management	Status on actions taken by Management as evaluated by the Italian Corte dei conti
<p><b>Rec. 2/2008</b></p> <p><b>Rec. 3/2009</b></p>	<p>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.</p> <p>I once again invite ITU to move as quickly as possible to integrate the BCS project management tool into the SAP software.</p> <p>Accordingly, I invite ITU:</p> <ul style="list-style-type: none"> <li>– 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.</li> <li>– To define the main technical cooperation processes and assign corresponding responsibilities.</li> <li>– To implement the necessary training measures for efficient use of the new SAP environment in the technical cooperation area.</li> </ul>	<p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p>	<p>This process is still under progress due to budgetary constraints.</p> <p><b>Update as of end-January 2016:</b> Due to BDT budget constraints, the optimization of this process is postponed.</p> <p><b>Update as of end March 2017:</b> The situation of the grants management system was re-assessed during the course of the year 2016. At this occasion, areas of improvement were identified and a plan of action was decided to guarantee the proper implementation of these improvements in the SAP-GM module. Taking into consideration that all ITU projects have now been introduced in the SAP-GM and that all necessary functionalities have been introduced and activated, it is proposed that this recommendation be considered as implemented and therefore be closed."</p>	<p>Closed</p>

### Annex III – Follow-up to suggestions in our previous reports

	Suggestion presented by Italian court of Auditors	Comments received from Secretary-General at the time of the issuance of the report	Status as reported by ITU Management	Status on actions taken by Management as evaluated by the Italian Corte dei conti
Sugg. 1/2015	<p><b>Write-off of assets</b></p> <p>We also <u>suggest</u> that asset management related to disposal and donations should be further improved, in particular through the optimization of procedures, for instance by creating an ad-hoc Committee. It might also be useful to consider, subject to a cost/benefit evaluation, the possibility of exchanging assets between Departments and Regional offices, before deciding to buy a new item.</p>	<p>The secretariat will consider the feasibility level of this suggestion and will consider several options such as internal committee, electronic workflow or equivalent internal processes.</p>	<p><b>Update as of end April 2017:</b> A significant part in 2016 was devoted, in collaboration with the IS Department and users, to carry out in-depth checks in order to update the accounting records and carry out the necessary scrapping.</p> <p>Efforts are also being made to encourage the exchange and lending of intra-departmental and intra-sectoral assets.</p>	Ongoing
Sugg. 2/2015	<p><b>Host Country Agreements for Field Offices</b></p> <p>We therefore <u>suggest</u> that ITU Management continue to review the current host country agreements, with the aim of formalising the “accepted practices” and the benefits obtained by the HCA, in order to enhance its role and protect its assets.</p>	<p>Suggestion No. 2 is acceptable and in practice its implementation has been ongoing for several years and will continue in the future.</p> <p>Thus, a specific agreement for the Area Office in Honduras where there was no concrete agreement, was concluded in 2013.</p> <p>Similarly, a formal agreement for the Area Office in Indonesia (for which no formal agreement currently exists) should be signed in the near future; the draft agreement was the subject of an agreement in principle on the part of both parties with the exception of one paragraph which remains pending due to internal consultations within the Government of Indonesia. A review of the Host Country Agreement currently in force for the regional office in Bangkok may also be finalized soon. Finally, the negotiations for the conclusion of a host country agreement for the Area Office in Chile are also under way.</p> <p>The aim of the ongoing negotiations for the field offices where there is no formal host country agreement, is to codify existing practice through an agreement with the host countries concerned.</p>	<p><b>Update as of end April 2017:</b> A formal agreement for the Area Office in Indonesia (for which there was no formal agreement) has been signed in April 2017 after 8 years of negotiations. A revision of the Host Country Agreement currently in force for the regional office in Bangkok may also be finalized soon. Finally, the negotiations for the conclusion of a host country agreement for the Area Office in Chile are also under way.</p>	Ongoing

	<b>Suggestion presented by Italian court of Auditors</b>	<b>Comments received from Secretary-General at the time of the issuance of the report</b>	<b>Status as reported by ITU Management</b>	<b>Status on actions taken by Management as evaluated by the Italian Corte dei conti</b>
<b>Sugg. 1/2014</b>	<p><i>Low value assets (LVA)</i></p> <p>In this regard, we suggest Management to consider reviewing the LVA threshold, in particular specifying the different categories of items and their depreciation according to their useful life.</p>	<p>This suggestion will be investigated in order to analyse the impact of introducing differentiated thresholds according to the category of fixed assets. It is to be noted that the value of CHF 15.2 million represents the cumulative amount of LVA captured in the fixed assets model since the introduction of the IPSAS (including the pre-IPSAS implementation balance).</p>	<p>The implementation of this suggestion is still under evaluation</p> <p><b>Update as of end April 2017:</b> The decision will be made on the basis of the outcome of the accounting impact that is currently being studied.</p>	Ongoing
<b>Sugg. 3/2014</b>	<p>We suggest Management, as needed, to define a comprehensive set of drivers and sub-drivers, and use the most relevant drivers to efficiently monitor and address the ASHI situation.</p>	<p>The monitoring of the CMIP is currently done with the purpose to enable early identification of adjustments to ensure funding on the pay-as-you-go basis. The above mentioned drivers are taken into account in order to identify the relevant adjustments, The ASHI liability will be funded according to the available resources on a long-term basis taking into account budgetary constraints.</p>	<p>The Management follows this suggestion; as soon as the full actuarial study will be completed, its results will be considered to define appropriate drivers to efficiently address the ASHI situation.</p> <p><b>Update as of end April 2017:</b> The results of the full actuarial study will be known mid 2017. Based on the results of the study, the management will define drivers to efficiently monitor the ASHI situation</p>	Ongoing
<b>Sugg. 7/2014</b>	<p>We suggest Management to analyse the implications in terms of loss of relevant experience potentially resulting from the rapid rotation of people and from the expected retirements, and to establish strategic priorities for future staff requirements in the medium term.</p>	<p>Management takes note of the suggestion. Additionally a policy on the use of Special Service Agreement contractors is to be promulgated to ensure that this workforce is used appropriately and in the best interest of the Union.</p>	<p>a) Promulgation of a policy on the use of Special Service Agreement (SSA) contractors is still work in progress. The new policy will cover the following elements:</p> <ul style="list-style-type: none"> <li>- A revised definition of the SSA contractor;</li> <li>- Identification of the different categories of tasks which a SSA contracts can be issued taking into consideration the core/non-core functions dimension, project related tasks and high level expertise needed for specific researches</li> <li>- Establishment of a unified recruitment process across the Union;</li> <li>- Establishment of a remuneration grid and ranges covering different needs;</li> <li>- Clear guidelines on delivery timelines including;</li> <li>- Clear guidelines on the duration including limitations and conditions for extension</li> </ul>	Ongoing

	Suggestion presented by Italian court of Auditors	Comments received from Secretary-General at the time of the issuance of the report	Status as reported by ITU Management	Status on actions taken by Management as evaluated by the Italian Corte dei conti
			<p>and renewal of such contracts;</p> <ul style="list-style-type: none"> <li>- Re-definition of associated social benefits and other entitlements (travel costs, DSA for non-local, etc.);</li> <li>- The definition of an assessment tool of the deliverables.</li> </ul> <p>b) It is also important to note that to the delivery of interns and SSA contractors is under the supervision of appointed staff, to help preserve institutional.</p> <p><b>Update as of end April 2017:</b> A draft has been established and is submitted for information to the Council 2017, pending its consideration through the normal internal consultative process</p>	