



External Auditor's report

UNIVERSAL POSTAL UNION (UPU)

Audit of 2016 consolidated financial statements

In accordance with article 148, paragraph 1, of the General Regulations approved at the 26th Congress in Istanbul in 2016, the Government of the Swiss Confederation shall supervise, without charge, the bookkeeping and accounting of the Universal Postal Union (UPU). On the basis of this provision, this mission was entrusted to the country's highest public financial audit body, namely the Swiss Federal Audit Office (SFAO), which thus serves as External Auditor of the UPU accounts.

The terms of reference are defined in article 37 of the Financial Regulations and in the Additional terms of reference governing external audit annexed to those Regulations. The members of the SFAO thus mandated fulfil their function autonomously and independently, with the support of their colleagues.

The SFAO provides services in relation to the external audit of the UPU in a manner that is fully independent of its role as the supreme financial oversight body of the Swiss Confederation. The SFAO has a team of highly qualified professionals with wide experience of audits in international organizations.

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Summary of the audit

As External Auditor of the Universal Postal Union (UPU), the Swiss Federal Audit Office (SFAO) confirms that the audit of the 2016 consolidated financial statements presented under the International Public Sector Accounting Standards (IPSAS) gave a satisfactory result overall, and that it is able to issue an audit opinion without reservation.

The 2016 financial year ended in a net result of 1.4 million CHF. This positive result was made possible in particular by the dissolution of the provision for doubtful debts of 9 million CHF. This very significant dissolution was the consequence of the signing of a number of amortization schedules with countries under sanctions. Without this exceptional income, 2016 would have ended in a loss. The issue of the distortion of the result stemming from variations in the provision for doubtful debts is discussed in more detail in this report. A recommendation has been made on this subject.

The financial situation of the UPU remains worrisome despite the positive balance recorded in 2016. Own funds remain negative (-85.9 million CHF) at the end of 2016. Moreover, the entry into force on 1 January 2018 of the future standard IPSAS 39 on employee benefits seems likely to have significant negative consequences for the UPU's net assets. This new standard will entail a change in the method for recognition of actuarial gains and losses. Based on the 2016 accounts, this would mean recording a reduction in own funds of close to 110 million CHF. Moreover, the SFAO recommends that the UPU study the possibility of taking account of the concept of risk sharing provided for provident schemes in the new Swiss law to be introduced with IPSAS 39. This would mitigate the impact of the significant rise in staff benefit liabilities that will be put to account in 2018.

Review of the recommendations shows that the International Bureau is continuing its efforts to implement them. However, 21 recommendations are still outstanding. Most concern management processes (14 outstanding recommendations) and information technology (six outstanding recommendations).

Regulations, standards and information

Financial regulations and purpose of the audit

1 Financial year 2016 was governed by the relevant provisions of the Constitution and of the General Regulations (Doha 2012); by the Financial Regulations and the Rules on Financial Administration, Accounting Organization and Control of the UPU; and by the International Public Sector Accounting Standards (IPSAS).

2 This report describes the audits of the UPU's consolidated financial statements drawn up at 31 December 2016, comprising the statement of financial position, the statement of financial performance, the statement of changes in net assets, the statement of cash flow, the statement of comparison of budget and actual amounts, and the notes to the financial statements.

3 The 2016 accounts of the UPU Provident Scheme were the subject of a separate audit report and correspondence. The same goes for the accounts of the three translation services (Arabic, English and Portuguese), given that they are not consolidated.

Audit standards, information and acknowledgments

4 The audit was conducted in accordance with the International Standards on Auditing (ISA¹), and in compliance with the additional terms of reference annexed to the UPU's Financial Regulations.

5 When carrying out spot checks, the SFAO selected samples based on risk or the relative size of the amounts recorded under the headings examined.

6 The result of the audit was initially communicated to the Finance Directorate (DFI) at meetings on 22 December 2016 and 16 June 2017. The latter meeting served as the final discussion, and was held in the presence of Mr P. Clivaz, Deputy Director General; Mr V. Dubenko, Director of Finance; Mr O. Dreier, Chief Accountant, and Mr F. Wermeille, Acting Governance and Management Information Systems Coordinator,

¹ Published by the IAASB (International Auditing and Assurance Standards Board).

along with Ms S. Houhou and Ms M. Voisard, experts from the Accounting and Treasury Programme. The SFAO was represented by Mr D. Monnot, Head of Audit Mandates, and Mr A. Crevoiserat, Audit Manager.

7 The SFAO will not reproduce in this report the points and issues of minor importance that were clarified and discussed during the course of the audit or at the above-mentioned meetings with the DFI.

8 During the audit work, the SFAO regularly met with Mr O. Dreier, with other employees in the DFI, as well as with members of other International Bureau directorates, depending on the subject matter.

9 The SFAO would like to emphasize the good spirit of collaboration and openness that prevailed throughout the performance of the audit. It also wishes to express its appreciation for the helpfulness shown by all the UPU officials approached in providing the information and documents required to carry out its task.

10 In accordance with article 9 of the Additional terms of reference governing external audit, the Director General gave me his comments by letter dated 21 July 2017. They are included in this report.

11 This report was originally written in French; the SFAO points out that the French version is therefore the official version.

Follow-up of recommendations

12 Review of the recommendations shows that the International Bureau is continuing its efforts to implement them. Nonetheless, there remain 21 outstanding recommendations, listed in Annex 2 to this report. Most concern management processes (14 outstanding recommendations) and information technology (six outstanding recommendations).

Examination of the work of the Internal Auditor

13 During the interim and final audits, the SFAO conducted a review of the work of the internal auditor. The internal audit function has been outsourced to Ernst & Young since 2011.

14 The internal audit reports² that were reviewed contain interesting observations that require action on the part of the UPU. However, these observations have no direct influence on the work of auditing the 2016 consolidated financial statements.

IT audits

Work done

15 During the interim audit performed at the end of 2016, the SFAO conducted an IT audit focusing, among other things, on general IT controls. In terms of the financial internal control system (ICS), these cover the following areas:

- Change management;
- Logical access management;
- Management of IT operations.

16 The SFAO verified the existence of general IT controls by means of sampling. It found the general IT controls currently in place at the UPU to be adequate to cover the IT risks surrounding regular accounting and bookkeeping.

17 During the interim audit in November 2016, the IT function was undergoing a reorganization. In particular, the DL.PIM unit was being integrated into the Postal Technology Centre. As a new structure was being put

² The reports issued in 2016 were the following:

- Follow-up on the recommendations made by the internal auditor (2011–2015);
- IT strategy.

in place at the time of the audit, the SFAO is not in a position to give an opinion on the IT controls that will be applied in the future.

18 The integration of DL.PIM into the PTC will have a significant impact on controls in the IT area. The use of new IT applications will also influence the control environment and the controls relating to the ICS. In addition, the reorganization will have an impact on the recommendations issued during previous IT audits. Given the integration of DL.PIM into the PTC, the recommendation relating to the IT Steering Committee cannot be implemented as planned. In its place, the UPU plans to set up an IT "steering board" for the whole organization.

19 The current IT environment is documented. From 2017, the IT landscape will change considerably, with the personnel (human resources) applications replaced by an application of the Navision system. At the time of the SFAO audit, the migration and testing activities were almost complete. The NAVISION financial application has already been in use for several years.

20 The SFAO welcomes the replacement of the HR IT applications, since the personnel management system (Sirium) and salary system (Pagole) were based on obsolete technology. Their replacement corresponds to a recommendation made under a previous audit.

21 The SFAO will take account of the organizational and technical developments in its audit plan for 2017 (e.g. modifications of procedures, changes in processes, new controls, etc.).

22 The SFAO followed up the recommendations from previous audits. It notes positive progress in the treatment of the recommendations issued. Of the nine recommendations made in 2013 and 2014, three have been dealt with and are now closed. For the remaining six, action plans and implementation deadlines have been set. Additional information on the recommendations that are still open is provided in Annex 2 to this report.

23 The SFAO will follow up the recommendations again in the second half of 2017, taking into account the changes in the IT environment and new organizational structure.

Audit of 2016 consolidated financial statements

24 The audit related to the 2016 consolidated financial statements of the UPU (French version). These statements comprise the statement of financial position (financial statement I), the statement of financial performance (financial statement II), the statement of changes in net assets (financial statement III), the statement of cash flow (financial statement IV), and the statement of comparison of budget and actual amounts (financial statement V), together with the notes attached to the financial statements. These consolidated financial statements are presented under IPSAS.

JET analysis

25 In auditing the consolidated financial statements, the SFAO performed an analytical review and detailed tests. In addition, as in past years, it used an accounting data extraction tool. During the final audit, an external consultant was asked to perform a JET (journal entry testing) analysis.

26 The analysis focused on the individual accounting of the Union. The results of these analyses facilitated the selection of accounting entries during detailed tests. The JET analyses also highlight unexpected or unusual transactions. The additional work did not reveal any particular problems.

Result for financial year

27 Like the consolidated financial statements, the UPU Programme and Budget is drawn up on an annual basis. In accordance with IPSAS 24, the amounts reported in the consolidated financial statements have been restated to provide a basis of comparison with those indicated in the budget.

28 As regards the information contained in notes 20 to 22 concerning revenue and expenses, the SFAO checked the reconciliation of the budget values with the table in note 19 – Reconciliation of statement of comparison of budget and actual amounts (statement V) and statement of financial performance (statement II). The budgetary data is thus reconciled with the actual amounts of income and expenses of the 2016 financial year. The excess income for 2016 was 1,404,768 CHF. The previous financial year ended in excess expenses of 9,239,651 CHF.

29 As regards the budget implementation, the SFAO refers to the International Bureau's comments in the consolidated financial statements.

IPSAS implementation

30 The IPSAS Board published five new standards which took effect on 1 January 2017, namely:

- IPSAS 34: Separate Financial Statements;
- IPSAS 35: Consolidated Financial Statements;
- IPSAS 36: Investments in Associates and Joint Ventures;
- IPSAS 37: Joint Arrangements;
- IPSAS 38: Disclosure of Interests in Other Entities.

Those five standards replace the following standards: IPSAS 6 (Consolidated and Separate Financial Statements); IPSAS 7 (Investments in Associates); and IPSAS 8 (Interests in Joint Ventures). Given their date of their entry into force, these new standards do not apply obligatorily to the 2016 UPU accounts. However, the organization decided to apply them in anticipation.

31 In a previous report, the SFAO recommended that the UPU conduct an analysis of its consolidation perimeter in the light of these new standards in order to determine whether they would have an impact on the organization, particularly in terms of the need to consolidate the financial statements of the translation services. The findings of the UPU's analysis suggested that the new standards have no impact on the consolidation perimeter. The SFAO carried out its own additional analysis and concluded that no new entity or activity fell within the framework of IPSAS 35 to 37 and needed to be consolidated, accounted for using the equity method of accounting, or integrated. As regards IPSAS 38, which sets out the various information obligations, the analysis showed that a few additional elements should be mentioned in the notes annexed to the consolidated financial statements. The points for improvement were communicated to the DFI and the consolidated financial statements for 2016 were adapted accordingly.

Internal control system (ICS) for account closure and consolidated financial statement preparation

32 In the report on the 2013 accounts, the SFAO issued a recommendation on various aspects of the ICS relating to the account closure process that ought to be improved. Certain measures were taken by the UPU for the closing of the 2014 and 2015 accounts. However, these proved insufficient as, during the final audit conducted in the spring of 2016, the SFAO still had to propose numerous corrections in the consolidated financial statements. Four-eyes review was not yet being performed in a sufficiently effective way. In addition, the complete consolidated financial statements were not ready at the beginning of the audit.

33 An improvement in the situation was noted this year: while the consolidated financial statements submitted to the SFAO still contained a few errors and inconsistencies, these were less numerous than the previous year. The following positive points are worth noting:

- The consolidation was able to be carried out automatically using the Navision accounting system;
- More systematic use of up-to-date office software tools helped to prevent the arithmetic errors sometimes noted in the past;
- All the balances of headings, particularly those relating to own funds, were able to be justified directly by adding together the constituent elements;
- The number of extra-accounting manual adjustments was kept to a strict minimum.

34 The SFAO also underlines the fact that the UPU called on the services of an external consultant, not to help with the preparation of the consolidated financial statements, as was the case in the past, but to review the work done. Involving an external consultant in this way is worthwhile: it enables the DFI to maintain the quality of its account closure activities, while providing better assurance of the quality of the consolidated financial statements. Review by an IPSAS specialist external to the organization is very useful, and the SFAO encourages the DFI to continue down this path in the future.

35 The SFAO therefore considers this recommendation on the account closure and consolidated financial statement preparation to be closed.

Cash and cash equivalents

36 The balances of the various cash accounts at 31 December 2016 were compared with those obtained from statements issued by the depositories. The cash amounts posted (41.5 million CHF in total) comply with the principle of the availability of funds within 90 days.

37 In accordance with IPSAS 2, note 3 to the consolidated financial statements indicates the portion of cash holdings available for use and the portion subject to restrictions. At 31 December 2016, the UPU held 21.6 million CHF, with the balance subject to restrictions. It should be noted that the proportion of cash freely available to the Union has fallen again. It stood at 24.6 million CHF at the end of 2015, and 30 million CHF at 31 December 2014.

Investments

38 Total current investments amounted to 97.8 million CHF at the end of 2016. Meanwhile, investments only realizable after 31 December 2017 amounted to 4.5 million CHF and were presented with the non-current assets. Total investments therefore amounted to 102.3 million CHF, up from 88 million CHF at 31 December 2015.

39 In 2014, the UPU decided to invest 70 million USD in a capital guarantee fund. That fund recorded unrealized losses totalling 2.8 million CHF in 2014 and 2015. For the financial year under review, the situation turned around and income of approximately 1.3 million CHF was recorded as a financial receipt. At year end, the value of this fund was 69.4 million CHF. The increase in the balance compared to the end of 2015 (65.2 million CHF) can be explained firstly by the capital gain realized in 2016, and secondly by the change in the CHF/USD exchange rate.

40 During the interim audit, certain financial receipts shown in the accounts were selected and audited on the basis of the corresponding accounting vouchers. The checks did not reveal any particular problems.

Accounts receivable (exchange and non-exchange transactions)

41 During the interim audit, the SFAO carried out various checks on accounts receivable. The checks showed that sanctions had been duly imposed on all the member countries that should be under sanctions according to the current rules. Likewise, an examination of existing amortization plans and those created, ending or cancelled in 2016 showed no particular problems.

42 Current receivables (from both exchange and non-exchange transactions) represented a net value of 37.9 million CHF (49 million CHF at the end of 2015), and non-current receivables (from non-exchange transactions) 12.6 million CHF (1.5 million CHF at the end of 2015). Overall, there was virtually no variation in total receivables between 2015 (50.6 million CHF) and 2016 (50.5 million CHF). There was, however, a change in the respective proportions of current and non-current receivables, due to the holding of the 2016 Istanbul Congress. Several countries subject to sanctions asked to benefit from an amortization schedule so as to

recover their voting rights. As the amortization schedules run over several years, the related receivables need to be presented under non-current assets.

43 Another consequence of the signing of an amortization schedule is the dissolution of the provision for doubtful debts linked to the total amount covered by the schedule. The UPU's rules require provisions to be made to cover arrears dating back more than two years. However, once a schedule is signed, there are no longer any arrears. Amounts whose status changes from "country under sanctions" to "country with amortization schedule" lead to dissolution of the provision, and vice versa.

44 These rules result in significant distortions in the accounting results over time. Experience shows that, in years when Congresses are held, significant income is presented in the accounts (9 million CHF in 2016, for example). The opposite effect is seen in years with no Congress. Expenditure to fund the provision for doubtful debts totalled 2.8 million CHF in 2015, 2.6 million CHF in 2014, and 0.7 million CHF in 2013.

Recommendation No. 1: The SFAO recommends that the UPU study a possible change in the rules on the provision for doubtful debts, in order to avoid the significant distortions currently seen in accounting results and thus improve the comparability of results.

Comments by the Director General: The UPU agrees to adapt and harmonize its rules relating to the provision for doubtful debts. All bills issued more than two years ago will thus be provisioned regardless of whether they are covered by an amortization schedule.

45 As already noted last year, the slowness with which certain member countries pay their statutory contributions is unfortunate, and impacts negatively on the cash holdings freely available to the Union.

46 The SFAO also wishes to draw attention to the ageing analysis of receivables due in note 4 to the consolidated financial statements. For the Union, this analysis shows that there is a total amount of 10.6 million CHF representing unpaid and doubtful debts. This represents close to one third of the Union's net receivables at the end of 2016. This is a dangerous situation requiring special attention on the part of the UPU.

47 The SFAO points out that the invoiced interest rates on debts in arrears are 5% for receivables related to services provided and 6% for receivables related to statutory contributions. The billing of interest is done through Navision. However, the existence of two different rates means that manual processing is required for the clients concerned, as Navision cannot handle two different interest rates for a single client. This manual processing increases the risk of error and results in additional administrative work for the DFI. Although it did not issue a formal recommendation, the SFAO proposed that the UPU take steps to enable interest on overdue payments to be billed at a single rate, in order to simplify administrative processing.

48 Following that proposal, measures were taken by the IB. Two proposals to amend articles 146 and 151 of the General Regulations were thus submitted to the CA, which decided to present the proposals to the 2016 Congress, with a view to:

- harmonizing the rates of interest on overdue payments for arrears of contributions and for sales of supplies (interest rate of 5% in both cases);
- maintaining different payment conditions for contributions and sales of supplies (payment deadline of three months for contributions and – contrary to what was proposed by the IB – six months in other cases).

49 Even if it had not been possible to achieve the full harmonization sought by the IB, uniform interest rates would still have led to significant improvements. However, at the Istanbul Congress, no steps were taken to have the proposed amendments to articles 146 and 151 of the General Regulations adopted.

50 The SFAO notes that the current situation, which creates an increased risk of error and entails additional administrative work for the DFI, is set to continue. The SFAO's proposal therefore still stands.

Comments by the Director General: A new proposal to this effect will be submitted to the next Congress.

Inventories

51 Inventories are recorded on the balance sheet for a total of 311,999 CHF (337,842 million CHF at the end of 2015). They consist of barcode labels, UPU souvenirs offered for sale, postage stamps and international reply coupons (coupons, paper and holograms).

52 In the course of the interim audit in the autumn of 2016, a few examinations were made of the stock of souvenirs. It was noted that the rate of rotation of certain articles was low. During the final discussions on 22 December 2016, the UPU was encouraged to review the various articles making up the stock of souvenirs, and to apply discounts to those with a particularly low rate of rotation. Given the immaterial amount represented by the stocks, the SFAO decided not to make a formal recommendation on this point in this report.

53 Moreover, during the visit made to prepare a physical inventory of certain articles, the SFAO found that access to certain areas was poorly secured. However, during the aforementioned final discussions, the DFI informed the SFAO that this was an exceptional situation due to temporary staffing. As the unit value of the articles in question is low, the risk of loss of the organization's assets is of an insignificant amount. The SFAO therefore decided not to investigate this matter further, and leaves it to the UPU to decide on appropriate steps.

Other current and non-current assets

54 Other current assets total 4.3 million CHF and include, in particular, prepaid expenses and deferred charges, supplier advances, staff advances, other advances and tax advances. As regards the latter, a provision of 97,414 CHF was created at the end of 2015. This sum represented the advances paid to staff in respect of taxes paid to the tax authorities of the United States of America, which dated back more than two years and had not yet been reimbursed. At the end of 2016, the provision had to be increased by 41,956 CHF, and it now amounts to 139,370 CHF. Although it will not issue a formal recommendation, the SFAO still encourages the UPU to take all possible steps to recover the ever growing amount of arrears owed by the United States of America.

55 Social Fund advances due to be repaid in more than a year's time total 25,296 CHF (10,200 CHF at the end of 2015), and are presented under "Other non-current assets".

Equipment

56 Tangible assets amounted to 1.6 million CHF at the end of the financial year. They are broken down into two types: IT equipment and other equipment (machines, furniture and material). The depreciation is based on the straight-line methodology in accordance with the estimated useful life of the asset, as defined in note 2 to the financial statements. In line with IPSAS, the various heritage assets, such as the stamp collection, were not capitalized.

57 During the interim and final audits of the 2015 accounts, the SFAO had noted a few problems (tangible assets in service since 2014 but only depreciated from 2015, tangible assets put to account in 2011 but never subject to depreciation, seismic equipment that should not have been put to account). Those errors did not give rise to retroactive adjustments, given the small sums involved. There were follow-up checks in 2016 to ensure that the necessary corrections had been made by the DFI.

58 The detailed checks on the amounts put to account in 2016 did not reveal any particular problems. A critical review and detailed tests in different expenditure accounts were also performed to check that the principles for accounting of tangible assets had been followed. Here again, the checks did not reveal any particular problems.

Intangible assets

59 The balance under this heading stood at 323,379 CHF. During the interim and final audits, the SFAO performed a critical review and detailed tests of the different expenditure accounts in order to ensure that the principles for recognition of intangible assets had been followed. The checks did not reveal any particular problems.

Land and buildings

60 The value of the building as recorded on the balance sheet is 26.2 million CHF. The rights for use of the land were not recognized. As regards the non-repayable subsidies received,³ these are presented as deductions from the value of the building.

61 The main sums put to account in 2016 in relation to the building concerned the renovation of the sanitary facilities.

Accounts payable and accrued expenses

62 The amount of 16.8 million CHF on the liabilities side of the balance sheet was substantiated in the course of the checks.

63 As noted in the previous report, the balance of the QSF "Accrued liabilities" account was made up of old bills relating to the Global Monitoring System (GMS) project that were awaiting approval by the Board of Trustees. Since those invoices related to a sub-project that had been completed for some time, the balance of that account should have been cleared. That account needed to be linked with the QSF "Advances for projects to be regularized" account, which also included amounts relating to that same GMS project (invoices paid by the Union or the Voluntary Fund but that are to be transferred to the QSF once approved by the Board of Trustees). This "Advances for projects to be regularized" account also contained many old bills and should also have been cleared.

64 Following the recommendation made in a previous report, a reconciliation was carried out by the DFI in 2015 and almost all the amounts recorded in these two accounts were able to be reconciled. However, it was not possible to zero the balances of these two accounts, as there remained an unreconciled balance of 54,847 CHF. This work was continued and completed in 2016. At the end of 2016 there remains no unidentified amount in the two accounts in question, and recommendation No. 5 of 12 June 2015 is therefore closed.

Short-term employee benefits

65 The provision for overtime and accrued leave days amounts to 1.8 million CHF, very slightly higher than in 2015. The accuracy and relevance of the amounts was checked by analyzing the individual data of UPU staff.

66 The SFAO notes, however, that the problem observed during the 2014 audit of the accounts remains an issue: Since the transition to the new version of MS Office, direct exports from the leave and overtime management system (VisualWeb) to Excel are no longer possible. A DRH employee must therefore manually enter into an Excel file the end-of-year overtime and vacation balances for all the organization's staff. A manual procedure involving the entry of hundreds of items of data inevitably carries with it a high risk of error.

67 Two years ago, the SFAO recommended that the UPU find a technical solution to avoid the need for such manual entries. However, no measures were taken. The SFAO does not wish to monitor this recommendation any further, and considers the risk to be a matter for the UPU.

Deferred revenue

68 Deferred revenue is recognized as a liability on the balance sheet for a total amount of 64.9 million CHF. It represents the assessed contributions billed in advance, and tied funds received from third parties. The figure was higher than in 2015 as a result of an increase in current Quality of Service Fund projects.

69 Following the implementation of an old recommendation by the SFAO, in 2015 the DFI prepared, for the first time, a list of inactive tied third-party funds and tied own funds. This approach enables funds that are able to be closed to be identified. However, the approach initially taken was not followed through to its conclusion, as none of the funds identified was closed. In its report of 27 June 2016, the SFAO recommended that the DFI contact external funding bodies (for the tied third-party funds) or the project managers (for tied own funds), so that they could indicate how they would like to use the balances (reimbursement, transfer to another fund, or balance freely usable by the UPU).

³ The UPU received non-repayable subsidies from the City of Berne when the building was constructed, and more recently from the Buildings Programme of the Swiss Confederation and the Building Foundation for International Organizations when the renovations were carried out between 2013 and 2015.

70 In 2016, two inactive funds were closed. However, as far as tied third-party funds are concerned, no steps have yet been taken with the external funding bodies. The recommendation was therefore not fully implemented, and the work already begun should continue in 2017.

71 At the end of 2015, the PLANET-UE-01 fund was presented with the conditional voluntary funds which come under deferred revenue. At that date, this fund had a negative balance of 186,716 CHF. Formal notice was sent to the company that had promised the funds (PlaNet Finance) on 8 November 2016 to obtain payment of the sums owed. This enabled the UPU to collect the sums owed by this external funding body. The situation was therefore resolved in 2016. The SFAO notes that there were no longer any negative funds shown under conditional voluntary funds at 31 December 2016.

Advance receipts

72 Advance receipts totalled 84.3 million CHF, slightly down on the previous year. They essentially comprise the credits available to designated operators for carrying out QSF projects, which amounted to 76.6 million CHF at the end of 2016.

Funds-in-trust held for translation services

73 The three translation services are not included in the consolidation perimeter. They are the subject of separate financial statements that are still presented in accordance with other accounting standards. The amount of 7.1 million CHF, shown under current liabilities, represents the three current accounts managed by the Union on behalf of the translation services. The amounts held are as follows: 4.6 million CHF for the Arabic Translation Service, 2.2 million CHF for the English Translation Service, and 0.3 million CHF for the Portuguese Translation Service.

74 The SFAO considered whether these three services needed to be consolidated following the entry into force of IPSAS 35 to 37. It concluded that the UPU has no significant influence or control over the decisions and activities of these services. The activities are decided upon solely by the bodies of the three services, and their annual accounts are approved by the same bodies. The same goes for the budget and expenses. The UPU is merely the agent for the management and administration of these three services. Consequently, these three entities are not included in the consolidation perimeter.

Borrowing

75 The interest-free loan representing funds borrowed from the Swiss Confederation to build the headquarters building is shown under two distinct headings on the liabilities side of the balance sheet. The portion of the loan that is payable in the upcoming year is shown under current liabilities for an amount of 375,760 CHF (the same amount as at 31 December 2015). The portion of the loan that is not payable in the upcoming year is shown under non-current liabilities for an amount of 1.1 million CHF (1.4 million CHF at 31 December 2015). The loan payable after one year is shown on the balance sheet at amortized cost, using the effective interest rate method.

76 Calculated using a discount rate of 1.15%, the value of the theoretical interest for 2016, which the UPU would have had to pay if the loan had been carried out under normal market conditions, would be 20,880 CHF. As for the total value of the interest waived up until the final reimbursement in 2020, this amounts to 42,238 CHF.

Provisions

77 The provision entered on the liabilities side of the balance sheet concerns proceedings and litigation under way. It was significantly increased in 2015, owing to cases filed with the International Labour Organization Administrative Tribunal following the 2015 reorganization. On that occasion, a number of staff members had their contracts terminated, and the persons concerned are challenging these terminations.

78 In 2016, two cases were considered by the Tribunal. For these two cases, a total of 10,660 CHF had to be paid out by the UPU. As the total provision amounted to 75,000 CHF, the balance of 64,340 CHF was dissolved. No new disputes or proceedings were filed during the financial year under review. At 31 December, the provision totalled 925,000 CHF (1,000,000 CHF at the end of 2015). It represents the best possible estimation of the amount that the UPU might be required to pay for the four pending legal proceedings.

Long-term employee benefits

79 In accordance with IPSAS 25, actuarial liability relating to pensions and various other UPU employee benefits has been put to account. The actuarial analysis was performed by the UPU consultant actuary.

80 Long-term employee benefits, calculated in accordance with IPSAS 25 using the projected unit credit method, are shown as a liability on the balance sheet for an amount of 135.6 million CHF. The two most significant amounts concern net obligations to the UPU Provident Scheme (87.6 million CHF) and after-service health insurance (45.5 million CHF). The details of all the obligations are given in note 12 to the consolidated financial statements.

81 The benefits for active staff working or retirees having worked in the three translation services were calculated separately by the consultant actuary, as their respective accounts are not consolidated.

82 The SFAO examined the application of IPSAS 25, the completeness and accuracy of the data used as a basis for the actuary's calculations, the assumptions used, and the entries into the accounts. This important item in the UPU balance sheet is IPSAS compliant. Regarding the assumptions used, the SFAO does, however, wish to point out that statistics on commutations of capital made upon retirement were requested during the audit. On the basis of the figures for 2014, 2015 and 2016, it was noted that such commutations are relatively frequent, with one person in two taking up this possibility. However, the actuarial assumptions refer to "No commutations of capital".

83 In the next actuarial survey, the SFAO invites the UPU to provide its actuarial expert with details of commutations of capital performed over the past few years, so that the assumptions used in the calculations can be adapted if necessary.

84 The SFAO also points out that IPSAS 25 will be replaced by IPSAS 39 as of 1 January 2018. One important consequence is that the so-called "corridor" approach will need to be abandoned. This is the method currently used by the UPU, which means that actuarial differences are not immediately shown in the accounts. For the UPU, this change in standard will mean retroactive application of the new rules: in other words, the figures for 2017, including the opening balances at 1 January 2017, will need to be readjusted.

85 For the next closure, the SFAO encourages the UPU to ask its actuarial expert to calculate the employee benefits liabilities in two different ways: according to IPSAS 25 (at 31 December 2017), and according to the new IPSAS 39 (at 31 December 2017, but also at 1 January 2017). This will provide the values and information to be included in the 2017 annual accounts, but also the comparative elements for 2017 that will need to be mentioned in the consolidated financial statements for 2018.

86 With the new IPSAS 39, a new concept will be introduced, namely that of risk sharing. The valuation of Swiss pension funds according to international financial reporting standards (IFRS, IAS 19) has been the subject of a lengthy debate between experts and businesses. The employer's obligation towards its pension fund can be difficult to define. For example, stabilization measures may entail changes in employees' benefits. This means that risk is shared between the employer and employees. Swisscom implemented this solution for its 2016 financial statements. Note that this concept of risk sharing in provident plans, applicable under IAS 19, will likewise be applicable under IPSAS 39.

87 By way of example, here are a few actions that a provident scheme could take in response to a funding shortfall:

- Reduce the interest credited to employees' savings accounts;
- Modify the conversion rate used to convert the retirement capital into the pension;
- Require additional employee and employer contributions.

88 The accounting situation should be a realistic reflection of the future retirement benefit obligations and the Provident Scheme's situation. The impact of risk sharing depends on how the organization foresees the future development of the Provident Scheme and the actions it will take.

89 At the UPU, taking account of risk sharing would help to offset the negative impact of the elimination of the so-called "corridor" method. The employee benefit obligations presented in the balance sheet could be reduced by taking account of employees' participation in the planned stabilization measures. Any discussions in this area need to be started well in advance, as there will be numerous factors to be considered and decided upon before any calculations can begin.

90 The SFAO recommends that the UPU conduct a study, with its actuarial expert, to determine the possibilities in terms of taking account of the concept of risk sharing to be introduced with the entry into force of the new IPSAS 39. The SFAO should be informed of the interim findings.

Comments by the Director General: This point will be discussed with the consultant actuary to examine the best way forward.

Net assets

91 Net assets comprise tied own funds,⁴ untied (or uncommitted) own funds,⁵ and reserves. The reserves are made up of the Social Fund, the IPSAS reserve, the building reserve, and the Special Activities Fund. The significant cumulative deficit of Union funds is the result of the switch to IPSAS on 1 January 2011, in particular the recognition of actuarial commitments relating to pensions and various other UPU employee benefits. At the end of 2016, the shortfall on the balance sheet stood at 85.9 million CHF.

92 Among the reserves there is one called "Special Fund Cafeteria". This has a balance of 15,822 CHF, which has not changed in several years. The SFAO questions the usefulness of such a special fund which has no specific regulatory basis. Without making any formal recommendation, given the insignificance of the balance concerned, I encourage the UPU to consider the possibility of incorporating this reserve into "Social Fund capital".

Revenue and expenses

93 The Union's revenue and expenses were the subject of analytical checks and detailed tests based on the materiality threshold applied for both the interim and final audits.

94 As regards staff costs, detailed checks were carried out on the September 2016 salaries of about 20 people. All the elements making up the salary were checked, and no errors were found.

95 However, a negative point needs to be raised in terms of the keeping of personnel files. The SFAO found that certain family declarations were missing from files, even though the DRH regularly asks the persons concerned to provide them. These documents and the associated ones (proof of financial support for a father or mother, declaration of schools, spouses' pay slips, etc.) are not systematically filed in the personnel files, but are deposited with a DRH staff member. According to information received, it appears that no one is formally responsible for filing these documents. As all the required elements were nonetheless supplied to the SFAO, it will refrain from issuing a formal recommendation on this subject. It would, however, stress that this point was already raised under previous audits, and it encourages the DRH to take the necessary organizational measures to give someone formal responsibility for managing and filing family situation declarations and associated documents.

96 Other areas such as sales, voluntary contributions, statutory contributions and other annual contributions, interest on accounts receivable, project expenses, travel expenses, consultants' services and external contracts, general operating costs and financial income and expenses were the subject of spot checks during the interim and final audits. These did not reveal any significant problems.

Related party information

97 Note 18 to the consolidated financial statements shows an amount of 2.9 million CHF for 2016, corresponding to the salaries (annual average) of the 10 senior managers at the UPU (3.6 million CHF for 10.3 senior managers at the end of 2015). IPSAS 20, paragraph 34 (a), expressly requires that a distinction be made between the individuals at the head of an organization⁶ and the directors subordinated to them. The SFAO raised this issue in previous reports and formally recommended in the report for 2012 that this distinction be made. In his comments, the Director General stated that the UPU prefers to publish related party information in an aggregate fashion. Although this practice is not entirely IPSAS compliant, the SFAO did not modify its audit opinion.

⁴ Accumulated surplus of other funds and accumulated surplus of controlled entities.

⁵ Accumulated deficit of Union funds.

⁶ The Director General and Deputy Director General.

N.B. – The SFAO takes note of the UPU's preference in this case and notes that it is not in compliance with IPSAS 20. However, as in previous financial periods, it finds that the issue is not serious enough for it to modify its audit opinion. It is nevertheless the External Auditor's duty to bring the matter to the attention of member countries.

Statement of cash flow

98 The SFAO reviewed the positions in the table of cash flows (financial statement IV) and checked the amounts presented against the opening and closing balances. The table presented can be considered free of significant errors.

Financial risks

99 In accordance with IPSAS 28 to 30, the UPU provides different information on the financial instruments in note 24 to the financial statements. This information has been checked and is correct.

Unrecognized contractual commitments

100 According to IPSAS 1,⁷ the notes should provide information on unrecognized contractual commitments. In addition, according to IPSAS 17,⁸ the notes must also indicate, for each category of tangible assets included in the consolidated financial statements, the amount of contractual commitments for the acquisition of property, plant and equipment. Up until 2016, no formal procedure for identifying unrecognized contractual commitments existed within the organization. That is why the SFAO recommended to the DFI, in its report of 27 June 2016, that such a procedure be put in place.

101 On closing the 2016 accounts, the DFI took the necessary steps, and the work done enabled unrecognized contractual commitments totalling 8.1 million CHF (8.5 million CHF at the end of 2015) to be identified. These were mentioned in note 25 to the consolidated financial statements.

102 In this note 25, the UPU also referred to its commitments relating to operational leasing and income expected from rental of premises. The figures were checked, and the presentation adopted is compliant with the relevant IPSAS standards.

Contingent liabilities

103 As explained in note 26 of the consolidated financial statements, the Union has relationships with three language groups which provide translation services to the UPU member countries belonging to each group. These groups function independently of the Union, which is why their accounts are not consolidated. They appoint their own staff, and their rules state that "any financial consequences of a dispute or appeal to the ILO Administrative Tribunal are to be borne by the language group concerned".

104 However, some of the ILO case law indicates that a potential Union obligation towards staff of the three translation services cannot be completely ruled out. Low though this risk is, the UPU mentioned the obligations relating to staff benefits as a possible liability. At the end of 2016, the total amount of 11.4 million CHF (11.1 million CHF at the end of 2015) represented the net obligations of the three translation services towards their staff for the Provident Scheme and health insurance after separation from service. The amount in question was calculated by the UPU consultant actuary using the same methodology as for staff benefit obligations for Union staff and staff of the other entities included in the consolidated accounts.

⁷ IPSAS 1, point 129.d.

⁸ IPSAS 17, point 89.c.

Segment reporting

105 This information appears in note 27 to the consolidated financial statements. The goal of such reporting is to break down assets, liabilities, expenses and revenue into the various segments. The presentation adopted by the UPU complies with the requirements of IPSAS 18.

*UPU*Clearing*

106 The SFAO carried out a specific analysis of the UPU*Clearing system. This analysis was aimed at identifying the transactions possible with this system, examining the existing ICS at the UPU, and assessing the risk of "misuse" of the system for illegal or fraudulent ends. Of course, the ICS of the system's users could not be examined by the SFAO.

107 The SFAO came to the following conclusions:

- The users of the system constitute a closed, clearly identified group.
- Various control measures exist.
- All bills entered in the system had already been through a double appropriate procedure (CN xx forms) or double checking (UPU bills). Furthermore, these approval and control procedures are performed by persons other than those who enter the bills in the system. As such, there is a separation of functions which strengthens the ICS.
- The UPU never has to pay anything to members of the system. This means that, for the organization, there is zero risk of wrongful disbursement of funds.

108 The main potential risk identified concerns the entry by a member in net.WEB of erroneous bills, or bills already paid. It is therefore the system participants, rather than the UPU, which need to put in place effective ICS measures to avoid accepting an incorrect bill. Under the Clearing Regulations, each debtor country is responsible for checking the bills sent to it by other postal administrations.

109 Following the various checks, the SFAO feels that the use of the UPU*Clearing system for fraudulent purposes is not impossible, but unlikely. To do so would mean staging a fraud involving several different parties (those approving CN xx forms, those managing bank payment details, users of net.WEB), in at least two different countries.

List of additional entries not put to account

110 The SFAO has no additional entries not put to account to mention this year.

Conclusion

111 As a result of the work carried out, the SFAO is in a position to confirm that the UPU's 2016 consolidated financial statements have been presented in conformity with IPSAS. Moreover, and considering the pre-defined materiality threshold, it also confirms that the accounting data published in the consolidated financial statements corresponds with the UPU accounts.

112 Consequently, it is able to issue the audit opinion attached to this report and drawn up in accordance with paragraph 5 of the Additional terms of reference governing external audit (annexed to the UPU Financial Regulations).

SWISS FEDERAL AUDIT OFFICE
(External Auditor)

Eric-Serge Jeannet
Deputy Director

Didier Monnot
Head of Audit Mandates

External auditor's report

To the Council of Administration of the Universal Postal Union (UPU)

Opinion

The SFAO has audited the consolidated financial statements of the UPU at 31 December 2016, which comprise the statement of financial position (financial statement I), the statement of financial performance (financial statement II), the statement of changes in net assets (financial statement III), the statement of cash flow (financial statement IV), and the statement of comparison of budget and actual amounts (financial statement V), together with the notes attached to the financial statements, including the summary of the principal accounting methods.

In the SFAO's opinion, the consolidated financial statements present fairly, in all material aspects, the financial position of the UPU at 31 December 2016, and its financial performance and cash flows for the financial year ending on that date, in accordance with the provisions laid down in the International Public Sector Accounting Standards (IPSAS) and the UPU Financial Regulations.

Basis for the opinion

The SFAO conducted its audit in accordance with the International Standards on Auditing (ISAs). Its responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of this report. The SFAO is independent of the UPU in accordance with the ethical rules applicable to its audit of the consolidated financial statements in Switzerland, and it has fulfilled its other ethical responsibilities in accordance with these rules. It believes that the audit evidence it has obtained is sufficient and appropriate to provide a basis for its opinion.

Responsibilities of the UPU management for the consolidated financial statements

The management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IPSAS and the UPU Financial Regulations, and for such internal control as it deems necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the UPU'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 management either intends to liquidate the UPU or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the UPU's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

The SFAO's objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report containing its 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, the SFAO exercises professional judgement and maintains professional scepticism throughout the audit. It also:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for its 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;

- Obtains 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 UPU's internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management;
- Draws conclusions as to the appropriateness of the 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 UPU's ability to continue as a going concern. If the SFAO concludes that a material uncertainty exists, the SFAO is required to draw attention in its auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify its opinion. Its conclusions are based on the audit evidence obtained up to the date of its auditor's report. However, future events or conditions may cause the UPU to cease to continue as a going concern;
- Evaluates 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;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the UPU to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and realization of the UPU audit, and assume full responsibility for our audit opinion.

The SFAO communicates 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 it identifies during its audit.

Berne, 16 June 2017

SWISS FEDERAL AUDIT OFFICE⁹
(External Auditor)

Eric-Serge Jeannet
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Follow-up of recommendations from previous audits

As indicated in paragraph 12, this annex sets out the status of the recommendations issued in previous audit reports that have not been implemented.

Summary table of outstanding recommendations

<i>Audit report</i>		<i>Recommendations</i>			
<i>No.</i>	<i>Date</i>	<i>No.</i>	<i>Type¹⁰</i>	<i>Unit</i>	<i>Planned date of implementation</i>
12390	20.12.2012	3	Management	DRH	31.05.2017
12390	20.12.2012	4	Management	DRH	31.05.2017
12390	20.12.2012	6	Management	DRH	31.12.2017
13262	13.06.2013	1	IT	PTC	30.06.2017
13262	13.06.2013	3	IT	PTC	30.06.2017
13262	13.06.2013	4	IT	PTC	31.12.2017
13262	13.06.2013	5	IT	PTC	31.03.2017
13262	13.06.2013	6	IT	PTC	31.03.2017
13264	21.01.2014	1	Management	IB	30.06.2017
13264	21.01.2014	2	Management	IB	30.06.2017
13264	21.01.2014	3	Management	IB	30.06.2017
13264	21.01.2014	4	Management	IB	30.06.2017
14190	30.06.2014	2	IT	PTC	31.12.2016
14192	19.02.2015	5	Management	DCSC	31.12.2018
14192	19.02.2015	6	Management	DCSC	31.12.2017
15064	02.09.2016	1	Management	GR-MIS	31.12.2017
15064	02.09.2016	2	Management	GR-MIS	31.12.2017
15064	02.09.2016	3	Management	GR-MIS	31.12.2017
15064	02.09.2016	4	Management	GR-MIS	31.12.2017
15064	02.09.2016	5	Management	GR-MIS	31.12.2017
16114	27.06.2016	1	FS	DFI	31.12.2017

As the table shows, there are still 21 outstanding recommendations. A detailed list of the recommendations still outstanding along with their current status is presented below.

Comment by the Director General: For all the recommendations, objectives for implementation were agreed between the General Management and the specialist directors. They will be followed up by the General Management and the Internal Audit Committee.

The human resources strategy for 2017–2020 has been adjusted. In addition, administrative instruction 22, "Flexitime and the UPU time-keeping system", is in the process of being changed. A new IT strategy is being rolled out. A new IT Advisory Committee was formed in 2017.

¹⁰ FS: recommendations concerning the financial statements, presentation of accounts and accounting Management: recommendations concerning management in general.
IT: recommendations concerning IT.

A procurement policy was approved in March of this year. This should respond to the SFAO's recommendations.

Detailed table of outstanding recommendations

Recommendation 3 from the 20 December 2012 financial audit report (No. 12390) on the process for managing working hours and absences: I invite the UPU to revise and regularly update its HR strategy.

Comments by the Director General: The new cycle (2013–2016) started on 1 January 2013. The Doha Postal Strategy sets the UPU objectives for the cycle. However, as the purpose of the DRH is to provide administrative support to the IB, it requires a certain period of time to better understand the needs and objectives of the other IB directorates, in order to respond in an optimal and comprehensive manner. However, the DRH can already put together its general HR strategy for the new cycle based on the strategy from the last cycle and the Doha Strategy. The DRH could thus present a strategy outline at the next CA session.

Status according to the follow-up conducted in August 2015: The recommendation has not yet been implemented. The SFAO will review the implementation of this recommendation in August 2017.

Recommendation 4 from the 20 December 2012 financial audit report (No. 12390) on the process for managing working hours and absences: I recommend that the UPU update its processes for the management and monitoring of working hours and, in so doing, formalize its related internal control system. Further, an employee departure checklist could be created in addition to the recruitment checklist. The latter could be expanded to include basic training related to the DRH's administrative instructions.

Comments by the Director General: The DRH agrees with this recommendation.

The processes related to the management and monitoring of working hours should be updated using the application available for that purpose (Qualigram). This could be one of the DRH's objectives for 2013 and would result in the updating of the internal control system.

When an employee leaves (retirement, separation from service, death), the DRH uses an internal checklist to perform the necessary tasks. Since the process also concerns other directorates, like the DL and the DFI, it might be a good idea to consider creating a common checklist, if the directors concerned agree on the usefulness of such a tool.

As soon as the rules and administrative instructions have been updated, it would indeed be a good idea to provide staff with basic training on them. This training could be done through e-learning modules designed in cooperation with the DCDEV under the Trainpost project.

Status according to the follow-up conducted in August 2015: The recommendation has not yet been implemented. The SFAO will review the implementation of this recommendation in August 2017.

Recommendation 6 from the 20 December 2012 financial audit report (No. 12390) on the process for managing working hours and absences: To guarantee a certain degree of transparency and uniformity between directorates, and to establish a double-checking system (employee and supervisor), I invite the UPU to prepare an internal directive dealing with the allocation of working days to the headings of the Programme Budget. Spot checks could also be carried out regularly to compare this allocation to the actual working hours calculated by VisualWeb.

Comments by the Director General: The External Auditor has observed that the monthly allocation of working hours in relation to the Programme and Budget is carried out differently in the various directorates. The recommendation to publish an internal directive could indeed improve the transparency and uniformity of reporting in this area. The DRH could prepare a draft directive on this subject and submit it to the Management Committee prior to publication.

Status according to the follow-up conducted in August 2015: The recommendation has not yet been implemented. This issue should be handled jointly by the DRH and DFI. The SFAO will review the implementation of this recommendation in August 2017.

Recommendation 1 from the 13 June 2013 report (No. 13262) on the audit of the 2012 financial statements: I invite the UPU to reinforce its IT governance for the whole organization, including the extrabudgetary units. This entails setting up an IT Steering Committee which would also have the role of coordinating all IT projects. I propose that the UPU draw inspiration from the COBIT (Control Objectives for Information and Related Technology) framework, which defines good practices in this area.

Comments by the Director General: The UPU agrees with the recommendation and has taken it into account for the work of the IT Steering Committee.

Status according to the follow-up conducted in November 2016: The merger of the DL.PIM and PTC entities officially took effect on 1 January 2017, simultaneously with the start of the new Congress cycle. To reinforce IT governance in the new organization, an IT "steering board" will be created. IT governance will henceforth cover the whole organization, i.e. all internal entities and the extrabudgetary cost centres (PTC, EMS, etc.). The PTC already uses the COBIT standard to define its processes. As this entity was not audited in 2016, the SFAO will check on this point during its future missions. In particular, it will be interesting to see how the UPU integrates existing processes into the new IT governance structure. The "steering board" will be an important element of the new organization, and will need to define the rules for IT governance.

Recommendation 3 from the 13 June 2013 report (No. 13262) on the audit of the 2012 financial statements: I welcome the initiative taken to optimize the project management process by adapting the HERMES methodology to the organization's needs. However, the current situation does not yet allow for optimal management of projects. This is why I recommended that the UPU introduce a system to improve project management. In carrying out an IT project, it is essential for project managers to be trained and supported by the IT service. The updating of the IT portfolio should involve all UPU directorates and units.

Comments by the Director General: The UPU agrees with the recommendation and has taken it into account for the work of the IT Steering Committee.

Status according to the follow-up conducted in November 2016: The UPU plans to define a new IT project methodology which will be implemented with the entry into force of the new organization. The old method of project management used by DL.PIM will be dropped. However, the UPU wishes to integrate a good number of elements from that approach into its new methodology.

Recommendation 4 from the 13 June 2013 report (No. 13262) on the audit of the 2012 financial statements: I encourage the UPU to continue its project to put in place an organization-wide business continuity management system, involving operational and IT stakeholders. This measure should serve to protect individuals and infrastructure, and ensure business continuity in the event of a disaster.

Comments by the Director General: The UPU agrees with the recommendation and has taken it into account for the work of the IT Steering Committee.

Status according to the follow-up conducted in November 2016: Only certain elements of the business continuity management (BCM) system are currently in place. There is still no full global concept. The UPU needs to continue its work in this area. Among other things, it is planned to develop/complete the business continuity plan (BCP), which forms part of the BCM. The UPU will also complete its disaster recovery plan (DRP), which currently exists solely for the systems of DL.PIM. The future DRP needs to also take account of the new IT architecture of the PTC, which is increasingly moving towards cloud solutions. Work in the BCM area, including the BCP and DRP, is planned for a second phase, following the end of the IT reorganization.

Recommendation 5 from the 13 June 2013 report (No. 13262) on the audit of the 2012 financial statements: I invite the UPU to take the necessary steps for all the organization's requests – i.e. from all directorates, and internal and external clients – to be submitted through one single system by all IB units.

Comments by the Director General: The UPU agrees with the recommendation and has taken it into account for the work of the IT Steering Committee.

Status according to the follow-up conducted in November 2016: The UPU plans to use a single request management tool across the whole organization following the merging of DL.PIM and the PTC. The current EasyVista-iDiL solution will be integrated into the PTC's ADILOFT application, including migration of open tickets. A review of NAVISION access rights has been carried out, but it has not been documented in EasyVista-iDiL.

Recommendation 6 from the 13 June 2013 report (No. 13262) on the audit of the 2012 financial statements: I repeat one of my previous recommendations, which was to put in place a formal process for harmonizing and automating the monitoring of relationships with external suppliers. The review and updating of contracts with third parties are integral parts of this process.

Comments by the Director General: The UPU agrees with the recommendation and has taken it into account for the work of the IT Steering Committee.

Status according to the follow-up conducted in November 2016: All contracts above 20,000 CHF need to be approved by the Tenders and Procurements Committee. Contracts with external suppliers are now monitored. The audit also showed that several services are involved in monitoring contracts and supplier relationships, and they use several different tools. To improve the situation, the UPU plans to manage all suppliers and contracts through a single central customer relationship management tool.

Recommendation 1 from the 21 January 2014 report (No. 13264) on the financial audit on management of procurements and provision of services: We recommend that the UPU formally appoint deputies for the Tenders and Procurements Committee (TPC) members. We also invite the UPU to define key criteria and required profiles for each member and each deputy sitting on this Committee.

Comments by the Director General: This recommendation will be implemented.

Status according to the follow-up conducted in August 2015: The recommendation is in the process of being implemented but it is still to be considered open. The recommendations stemming from this report were dealt with simultaneously within the framework of a project dealing with tenders and procurements headed by the Cabinet. The SFAO will review the implementation of this recommendation in August 2017.

Recommendation 2 from the 21 January 2014 report (No. 13264) on the financial audit on management of procurements and provision of services: We recommend that the UPU standardize exception requests sent by directorates to the TPC, in particular with a view to strengthening transparency and traceability of information and optimizing decision making by the Director General.

Comments by the Director General: The UPU will take steps to standardize exception requests, as recommended.

Status according to the follow-up conducted in August 2015: The recommendation is in the process of being implemented but it is still to be considered open. The recommendations stemming from this report were dealt with simultaneously within the framework of a project dealing with tenders and procurements headed by the Cabinet. The SFAO will review the implementation of this recommendation in August 2017.

Recommendation 3 from the 21 January 2014 report (No. 13264) on the financial audit on management of procurements and provision of services: We recommend that the UPU formally define rules stating that, at each session of the TPC, the principle of disqualification should be recalled before the decision is taken.

Comments by the Director General: The UPU agrees with the recommendation and will recommend to the Chair of the TPC that the principle of disqualification be formalized.

Status according to the follow-up conducted in August 2015: The recommendation is in the process of being implemented but it is still to be considered open. The recommendations stemming from this report were dealt with simultaneously within the framework of a project dealing with tenders and procurements headed by the Cabinet. The SFAO will review the implementation of this recommendation in August 2017.

Recommendation 4 from the 21 January 2014 report (No. 13264) on the financial audit on management of procurements and provision of services: We recommend that the UPU examine whether centralized administrative support for the directorates reporting to the TPC would enhance efficiency and serve the cost-benefit principle.

Comments by the Director General: The UPU will study the possibility of introducing centralized administrative support for the TPC, taking into account resources and structures.

Status according to the follow-up conducted in August 2015: The recommendation is in the process of being implemented but it is still to be considered open. The recommendations stemming from this report were dealt

with simultaneously within the framework of a project dealing with tenders and procurements headed by the Cabinet. The SFAO will review the implementation of this recommendation in August 2017.

Recommendation 2 from the 30 June 2014 report (No. 14190) on the audit of the 2013 financial statements: The management and review of users and access rights for the salary management systems should be assigned to the DRH so as to respect the separation between IT and HR.

Comments by the Director General: I agree with this recommendation; henceforth, the DRH will be responsible for managing access rights to the business applications relating to HR.

Status according to the follow-up conducted in November 2016: This recommendation has not yet been implemented. This point will be reviewed again once the new HR applications have been put in place.

Recommendation 5 from the 19 February 2015 report (No. 14192) on the financial monitoring audit of the internal control system project: We also recommend that the UPU strengthen its ICS control strategy. The results of the ICS report addressed to the Director General should be used to define the objectives of the mandates assigned to the internal auditor, so that a key process can be audited each year over a five-year cycle.

Comments by the Director General: Consolidating the coordination of oversight functions within a single entity attached to the Executive Office will strengthen the link between the internal audit function and the ICS. However, it should be noted that, in accordance with the recommendations made as part of the audit of the evaluation of the internal audit service (recommendation No. 5), the internal audit mandates are established on the basis of the most recent risk analysis conducted at the UPU (first half of 2014).

Status according to the follow-up conducted in August 2015: The SFAO welcomes the fact that the mandates of the internal audit service are chosen on the basis of risk analysis. However, it also sees one of the tasks of the internal auditor as being to check the "monitoring loop" through sampling and according to a rotation plan. Consequently, the SFAO feels that the UPU needs to ensure that it implements this recommendation when it comes to draw up the mandate for the new service provider designated as internal auditor for the 2017–2022 period. The SFAO therefore considers that this recommendation stands. The SFAO will review the implementation of this recommendation in August 2017.

Recommendation 6 from the 19 February 2015 report (No. 14192) on the financial monitoring audit of the internal control system project: The UPU should put into place a process for identifying and managing risks within each directorate and should incorporate the most important risks in the risk matrix developed for the ICS. The work of formalizing the processes should be continued. A quality control process should make it possible to check the relevance of the processes, risks and controls defined.

Comments by the Director General: This process for identifying and managing risks already exists through the monitoring loop, as part of which directorates must identify all risks relating to the ICS in their respective areas. This is all the more true since the integration of the BCP into the evaluation annexes. The work of formalizing processes with Qualigram will continue in 2015; the tool is already used in a number of contexts (Klastoo, DAJ processes, etc.).

Status according to the follow-up conducted in August 2015: This recommendation has not been fully implemented: the first phase may be considered completed; however, the work on formalization of processes, and implementation of quality assurance, is still to be done. The SFAO will review the implementation of this recommendation in August 2017.

Recommendation 1 from the 2 September 2016 report (No. 15064) on the financial monitoring audit of the internal control system project: We encourage the UPU to identify, for each directorate, an ICS objective to be included in the annual performance assessments. We also recommend that the UPU update the work descriptions of the GR-MIS programme coordinator and expert by including formal ICS objectives to be achieved.

Comments by the Director General: An ICS-related objective was included among the annual objectives assigned to directors in 2016. The terms of reference of the GR-MIS programme expert were established in 2016, and those of the coordinator will be established during the first half of 2017.

Status update: The SFAO has not performed follow-up on this recommendation. The first review will take place in August 2017.

Recommendation 2 from the 2 September 2016 report (No. 15064) on the financial monitoring audit of the internal control system project: We recommend that the UPU simplify the ICS analysis and reporting tools by focusing on the primary risks.

Comments by the Director General: The risk self-assessment for 2016, which has replaced the monitoring loop, involved a simplification of the risks and controls and of the process of determining them.

Status update: The SFAO has not performed follow-up on this recommendation. The first review will take place in August 2017.

Recommendation 3 from the 2 September 2016 report (No. 15064) on the financial monitoring audit of the internal control system project: We recommend that the UPU strengthen ICS-related training and communication, in particular by organizing: 1) training for all new staff members on the UPU's core principles and operations, including the ICS, ethics, staff rules and regulations, and so on; 2) an ICS training workshop on the processes, risks and controls of each directorate, to be coordinated by the DCSC; 3) an annual ICS team meeting within each directorate.

Comments by the Director General: The information on the basic principles and functioning of the UPU is available via the ICS page on the International Bureau internet (as is the information on ethics and the Staff Regulations and Rules). An ICS training session for P 4 staff and above was organized in December 2016, during which each directorate (by team) established its own risk self-assessment. That work will be duly incorporated into the ICS report 2016.

Status update: The SFAO has not performed follow-up on this recommendation. The first review will take place in August 2017.

Recommendation 4 from the 2 September 2016 report (No. 15064) on the financial monitoring audit of the internal control system project: We recommend that each directorate's strategic and subordinate units all formalize the ICS in their own risk/control matrix.

Comments by the Director General: The ICS has now been formalized for each directorate in the form of risk/control matrices. As part of the 2016 exercise, each directorate determined the risks and controls for all the resolutions and work programmes associated with the Istanbul World Postal Strategy. In addition, a global risk analysis of the organization has been included in the internal audit service's work programme for 2017.

Status update: The SFAO has not performed follow-up on this recommendation. The first review will take place in August 2017.

Recommendation 5 from the 2 September 2016 report (No. 15064) on the financial monitoring audit of the internal control system project: In order to strengthen the ICS, we recommend that the UPU prioritize the updating of the Internal Rules and that it require each directorate to implement a replacement plan for staff absences.

Comments by the Director General: The Internal Rules will be updated in 2017/2018 as part of the follow-up to the audit recommendations. The General Management and the DCSC will also take the measures needed to establish a global replacement plan for staff absences.

Status update: The SFAO has not performed follow-up on this recommendation. The first review will take place in August 2017.

Recommendation 1 from the 27 June 2016 report (No. 16114) on the audit of the 2015 consolidated financial statements: The SFAO recommends that the DFI close the inactive funds, following the instructions given by the external funding bodies or project managers.

Comments by the Director General: We agree with this recommendation and the work has commenced.

Status according to the follow-up conducted in May 2017: The work commenced and some funds were closed in 2016. However, certain funds for which instructions from external funding bodies are needed have not yet been closed. The work begun in 2016 therefore needs to continue.