

**Addendum 1 to  
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**Note by the Secretary-General**

**SUPPLEMENTARY REPORT OF THE  
INDEPENDENT MANAGEMENT ADVISORY COMMITTEE (IMAC)**

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

Houlin ZHAO  
Secretary-General

## SUPPLEMENTARY REPORT OF THE INDEPENDENT MANAGEMENT ADVISORY COMMITTEE (IMAC)

### Summary

This document presents a supplement to the IMAC's Seventh Annual Report. It is submitted to the ITU Council for its final meeting in October 2018, to fulfil the Committee's specific responsibility to advise the Council on issues arising from the audited financial statements of ITU and reports produced by the external auditor; and to support and inform the Council's consideration of the financial statements and external audit report for 2017.

This supplementary report also provides comment and advice to the Council on issues arising since IMAC's Seventh Annual Report was finalized.

### Action required

The Council is invited **to endorse** the supplementary IMAC report.

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### References

Document [C18/22](#): *Seventh annual report of IMAC to the Council*

Document [C18/40](#): *External Auditor's Report*

[Resolution 162](#) (Rev. Busan, 2014)

## 1 Purpose of this Addendum

1.1 In its seventh Annual Report, IMAC noted that its observations on the External Auditors' report would be covered in an Addendum to the IMAC report, following review of the External Auditors' report, when received.

1.2 This Addendum to IMAC's seventh Annual Report is therefore submitted to advise the Council on key issues arising from the External Auditors' Report on their audit of the financial statements of ITU; and to inform the Council's consideration of the financial statements and external audit report for 2017.

1.3 This supplementary report also provides further comment and advice to Council on:

- i. The ITU Headquarters construction project;
- ii. Suspected fraudulent activity in a regional office.

## 2 The External Auditors' Report for 2017: Unqualified audit opinion

2.1 The External Auditors have again provided an unqualified audit opinion on the ITU's financial statements for 2017 with an emphasis of matter on the financial position, showing a negative net asset of CHF -482.524 million compared with CHF -419.155 in 2016, mainly due to the actuarial liabilities relating to long-term employee benefits. The emphasis of matter does not modify the

unqualified audit opinion but draws attention to a matter that in the External Auditors' judgement is of such importance that it is fundamental to users' understanding of the financial statements. The External Auditors' long-form audit report provides a helpful and comprehensive review of the financial position; and includes ten (10) recommendations and one (1) suggestion for management action.

2.2 The report draws attention to a number of areas where important improvements need to be addressed, as a matter of priority.

### **3 The External Auditors' recommendations and suggestions**

3.1 The External Auditors make recommendations in relation to:

- The construction of the HQ premises should be evaluated in a way in which addresses the needs and human resources of the Union in the long term;
- The need for rationalization and extraordinary measures to improve the HR payment function;
- The urgent action required to put in place a workforce planning strategy to meet the Union's changing needs and ensure that the ITU remains fit-for-purpose. IMAC reiterates that ITU needs to move towards an alignment of its operating model, people strategy and focus areas with the Union's strategic vision. This will ensure ITU has a fit-for-purpose organization given the speed of digitalization and the development of the information society.
- The increasingly urgent need for a policy and guidelines on all aspects of procurement, where more comprehensive and effective procedures are necessary to achieve an adequate level of control and compliance;
- The ethics framework, where the Ethics Officer position is again vacant and the ITU secretariat should vigorously pursue the filling of this highly important position.

### **4 ITU Headquarters construction project**

4.1 The recently appointed Senior Construction Project Advisor has identified the need for a qualified project management team to provide sufficient risk management and supervision to the overall construction project, consistent with good practice. This previously unidentified need will require additional funding in excess of 11 million CHF. It was decided that these further project management costs will not be financed through the existing loan arrangements to preserve the building scope.

4.2 There is a current provision of 5% for contingencies in the funding of the project. However, IMAC is concerned that this provision could be clearly insufficient compared with experience in other large construction projects, even assuming that a sufficient project management team is put in place.

4.3 Furthermore, in Recommendation 13/2016 IMAC advised that ITU consider the benefits of dedicated internal and external project and risk management expertise for this project. As the project is progressing, a steering committee to oversee the project should be established, with comprehensive terms of reference and an appropriate governance structure, including independent technical experts.

**Recommendation 4/2018:** IMAC therefore recommends that a formal governance structure be put in place to oversee the project; and that ITU revisit the capital requirements needed to ensure appropriate financial planning for the ITU headquarters construction project.

## **5 Suspected fraudulent activity in a regional office**

5.1 The External Auditor's report refers to the identification of a case of suspected fraud over a period of years in a regional office. The External Auditors have concluded that the impact of the fraudulent activity does not materially affect the 2017 accounts as a whole. Nevertheless, IMAC notes that the activities involved and under investigation were perpetrated over a number of years and involved serial breaches of control across a number of aspects, including but not limited to procurement and contracting.

5.2 IMAC has previously raised concerns over control and governance in regional offices (IMAC Recommendation 2/2014, Recommendation 5/2015) and IMAC remains seriously concerned that the governance and controls in place in the regional offices are insufficient.

5.3 IMAC requested full details of the investigation carried out by Internal Audit, but was only provided with an extract of the executive summary and an Annex 17 to the investigation report. However, IMAC notes that the full report was provided to the External Auditor. In the absence of the full investigation report, IMAC is not in a position to advise on this matter or its potential ramifications.

## **6 Compliance and fraud risk management / development of the draft Investigation Guidelines**

6.1 As already mentioned in its 7th Annual Report, IMAC reviewed the draft Investigation Guidelines for the ITU and was requested by the secretariat to advise on the appropriate arrangements that should apply if any allegations were raised in relation to the Secretary-General, which have to be reported to the Chair of Council.

6.2 Upon consultations with all the relevant parties, and according to good governance practices, IMAC advised that the responsible party for reporting to the Chair of the Council could be the Chair of IMAC (who is completely independent from management and has been appointed by Council).

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