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Agenda item: ADM 11

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**Report by the Secretary-General**

**EIGHTH ANNUAL REPORT OF THE  
INDEPENDENT MANAGEMENT ADVISORY COMMITTEE (IMAC)**

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

Houlin ZHAO  
Secretary-General

## EIGHTH ANNUAL REPORT OF THE INDEPENDENT MANAGEMENT ADVISORY COMMITTEE (IMAC)

### KEY POINT SUMMARY

This eighth annual report of the Independent Management Advisory Committee (IMAC) to the ITU Council contains conclusions and recommendations for the Council's consideration in compliance with IMAC's terms of reference.

This report draws the Council's attention to:

- Identified fraud and irregularity, and inadequate internal control;
- Qualification of the External Auditor's Opinion for 2018 and its implications for the ITU;
- The need for effective management oversight and accountability in relation to the regional offices;
- Management accountability in ITU overall.

*In particular, this report presents advice on the need for substantially improved management oversight and internal control in the light of the weaknesses revealed by the recent fraud case in a regional office; and especially the need to establish a culture of transparency and collaboration leading to stronger individual management responsibility and effective accountability.*

### Action required

The Council is asked **to approve** the IMAC report and its recommendations for action by the secretariat. **Given the significant reputational and financial risk to ITU presented by the qualified audit opinion and the above mentioned issues, IMAC urges the Council to ensure prompt and effective remedial action and follow-up on the implementation of its recommendations.**

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### References

[Resolution 162](#) (Rev. Busan, 2014); Council [Decision 587](#);  
Documents: [C12/44](#) (First annual report of IMAC to the Council);  
[C13/65 + Corr. 1](#) (Second annual report of IMAC to the Council);  
[C14/22 + Add.1](#) (Third annual report of IMAC to the Council);  
[C15/22 + Add.1-2](#) (Fourth annual report of IMAC to the Council);  
[C16/22 + Add.1](#) (Fifth annual report of IMAC to the Council);  
[C17/22](#) (Sixth annual report of IMAC to the Council);  
[C18/22 + Add.1](#) (Seventh annual report of IMAC to the Council)

## 1. INTRODUCTION

- 1.1. IMAC serves in an independent expert advisory capacity to assist the Council and the Secretary-General in exercising their governance responsibilities for financial reporting, internal control arrangements, risk management and governance processes, and other audit-related matters mandated by the IMAC Terms of Reference. IMAC therefore assists in enhancing transparency, strengthening accountability and supporting good governance. IMAC does not carry out audit, nor duplicate any executive or audit functions, internal or external, but helps to ensure the best use of audit and other resources within the ITU's overall assurance framework.
- 1.2. IMAC currently comprises the following members:
  - Dr. Beate Degen (Chairperson)
  - Mr. Abdessalam El Harouchy
  - Ms. Sarah Hammer Williams
  - Mr. Graham Miller
  - Mr. Kamlesh Vikamsey
- 1.3. All reports of the Committee's meetings and its annual reports, as well as other key documents, are available to the ITU membership on IMAC's area of the ITU public website, accessible also via the ITU Council web page.
- 1.4. IMAC met in November 2018, March 2019 and May 2019. Dr. Degen, Mr. El Harouchy, Mr. Miller and Mr. Vikamsey attended all three meetings of the committee. Ms. Sarah Hammer attended the March 2019 meeting and the May 2019 meeting.
- 1.5. Since its last annual report to the Council in 2018, IMAC engaged with all areas of its responsibilities, including internal audit; risk management; internal control; evaluation; ethics; the audited financial statements and financial reporting; and external audit.
- 1.6. The Chair of IMAC participated at the Council Working Group on Financial and Human Resources (CWG-FHR) meeting on 29 January 2019, briefing the group on matters relating to the Committee's areas of responsibility. Amongst others, IMAC raised awareness regarding the investigation case and its Terms of Reference. Further details will be provided later in this report.
- 1.7. In the course of its meetings, IMAC held substantive discussions with the Secretary-General and Deputy Secretary-General, the Director of the Telecommunication Development Bureau, the Financial Resources Management Department, the Internal Auditor, the External Auditor, the Strategic Planning and Membership Department and other management representatives as appropriate.

## **2. IMAC TERMS OF REFERENCE**

- 2.1. IMAC's Terms of Reference (ToRs) explicitly provide for the Committee to periodically review the ToRs, and submit any proposed amendments to the Council for approval.
- 2.2. IMAC had recommended that Council propose to Member States at PP-18 that paragraph 2 of IMAC's ToRs be revised to restore the mandate to advise on "the actions taken by ITU management on audit recommendations"; and also proposed to include in the ToRs the oversight of ethics issues. Annex 3 to the IMAC 7th Annual Report ([C18/22](#)) to Council, submitted also to PP-18 as Information Document 1 ([PP18/INF-1](#)), included the Committee's suggested amendments.
- 2.3. However, while revised IMAC Terms of Reference were approved by the Council, no Member States submitted a proposal to update them at PP-18. Given that the next possibility to revise the ToRs will be at the ITU Plenipotentiary Conference 2022, the Council Working Group on Financial and Human Resources (CWG-FHR) asked IMAC to accept a "gentlemen's agreement" for the IMAC to continue to cover ethics related issues (see document [CWG-FHR 9/15](#)).
- 2.4. IMAC agreed to provide oversight of ethics-related issues, as appropriate; and will continue to advise on actions taken by ITU management on audit recommendations.

## **3. EXTERNAL AUDITOR'S REPORT FOR 2018 – QUALIFIED AUDIT OPINION**

- 3.1. Against the background of fraud and irregularities identified in a regional office, the External Auditor has provided a qualified opinion on the 2018 ITU financial statements.

During the year 2018 the financial statements at 31 December 2018 showed expenditure related to international cooperation and technical assistance over which there was no system of internal control that could be considered as reliable for audit purposes. There were no other satisfactory audit procedures that the External Auditor could adopt to confirm that the recorded expenditure was free from material misstatement.

The audit of key controls revealed significant weaknesses in specific areas; and the external auditors identified the need for urgent action to enhance internal controls and minimize the risk of misstatement or financial loss.

- 3.2. Although the Secretary-General concluded that the Union had an effective system of internal control for the year ended 31 December 2018, the qualified audit opinion means in the above respects the Council and users of the accounts cannot rely on the integrity of the financial statements and the system of internal control.
- 3.3. The External Auditor's Report for 2018 has again included an emphasis of matter on the financial position in relation to the negative net asset, mainly due to the impact of CHF 573.4 million in actuarial liabilities relating to long-term employee benefits.
- 3.4. IMAC commends the External Auditor's Report and audit recommendations to the Council's priority attention.

#### 4. FRAUD IN A REGIONAL OFFICE AND WIDER EXPOSURES FOR ITU

##### The fraud and irregularities reported

4.1. As noted above, the External Auditor's Report for 2018 refers to the identification of a case of fraud perpetrated over a period of years by the most junior professional in a regional office. The fraud had been fortuitously brought to the attention of the ITU Ethics Office by a whistle-blower who was an external party and not an ITU staff member. The fraud was brought to the attention of Internal Audit on February, 8 2018, following an initial assessment of the credibility of the case by the Ethics Office. IMAC was first informed about the fraud in March 2018.

4.2. IMAC had 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 regional offices are still insufficient. This includes the degree of central management oversight from headquarters.

It will be particularly important to rectify this in the light of the current review of ITU's regional presence, where the integrity and independence of ITU offices will need to be ensured, and management accountability enforced.

4.3. The fraud investigation carried out by Internal Audit identified irregular practices involving:

- directing business to companies owned by a staff member and/or spouse
- conducting unauthorized outside activities
- improper procurement practices
- commission schemes
- Parked Funds (unauthorized misuse of funds given in trust to ITU)
- misappropriation of sponsorship paid for events
- misappropriation of project assets
- Special Service Agreements fraud
- misrepresentation by not disclosing spouse revenue
- using volunteers for unofficial private business activities

4.4. The External Auditor's Report for 2018 has in addition drawn attention to a lack of internal control oversight at regional and headquarters levels for procurement; and the absence of an effective system of internal control defining the role and responsibilities of the Regional Director for all the regional and area offices.

4.5. IMAC requested full details of the investigation carried out by Internal Audit, but was only provided with the final report in March 2019. However, IMAC noted that the full report had been provided to the External Auditor. In the absence of the full investigation report in 2018, IMAC was not in a position to advise the Secretary-General or the Council on this matter or its potential ramifications.

4.6. In its 21st meeting (26-28 November 2018), IMAC again requested a copy of the full investigation report and all relevant documents to enable IMAC to discharge its

responsibilities under the terms of Resolution 162 (Rev. Busan, 2014). This request was declined by the secretariat.

- 4.7. Finally, IMAC was provided with a redacted version of the investigation report on 28 February 2019, some 14 months after the fraud had been detected.
- 4.8. The investigation carried out by Internal Audit confirmed that fraudulent activities and irregularities had taken place, and identified root causes of the associated lack of controls. These included:
- the absence of a procurement manual
  - outdated procurement procedures
  - improper procurement practices
  - lack of fraud awareness by staff and management
  - ineffective oversight at the Regional Office level (ascribed to BDT)
  - weaknesses in project oversight (BDT)
  - weaknesses in project asset management (BDT)
  - a general trend of trust without adequate accountability
  - weaknesses in SSA recruitment and control
  - absence of controls over conflicts of interest
  - the lack of implementation by management of previous audit/oversight recommendations from Internal Audit, External Audit, the JIU and IMAC
- 4.9. The Internal Audit Unit's (IAU) Investigation Report on the fraud, dated 28 May 2018 and referenced SG-SGO/IA/18-09, has been designated as confidential. No substance or detail on the IAU investigation has been provided in the annual report on internal audit activities (covering the period between March 2018 and April 2019), submitted by the IAU to the Council (Document C19/44-E).

Paragraph 17 refers to a separate document (reference C19/INF/14), comprising a report by the Secretary-General on the facts and remedial actions taken to date in response to the fraud. IMAC commends the Council's attention to this separate document by the Secretary-General.

At this point, IMAC has not yet been given the opportunity to review or discuss this report with the secretariat, or to take a view on the remedial actions being addressed by management.

- 4.10. Overall, IMAC concludes that the nature, extent and context of the regional office fraud – together with the findings of the IAU investigators, the observations and recommendations of External Audit, and IMAC's earlier reporting to Council – raise major concerns regarding the effectiveness of ITU's internal control system and the adequacy of management oversight and supervision.
- 4.11. IMAC believes that credible and effective measures to counter the risk of fraud, irregularity and reputational damage rely not only on adequate internal controls but also on a collaborative and transparent work environment; a consistent and proactively reinforced

“tone from the top”; a “speak-up” culture; and visible, well-understood management accountability at all levels.

**Recommendation 1 (2019):** In order to reduce the risk of fraud, irregularities and reputational damage to the organization, IMAC recommends that ITU should establish improved arrangements with sensible control mechanisms to achieve effective supervision, and enforce accountability when adequate supervision and management oversight is neglected. This should be a matter of key priority.

## **5. FOLLOW-UP OF IMAC’S SEVENTH ANNUAL REPORT TO THE COUNCIL IN 2018 AND STATUS OF IMAC RECOMMENDATIONS**

- 5.1. In keeping with its standard practice, and to assist the Council on the follow-up of action taken in response to IMAC’s recommendations, IMAC reviewed the implementation status of its previous recommendations. This is presented at Annex 1.
- 5.2. Up to now, 87% of the IMAC recommendations have been implemented, while 7 recommendations (13%) remain in progress with the secretariat.

## **6. OTHER AREAS/ISSUES COVERED BY IMAC**

### **Financial management**

- 6.1. IMAC continued to monitor financial planning and budget, and discussed developments with the Financial Resources Management Department.

### **Risk management**

- 6.2. IMAC continues to monitor and provide advice on the developing arrangements for risk management, including developments in the organization’s strategic approach deriving from discussions and decisions of the Plenipotentiary Conference.
- 6.3. As a next step, IMAC will look into what is known as the Three Lines of Defence model in effective risk management and control, and the assignment of appropriate risk ownership. The Three Lines of Defence approach represents emerging good practice and is designed to ensure a simple and effective way to enhance communications on risk management and control by clarifying essential roles and duties.



Source: Chartered Institute for Internal Auditors (CIIA)

**Recommendation 2 (2019):** IMAC recommends that the secretariat prepare a risk register identifying clear risk owners across Sectors, regions and the General Secretariat.

### Internal audit

- 6.4. IMAC continued to review the planning and progress of internal audit activities, and the results of the internal audit reports in 2018/2019.
- 6.5. IMAC reviewed the following Internal Audit reports:
  - Audit Report on Translation Activities in ITU
  - Audit Report on Overtime Arrangements
  - Audit Inspection of Staff Credentials
- 6.6. IMAC provided further advice on the selection arrangements for the new External Auditor appointment. IMAC had previously provided inputs and advice on how the arrangements for the selection and evaluation process should be taken forward. The Head of Internal Audit was the secretary of the Appraisal Committee, responsible for taking the selection process forward.
- 6.7. However, the selection process was unsuccessful due to receipt of only two proposals and the need to abandon the exercise due to procedural reasons. A proposal was made to Council to reappoint the existing external auditors for an additional term of two years.
- 6.8. It is important that the new tendering process is restarted immediately as a matter of priority and is conducted in such a way as to generate sufficient and fair competition. The Terms of Reference of IMAC include responsibility for providing advice on the appointment of the external auditor. Based on good governance and best practice, the Chair of IMAC would be able to provide advice more effectively as an advisory member of the appraisal committee.



**Recommendation 3 (2019):** IMAC recommends that, as a matter of best practice, the Chair of IMAC should be included as an advisory member of the Appraisal Committee for the selection of the new External Auditor.

### **Compliance and fraud risk management**

- 6.9. IMAC continued to provide advice to management on actions necessary to improve ITU's response to fraud risk and compliance.
- 6.10. IMAC met regularly with the Head of the Legal Affairs Unit, the Chief of the Human Resources Management Department, the Head of Procurement, and the Internal Auditor to encourage progress.
- 6.11. Improvements achieved or in the pipeline include the development of a new procurement manual, and a policy against fraud, corruption and other proscribed practices.

### **ITU Headquarters construction project**

- 6.12. ITU now has an emerging governance and project structure in place, comprising mainly internal people who may not necessarily be experts in overseeing such a large construction project. Experience regularly shows that such large infrastructure projects can face substantial time and budget overruns, as well as overlooked construction elements (for example fire protection requirements).
- 6.13. Therefore IMAC advises that the governance structure be strengthened by including external experts as permanent members who can sufficiently challenge the project management team and provide specific construction-related advice. This might include experts in construction and engineering, procurement of building material, financial audit, and so on.
- 6.14. Sponsorships and donations are part of the funding of the construction project. IMAC consequently emphasizes the need to ensure diligent compliance with the procurement guidelines and mandatory architectural requirements.

**Recommendation 4 (2019):** IMAC recommends that ITU rigorously apply the requirements of its procurement guidelines and observe all mandatory architectural guidelines in relation to all sponsorship or donation-funded construction elements of the project.

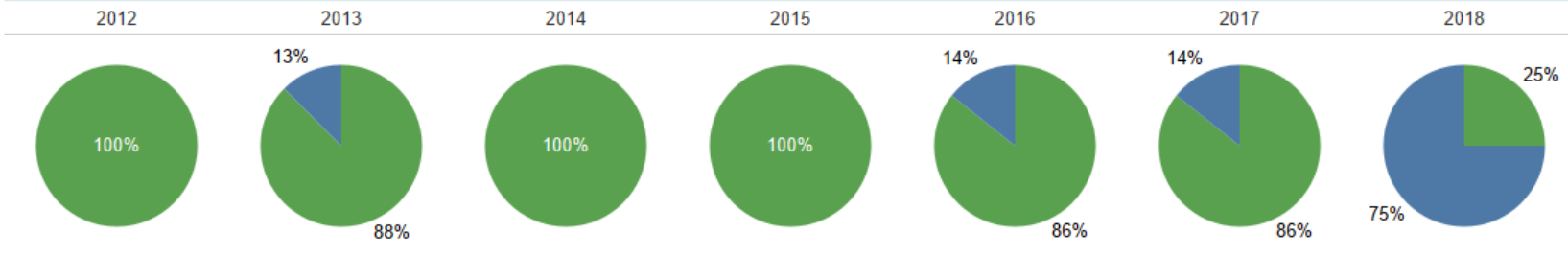
- 6.15. IMAC will continue to monitor progress and provide advice on an ongoing basis.

### **7. Other matters**

- 7.1. IMAC will next meet on 28-30 October 2019.
- 7.2. IMAC members wish to express their continuing appreciation to Member States, the CWG-FHR, the Secretary-General, the Deputy Secretary-General, the Director of the Telecommunication Development Bureau and ITU officials for their support, cooperation and positive attitude in supporting the effective functioning of the Committee.
- 7.3. IMAC's membership, responsibilities, terms of reference and reports are available on the IMAC area of ITU's public website: <http://www.itu.int/imac>

### ANNEX 1: STATISTICS ON IMPLEMENTATION OF IMAC RECOMMENDATIONS

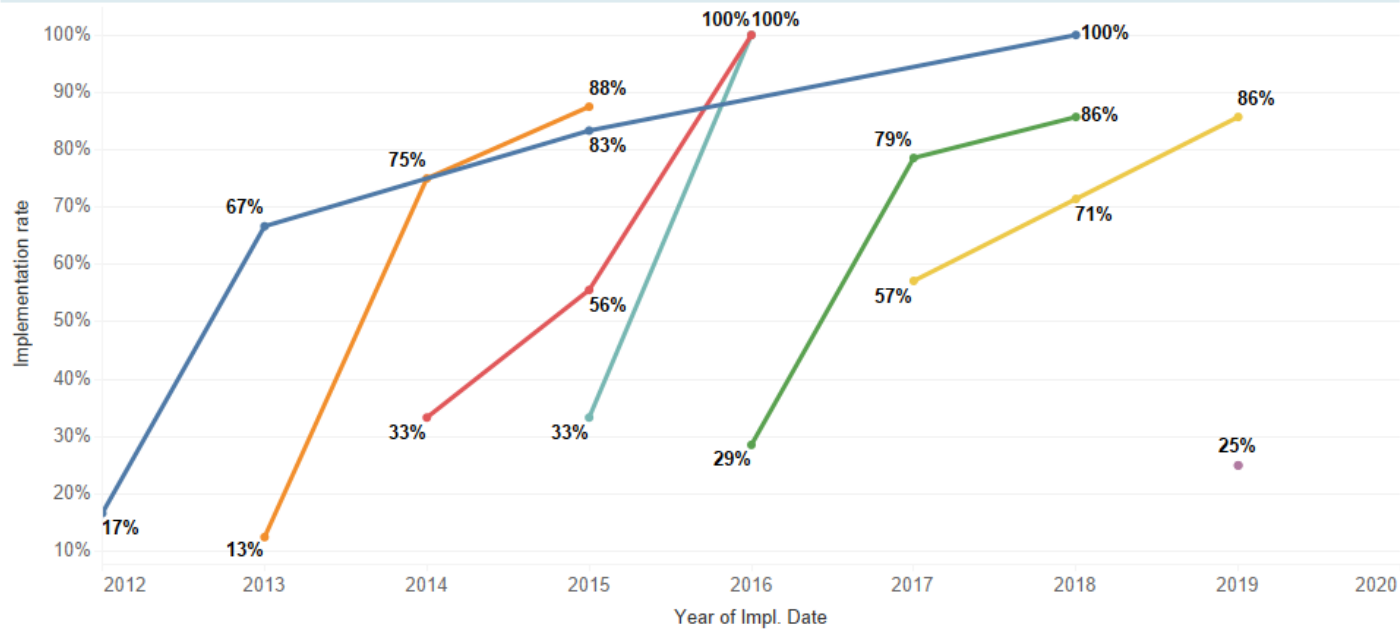
IMAC Recommendations implementation rates - Recs by Year



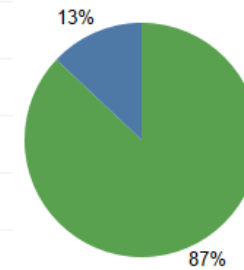
Implementation Status	2012	2013	2014	2015	2016	2017	2018	Grand Total
Implemented	6 - 100%	7 - 88%	9 - 100%	6 - 100%	12 - 86%	6 - 86%	1 - 25%	47 - 87%
In progress		1 - 13%			2 - 14%	1 - 14%	3 - 75%	7 - 13%
Grand Total	6 - 100%	8 - 100%	9 - 100%	6 - 100%	14 - 100%	7 - 100%	4 - 100%	54 - 100%

Implementation Status  
■ Implemented  
■ In progress

Progress - implementation rates



2012-18 Recs.



Rec Year  
■ 2012  
■ 2013  
■ 2014  
■ 2015  
■ 2016  
■ 2017  
■ 2018