UNIVERSAL
POSTAL
UNION

EIDGENÖSSISCHE FINANZKONTROLLE
CONTRÔLE FÉDÉRAL DES FINANCES
CONTROLLO FEDERALE DELLE FINANZE
SWISS FEDERAL AUDIT OFFICE

Audit of 2019 financial statements

Universal Postal Union (UPU)

CDF-20338 | External Auditor's report | 24 August 2020

Bestelladresse Adresse de commande Indirizzo di ordinazione Ordering address	Swiss Federal Audit Office Monbijoustrasse 45 3003 BERNE SWITZERLAND
Bestellnummer Numéro de commande Numero di ordinazione Ordering number	1.20338.942.00310.002
Zusätzliche Informationen Complément d'informations Informazioni complementari Additional information	www.efk.admin.ch info@efk.admin.ch twitter: @EFK_CDF_SFAO + 41 58 463 11 11

Table of contents

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.

For further information, please contact:

Mr Eric-Serge Jeannet, Deputy Director, Tel. +41 58 463 10 39, eric-serge.jeannet@efk.admin.ch

Mr Didier Monnot, Head of Audit Mandates, Tel. +41 58 463 10 48, didier.monnot@efk.admin.ch

Audit of 2019 financial statements

Universal Postal Union (UPU)

Summary of the audit

1. The audit of the 2019 financial statements of the Universal Postal Union (UPU), carried out in spring 2020, was unfortunately affected by the COVID-19 global pandemic. Despite this, the Swiss Federal Audit Office (SFAO) managed to complete its work more or less "normally" while observing the safety rules in place to protect all of the individuals concerned. Practical, pragmatic solutions were adopted. None of this would have been possible without the engagement and individual efforts of the UPU staff and the audit team. The SFAO wishes to convey its thanks and recognition.
2. The 2019 financial statements of the UPU were prepared in accordance with the International Public Sector Accounting Standards (IPSAS). The audit of these statements gave a satisfactory result overall, and the SFAO is able to issue an audit opinion without reservation.
3. However, the SFAO noted shortcomings in certain areas and has issued a number of recommendations with a view to their elimination. An effort must be made by the Finance Directorate (DFI) in particular to improve various aspects of the account closure and financial statement preparation procedure.

There is significant doubt as to the Union's ability to continue as a going concern

4. The financial situation of the UPU is worrisome. Firstly, the balance sheet shows negative equity of 235 million CHF at the end of 2019, while total assets stood at 242 million. Secondly, the situation regarding the Union's liquid assets is a matter for concern. Whereas the Union should act as guarantor for its Provident Scheme when the latter falls below a minimum level of coverage of 85%, the total amount that would need to be paid at the end of 2019 to achieve this level of coverage is 30.5 million CHF.
5. The settlement of such an amount would lead to serious cash-flow problems for the Union and, as such, represents a material uncertainty which could cast significant doubt on the organization's ability to continue as a going concern. This issue was acknowledged by the UPU and a long-term financing plan was established with a view to fully recapitalizing the Provident Scheme by 2045. The plan is to be submitted for formal adoption at the next Congress – a decision which would enshrine this objective in the basic Acts of the organization.
6. Other factors could adversely affect the financial situation. For instance, the International Bureau building is in need of renovation. Some of this work is vital as the electrical installations and fire protection system are obsolete and need to be brought up to current standards. In the estimation of the architectural consultant, the cost of the most urgent work would be 19.5 million CHF. Efforts are being made to raise these funds.
7. The SFAO requested that the General Management evaluate the organization's ability to continue as a going concern. Having examined the situation and the simulations of possible

changes in cash flow, the General Management has concluded that the organization's ability to continue as a going concern is not threatened in the short term.

Regulations, standards and information

Financial regulations and purpose of the audit

8. Financial year 2019 was governed by the relevant provisions of the Constitution and of the General Regulations (Istanbul 2016); 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).

9. This report describes the audits of the UPU's consolidated financial statements drawn up at 31 December 2019, 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.

10. The 2019 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

11. The audit was conducted in accordance with the International Standards on Auditing (ISA[1]), and in compliance with the additional terms of reference annexed to the UPU's Financial Regulations.

12. The ISA define the role that the auditor must fulfil with regard to the risk of misstatements in the financial statements, whether caused by fraud or error (ISA 240). Consequently, the External Auditor adopted procedures specific to this field.

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

14. The result of the audit was initially communicated to the DFI at meetings on 18 December 2019 and 29 June 2020. 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 J.-A. Ducrest, Director of Logistics; Mr O. Dreier, Accounting, Budget and Treasury Programme Manager; and Ms X. Fu, Risk Controlling and Management Information Systems Coordinator. The SFAO was represented by Mr E.-S. Jeannet, Deputy Director; Mr M. Köhli, Competence Centre Manager; and Mr A. Crevoiserat, Audit Manager.

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

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

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

17. 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.

18. In accordance with article 9 of the Additional terms of reference governing external audit, the Director General sent the SFAO his comments by e-mail on 5, 17 and 24 August 2020. They are included in this report.

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

Examination of the work of the Internal Auditor

20. 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 since 2011.

21. The internal audit reports[2] that were reviewed contain some observations which, while requiring action on the part of the UPU, did not have a direct and significant impact on the work of the SFAO.

22. However, the SFAO would draw attention to Report 02.2019 on Funding, which contains comments on the rules relating to the management of accounts receivable. In the view of the Internal Auditor, these rules, while respected by the IB, are too lax (unpaid contributions for a given year can remain due indefinitely, a payment of 1 CHF is enough to defer reminders for a year, countries can omit to pay up to four years' contributions before being subjected to sanctions, etc.). The SFAO shares this view.

Follow-up of recommendations

23. Review of the recommendations shows that the International Bureau has made efforts to speed up their implementation. Five recommendations are still outstanding. They are listed in Annex 2 to this report.

[2] The reports examined were the following:

- Report 01.2019: Risk assessment and audit planning;
- Report 02.2019: Funding
- Report 03.2019: Pension fund
- Report 04.2019: Follow-up of recommendations
- Report 05.2019: Annual activity
- Report 06.2019: Communication at the IB

IT audits

Work done

24. During the interim audit at the end of 2019, the SFAO carried out 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;
- Access rights management;
- Management of IT operations.

25. The SFAO verified the existence of general IT controls by carrying out on-site surveys. It was unable to fully confirm the existence of the ICS in this area owing to a lack of examples (e.g. programme changes) or evidence (e.g. verification of authorized users in access management, see paragraph 27).

26. Compared with the previous year, the situation has improved with respect to the management and review of users and access rights for salary management systems. The improvements made relate in particular to change management. A new procedure is being used to assign user access rights. Access needs to be approved by competent persons in the areas of finance and payroll. Implementation of access rights is a matter for the Postal Technology Centre (PTC). The SFAO feels that the separation of functions is better now than it was in the past.

27. However, the SFAO noted that "super users" and external parties still have excessively broad access rights. The internal auditor also raised this matter and issued a recommendation. Moreover, regular, documented review of existing users and access rights is still lacking. In particular, an Excel printout of a basic list of existing users cannot be considered as valid evidence, particularly where that list is neither dated nor signed.

28. To show that progress was made but that weaknesses remain, the SFAO decided to consider recommendation 2, made in report 14090, as closed. The areas in which weaknesses persist were covered in recommendation 1 of report 18055, which deals with a similar issue.

29. The SFAO did, however, find the other general IT controls to be adequate to cover the IT risks surrounding regular accounting and bookkeeping.

30. The integration of DL.PIM into the PTC will result in the further integration of IT into the overall organizational structure. The PTC has organized its control processes and measures in accordance with recognized standards, such as the IT Infrastructure Library (ITIL).

31. The PTC has launched a project which should allow for management of all UPU IT services in line with best practices and usual standards. The SFAO wishes to underline the importance of organizing all areas of IT in accordance with the same processes and basing them on the same audit evidence. Work is under way in this respect and is expected to be completed in 2020.

32. As regards business continuity management, certain security measures are in place, such as backing up data outside the organization and duplicating (mirroring) IT environments. However, a formalized strategy and measures relating to building security are still lacking. In this regard, a project was launched as part of ISO 27001 certification.

33. The SFAO also followed up the three recommendations from previous audits. One recommendation was implemented and may be considered closed. For the remaining two, action plans and implementation deadlines have been partially set.

34. Additional information on the recommendations that are still outstanding is provided in Annex 2 to this report.

Financial monitoring audits

The need to renovate the building is clear

35. Given the apparent dilapidation of various elements of the main building, the SFAO conducted an audit to take stock of the situation. In particular, it examined the plausibility of the report by the architectural consultant and noted the different scenarios envisaged for the future.

36. Work was carried out in the final quarter of 2019, the results of which were communicated at the final meeting of 19 December 2019, with Mr P. Clivaz, Deputy Director General, J.-A. Ducrest, Director of Logistics, and A. Kerll, General Services and Conferences Programme Manager.

37. On the basis of its various visits, the SFAO can corroborate the internal observations of the International Bureau. There are multifarious issues and risks associated with the internal layout, large-scale maintenance and infrastructure of the building, particularly with respect to the safety of electrical installations.

38. The SFAO considers that the report of the architectural consultant commissioned by the Management is generally plausible and coherent. However, it should in no way be considered as a renovation plan per se. This will help to avoid any misunderstandings around the terminology to be used in future negotiations with the host state.

39. The SFAO further noted that the International Bureau has not developed a concept for the value retention of the building, which is central to its renovation. Moreover, the SFAO considers that the UPU is not currently in a position to fully assume the role of building owner. In particular, the budgets for the repair and other costs associated with the building are inadequate for the maintenance and long-term restoration of the structure. There is a lack of expertise within the organization to clarify the roles of building owner (or the owner's representative), manager and users, and to maintain the value and security of the infrastructure in the long term. These points should be taken into consideration immediately, or at the latest when an actual renovation project is launched.

Evaluation of the SFAO

The UPU building is exposed to risks related to dilapidation and above all safety. Certain work is vital as the electrical installations and fire protection system are obsolete and need to be brought up to current standards. In the estimation of the architectural consultant, the cost of the most urgent work would be 19.5 million CHF. This would have a considerable impact on an already very critical financial situation.

Recommendation 1

The SFAO recommends that the UPU define a concept and then put in place professional tools to enable it to act as building owner and protect the value of the main building in the long term.

Comments by the Director General

As part of the building renovation plans, the International Bureau is currently analyzing management models that incorporate the role of the building owner to ensure that the value of the main building is preserved. The development phases of the project will follow a schedule jointly drawn up by the host state, the FIPOI (the Building Foundation for International Organizations) and the UPU General Management. Furthermore, the Director General is proposing the inclusion of a reference to the future creation of a renovation reserve and a maintenance fund, in line with best practice.

(Scheduled date for implementation: late 2024)

Audit of 2019 consolidated financial statements

40. The audit carried out related to the 2019 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 in accordance with IPSAS.

Analysis of accounting data

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

42. The analysis focused on the individual accounting of the Union. The results of these analyses were processed by the SFAO, and the additional work did not reveal any particular problems.

Result for financial year

43. 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.

44. 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 2019 financial year. The excess expenses for

the 2019 financial year amount to 4,995,694 CHF. The previous financial year ended in excess income of 78,584 CHF.

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

IPSAS implementation

46. The IPSAS Board has published two new standards which will take effect after 31 December 2019:

- IPSAS 41: Financial Instruments (coming into force on 1 January 2022);
- IPSAS 42: Social Benefits (coming into force on 1 January 2022).

47. IPSAS 41 will entail, among other things, changes to the valuation of investments and depreciation of financial assets such as accounts receivable. The rules relating to provisions for debts will need to be thoroughly reviewed. Significant work must be done to prepare for the application of this new standard. The SFAO encourages the UPU to follow the work of the Task Force on Accounting Standards, with a view to adopting a common approach with the other UN specialized agencies. The standards require retrospective application which entails restatement of the opening balances.

Evaluation of the SFAO

The entry into force of IPSAS 41 will have significant consequences for the UPU. It is important that the organization anticipate the impacts caused by the introduction of this standard. Without making any formal recommendation, the SFAO encourages the UPU to take the necessary steps to seriously prepare for the entry into force of IPSAS 41. Preliminary work must be started in 2020, since accounts will need to be restated as of 1 January 2021 as part of the 2022 closing procedure.

Comments by the Director General

The International Bureau will begin studying the impacts of the entry into force of IPSAS 41 on the UPU accounts from 2020 so as to facilitate its application as of 1 January 2022 and the restatement of accounts as of 1 January 2021.

48. IPSAS 42 provides indications on the accounting of expenses relating to social benefits. Social benefits are defined as cash transfers paid to specific individuals and/or households to mitigate the effect of social risk. This new standard will have no impact on the UPU financial statements.

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

49. In the 2018 financial statements audit report, the SFAO issued a recommendation on the improvement of the ICS relating to the account closure and financial statement preparation procedure.

50. As a result of the steps taken by the DFI to improve the situation, full financial statements were submitted to the SFAO from the start of the audit – a marked improvement on the previous final audit.

51. However, the annual accounts and bookkeeping records for 2019 contained a number of errors. The most significant of these are mentioned in the list of additional entries not put to account, in paragraph 132 of this report. These errors, in addition to those which were not included in this report, demonstrate that the four-eyes review was not conducted well enough.

52. Furthermore, some of the supporting documents submitted to the SFAO were of poor quality. This was the case for the summary table of bonds valued at amortized cost. In view of the number of errors that it contained, this document, which is important for account closure, was not subject to a satisfactory four-eyes review. Inaccuracies were also observed in areas not directly linked to accounting, such as unrecognized commitments.

53. In the light of these issues, the SFAO considers that the ICS relating to the account closure and financial statement preparation procedure remains inadequate. Recommendation 1 of report 19027 therefore stands.

54. The COVID-19 pandemic has highlighted the importance of decentralized working arrangements. At the UPU, processes functioned correctly despite restrictions on access to the International Bureau building. The SFAO notes that the audit ran smoothly and all documents required for its checks were provided. However, staff members had to travel to meet the auditor’s requests because most of the organization's accounting data was not available electronically. More often than not, accounting operations were evidenced by paper documents only.

55. The SFAO considers that the UPU should launch a project to digitalize all accounting data. At the same time, it should address the issue of personnel files, which are also only available in hard copy. This situation presents clear risks in the event of a disaster (earthquake, fire, etc.).

Evaluation of the SFAO

Without making any formal recommendation, the SFAO considers that the UPU should examine the possibility of launching a project to digitalize accounting data and personnel files. Having these files in digital format would help to significantly improve security (backup) and would make them much easier to access at all times.

Comments by the Director General

The DFI has drawn up plans to digitalize accounting data. Efforts are also being made to this end within the Human Resources Directorate (DRH).

Going concern

56. Under the going concern assumption, it is presumed that an organization will be continuing in its operations for the foreseeable future. The financial statements were prepared on the basis of this assumption.

57. The UPU’s readily available liquid assets have been steadily decreasing over the past few years, and this situation needs to be taken very seriously. Analysis shows that payments made to recapitalize the UPU Provident Scheme have a major impact on this decrease. The Union has a guarantee obligation vis-à-vis the Provident Scheme, and several payments have been made or partially made in recent years by the Union, with the aim of increasing the scheme’s degree of coverage to 85% – the minimum level according to the provisions of the Provident Scheme Constitution.

58. Since 2017, the Union has only partially honoured its guarantee commitments. According to the actuarial expert's latest calculations (situation at 31 December 2019), the total amount needing to be paid in order to ensure a minimum 85% degree of coverage is 30.5 million CHF. The settlement of such an amount would lead to serious cash-flow problems for the Union and, as such, represents a material uncertainty which could cast significant doubt on the organization's ability to continue as a going concern. For information, the actuarial expert calculated that, at the end of 2019, the amount needing to be paid by the Union in order to ensure 100% coverage is 83 million CHF.

59. At the 2018 Extraordinary Congress in Addis Ababa, a resolution was approved to lower the minimum degree of coverage from 85% to 80%. This decision went against both the recommendation by the expert in occupational providence matters and the opinion of the External Auditor. It was not approved by the supervisory authority. At the 2019 Extraordinary Congress in Geneva, the UPU reversed its decision and re-established a minimum degree of coverage of 85%. The SFAO considers that this decision was reasonable.

60. In 2019, the UPU managed to prevent withdrawal of the United States of America, which would have had significant financial consequences, given that the annual funds received from that country stand at approximately 2.7 million CHF. Under article 28bis of the Convention, as amended by the 2019 Congress, designated operators of member countries meeting certain conditions can self-declare rates, subject to the payment of fees totalling 40 million CHF over five years. The United States, meeting those conditions, decided to remain a member of the UPU while self-declaring its rates from 1 July 2020.

61. Under article 28bis as amended, the 40 million CHF is allocated as follows: 16 million CHF to a UPU tied fund for the implementation of projects on electronic advance data exchange and postal security, under the terms of a letter of agreement concluded between the relevant designated operator and the Union; and the remaining 24 million CHF to a tied fund covering the long-term liabilities of the Union, as defined by the Council of Administration, under the terms of a letter of agreement concluded with the relevant designated operator.

62. The 16 million CHF portion should have no impact on the readily available liquid assets of the Union as it is earmarked for project funding. The Management of the UPU orally informed the SFAO that the remaining 24 million CHF would be used to recapitalize the UPU Provident Scheme. However, such an allocation needs to be approved by the Council of Administration and in a letter of agreement between the United States and the UPU. Indeed, the amended provisions of the Convention refer to the "long-term liabilities of the Union" but do not refer specifically to commitments vis-à-vis the Provident Scheme. At the date of this report, the letter of agreement has not been signed and the United States has yet to pay the first annual 8 million CHF tranche. The SFAO reminds the UPU that the letter of agreement must be signed, with a clear indication that the 24 million CHF portion is to be allocated to recapitalizing the UPU Provident Scheme. It is only on this condition that the decisions taken by the 2019 Congress will improve the financial situation of the UPU as regards operational continuity.

Comments by the Director General

The International Bureau is in contact with the designated operator of the United States of America to finalize the modalities of implementing the decision taken by the 2019 Extraordinary Congress on the remuneration of E format letter-post items.

63. At its meeting in October 2019, the Council of Administration approved the allocation of 3.7 million CHF from the 2020 budget for recapitalizing the Provident Scheme. However, the increase in the contribution unit approved by the member countries will fund only a portion of this sum. The majority (around 60%) will need to be funded by budgetary savings to be identified by the International Bureau.

64. In 2018, the International Bureau was instructed by Congress to enter into negotiations with the United Nations Joint Staff Pension Fund (UNJSPF) with a view to the Union's participation in that fund. However, following the decisions taken in 2019, the discussions with the UNJSPF were suspended. The SFAO would point out, however, that without joining the UNJSPF, the structural deficit of the Provident Scheme will continue to grow.

65. Another factor adversely affecting the readily available liquid assets of the Union is the renovation work to be done to the building. For more information on this subject, see the chapter on financial supervision audits. The SFAO reminds the UPU that the cost of the most urgent work in this regard would be 19.5 million CHF. As the organization is unable to meet the cost of this work itself, funding is currently being sought. However, even if funding is found, the financial participation of the UPU will no doubt be required.

66. The UPU is planning to ask the translation services and other entities of the Union (PTC, EMS, UPU*Clearing and IRC) to play a part in the stabilization of the Provident Scheme. Indeed, to date, only the Union has made payments aimed at recapitalizing the Scheme. Seeking a contribution from these other entities would be justified, as their staff are also insured by the Provident Scheme. While this objective is still being pursued, the actual preparatory work for invoicing the amounts due has been suspended.

67. The SFAO asked the UPU General Management to evaluate the UPU's ability to continue as a going concern. The General Management based its assessment on a five-year liquidity plan which takes account of the various possibilities. The SFAO notes that, according to the worst-case scenario, the Union's cash flow would be close to zero at the end of 2024, which is worrying. Despite this, the conclusion reached by the General Management was that the UPU is able to continue as a going concern in the short and medium term.

68. In the light of this situation, it is essential for the General Management to ensure that available resources are used in the most economical manner possible, so as to avoid further reducing the UPU's ability to continue as a going concern. Furthermore, only essential investments in the building should be made until external funding is guaranteed.

Evaluation of the SFAO

While operational continuity may not be under imminent threat, the SFAO still considers the financial situation of the UPU to be very concerning.

Comments by the Director General

The UPU always retains sufficient liquidity to service its short-term debt. The General Management is aware of the gravity of the situation and is seeking suitable funding solutions.

Cash and cash equivalents

69. The balances of the various cash accounts at 31 December 2019 were compared with those obtained from statements issued by the depositories. The cash amounts posted (42.5 million CHF in total) comply with the principle of the availability of funds within 90 days.

70. 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 2019, the UPU held a total of 16 million CHF, with the balance subject to restrictions. The readily available liquid assets of the Union continued to fall this year, standing at 19.5 million CHF at 1 January 2019. The SFAO recalls that this portion still totalled over 30 million CHF at the end of 2014. It has therefore almost halved in five years.

71. During the interim audit, the SFAO examined the internal control system (ICS) in cash and investment processes. The results were positive: the SFAO noted that the ICS relating to the monthly reconciliation process for bank accounts is effective.

72. The SFAO points out that the UPU has worked with a bank with a low rating (BBB) for many years. At 31 December 2019, the Union was holding 1.2 million CHF with this institution.

Evaluation of the SFAO

The UPU is exposed to a significant credit risk in so far as it has invested funds of 1,180,446 CHF in a bank rated only BBB by recognized rating agencies. As a reminder, article 18 of the Financial Regulations states that "The Director General shall choose the banks or other institutions in which the funds shall be deposited. In this respect, optimum security shall be sought [...]".

Recommendation 2

The SFAO recommends that the UPU reduce its risk by investing funds only in banks or other institutions offering a high level of security.

Comments by the Director General

The General Management agrees with this recommendation and will take measures to reduce its credit risk by investing its liquid assets with banks or other institutions offering a high level of security.

(Scheduled date for implementation: December 2020)

Investments

73. Total current investments amounted to 50.2 million CHF at the end of 2019. Meanwhile, investments only realizable after 31 December 2020 amounted to 66.7 million CHF and were presented with the non-current assets. Total investments therefore amounted to 116.9 million CHF, up from 108.1 million CHF at 31 December 2018.

74. In 2018, several bonds with maturities ranging from 2019 to 2022 were acquired for a total of 70.5 million USD. These bonds are considered held-to-maturity financial assets. In line with IPSAS 29, they are valued at amortized cost, using the effective interest rate method. At 31 December 2019, these bonds were presented in the balance sheet for a total of 70.9 million CHF.

75. The SFAO noted significant errors in the calculation of interest accrued at 31 December 2019. For instance, a sum of more than 414,000 CHF was erroneously booked under deferred charges (see list of additional entries not put to account in paragraph 132 of this report).

Evaluation of the SFAO

The accounting and closing procedure for bonds is unsatisfactory. The SFAO recommends that the UPU adapt it so as to address the weaknesses identified. Accrued interest should be fully reversed at 1 January and then recalculated during closing. This way, paid coupons are fully accounted for in the operating account at the time of payment. Closing documents should contain correct data, and any irrelevant information should be eliminated. They should also be set out more clearly. Lastly, an efficient four-eyes review should be conducted.

The SFAO is not making a specific recommendation in this regard. It feels that these weaknesses should be taken into account in the implementation of recommendation 1 of report 19027 on the ICS, relating to the closing and financial statement preparation procedure.

Comments by the Director General

The General Management agrees with this assessment. Improvements will be made to the closing procedures taking into account the suggestions above.

Accounts receivable (exchange and non-exchange transactions)

76. 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 2019 showed no particular problems.

77. Current receivables (from both exchange and non-exchange transactions) represented a net value of 51.3 million CHF (34.5 million CHF at the end of 2018), and non-current receivables (from non-exchange transactions) 0.2 million CHF (0.5 million CHF at the end of 2018). Overall, there was a significant increase in total receivables between 2018 and 2019. This was mainly due to the increase of 14.7 million CHF in UPU*Clearing receivables.

78. The SFAO notes that the collection of receivables has proven difficult for a number of years. The amount of unpaid debt is significant, with the provision for doubtful debts standing at 33.8 million CHF at the end of 2019. The SFAO reminds the DFI that the collection of receivables will be all the more important in the context of the COVID-19 pandemic.

Evaluation of the SFAO

The UPU must make every possible effort to collect its accounts receivable. Failing this, the liquidity situation risks being further exacerbated. Without making any formal recommendation, the SFAO encourages the UPU to take every possible measure to promptly and properly address the collection of receivables.

Comments by the Director General

The International Bureau is making every possible effort in this area, resources permitting. It raises this issue at every opportunity with the entities concerned. A CA taskforce is looking into the matter and is due to make proposals at the next Congress.

79. The SFAO has noted a number of issues in relation to accounts receivable and revenue. These are listed below.

- The 2019 provision was calculated on the basis of the list of countries under sanctions at 31 December 2018 rather than 31 December 2019. As a result, the provision is underestimated by 70,155 CHF.
- The accounts receivable balance in the PTC's general accounts corresponds to that recorded in its subledger. However, the figure for total receivables older than two years in the same subledger does not correspond to the PTC's provision for doubtful debts. While this discrepancy is by no means great (around 17,000 CHF), it lays bare an inconsistency which should be investigated.
- Debtors as temporary creditors for a total of 67,266 CHF have not been reclassified as liabilities on the balance sheet.
- The booking of barcode label sales does not comply with IPSAS standards. Indeed, revenue is recorded before transfer of ownership. As the impact on the 2019 accounts is not significant, the SFAO is not proposing any adjustment. However, the accounting mechanism will need to be reviewed upon closure of the 2020 accounts.
- QSF miscellaneous income totalling 133,482 CHF was erroneously classified as sales.

Evaluation of the SFAO

The SFAO identified a number of issues in relation to accounts receivable and revenue. Receivables management in accounting could therefore be improved. In addition, all receivables, whether for exchange or non-exchange transactions, are recorded in the same subledger. Restatements and reclassifications sometimes have to be done manually in Excel when preparing financial statements, particularly when calculating provisions. Such practices should be avoided as far as possible.

Recommendation 3

The SFAO recommends that the UPU examine its receivables management procedure with a view to eliminating the existing weaknesses. It should also explore the possibility of fully utilizing the Navision accounting system to avoid the need for any manual restatements when preparing financial statements.

Comments by the Director General

The General Management agrees with this recommendation. The optimization of debt management will be analyzed and closing procedures will be adapted accordingly.

(Scheduled date for implementation: December 2020)

Inventories

80. Inventories are recorded on the balance sheet for a total of 180,220 CHF (196,326 million CHF at the end of 2018). They consist of barcode labels, UPU souvenirs offered for sale, and postage stamps.

81. During the interim audit, the SFAO reviewed the security and management of the UPU stamp collection. The collection is likely to be worth tens of millions of Swiss francs. However, it is not currently possible to make a reliable estimate because the collection has never been inventorized. This is problematic, as without an inventory, loss or theft cannot be detected.

Moreover, it is not possible to insure the collection or to put in place adequate physical protection for high-value items.

82. The SFAO considers that, on the whole, the security measures are adequate. However, to minimize risks related to the destruction of the building (earthquake, fire, etc.), it would be advisable to relocate collection B (which is a duplication of collection A).

83. It should also be noted that an IPSAS standard on cultural assets is currently under development. It is possible that this future standard will oblige the UPU to draw up an exhaustive inventory of all its cultural assets.

Evaluation of the SFAO

The management of the UPU stamp collection is inadequate. Additional security measures should be taken.

Recommendation 4

The SFAO recommends inventorizing the UPU stamp collection. In addition, to improve the physical protection of the collection, plans should be made to relocate collection B.

Comments by the Director General

The Director General has evaluated the cost of inventorizing the UPU stamp collection and protecting its assets. The inventory and protection costs as proposed are considered disproportionate. The International Bureau will not be implementing this recommendation as it stands. However, the International Bureau proposes that these assets should be valued at 2.5 million CHF for insurance purposes.

With respect to the physical protection of the UPU stamp collection, arrangements are being made with the Museum of Communication.

(Scheduled date for implementation: December 2021)

Other current and non-current assets

84. Other current assets total 5.6 million CHF and include, in particular, prepaid expenses and deferred charges, staff advances, other advances and tax advances.

85. Social Fund advances due to be repaid in more than a year's time total 32,490 CHF and are presented under "Other non-current assets".

Equipment

86. Tangible assets amounted to 1.8 million CHF at the end of the financial year. They are broken down into two categories: 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 consolidated financial statements. In line with IPSAS, the various heritage assets, such as the stamp collection, were not valued as assets on the balance sheet.

87. The detailed checks on the amounts put to account in 2019 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.

88. The evaluation of amortizations revealed a number of minor issues. These were communicated to the DFI, which took the necessary corrective measures.

Intangible assets

89. The balance under this heading stood at 0.9 million 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 amounts put to account in 2019 related to the new UPU website and stood at 434,040 CHF.

Land and buildings

90. The value of the building as recorded on the balance sheet is 22.8 million CHF. The rights for use of the land were not recognized. As regards the non-repayable subsidies received, these are presented as deductions from the value of the building.

Accounts payable and accrued expenses

91. The amount of 25 million CHF on the liabilities side of the balance sheet was substantiated in the course of the checks. The balances of the different accounts checked here are regularly monitored by the DFI.

92. The substantial increase in the balance at the end of 2018 (+13.3 million CHF) was mainly due to a similar rise in UPU*Clearing accounts payable.

Short-term employee benefits

93. The provision for overtime and accrued leave days amounts to 2.3 million CHF, a slight increase compared to 2018. The accuracy of the amounts was checked by analyzing the individual data of UPU staff.

Deferred revenue

94. Deferred revenue is recognized as a liability on the balance sheet for a total amount of 79 million CHF. It represents the assessed contributions billed in advance, and tied funds received from third parties. This figure is slightly higher than in 2018.

95. Following a recommendation by the SFAO, the DFI put in place a procedure for the systematic identification of inactive funds, and steps have been taken to process them.

96. At the end of 2019, there was one negative fund shown under conditional voluntary funds. This was an IOM-Burundi fund launched in 2019. However, its balance was insignificant.

Advance receipts

97. Advance receipts totalled 83.9 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 74.2 million CHF at the end of 2019 (77.7 million CHF at the end of 2018).

Funds-in-trust held for translation services

98. The three translation services are not included in the consolidation perimeter. 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. This is also the case for the budget and expenses. The UPU is merely the agent for the management and administration of these three services. They thus have separate financial statements.

99. The amount of 7.5 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: 4.7 million CHF for the Arabic Translation Service, 2.2 million CHF for the English Translation Service, and 0.6 million CHF for the Portuguese Translation Service. The General Management informed the SFAO that the UPU does not intend to reimburse the translation services for these current accounts, as these services' long-term employee benefits (Provident Scheme and health insurance scheme) far outstrip the amount of these short-term assets.

Borrowing

100. The interest-free loan representing funds borrowed from the Swiss Confederation to build the headquarters building is wholly recorded under current liabilities for a sum of 375,760 CHF. As the loan is due to be fully repaid by the end of 2020, there are no longer any non-active liabilities in this regard.

101. Calculated using a discount rate of 1.15%, the value of the theoretical interest for 2019, which the UPU would have had to pay if the loan had been carried out under normal market conditions, would be 4,276 CHF.

Provisions

102. The provision entered on the liabilities side of the balance sheet concerns proceedings and litigation under way. It fell sharply from 2.5 million CHF at 1 January 2018 to 150,000 CHF at the end of 2019.

103. In 2019, the Administrative Tribunal of the International Labour Organization (ILOAT) handed down six judgments concerning the UPU. In four of these, it awarded sums of between approximately 8,000 and 32,000 CHF to the plaintiffs. The other two cases were dismissed.

104. Two cases that already existed at the end of 2018 are still in progress, and no new cases were filed during the 2019 financial year. These cases still concern individuals whose contracts were terminated in 2015. The Legal Affairs Directorate provided its best estimate of the amount that the UPU might have to pay for the legal proceedings under way.

Long-term employee benefits

105. Actuarial liabilities relating to pensions and various other UPU employee benefits were put to account in accordance with IPSAS 39. The actuarial analysis was performed by the UPU consultant actuary.

106. Long-term employee benefits, calculated using the projected unit credit method, are shown as a liability on the balance sheet for an amount of 278.8 million CHF. The two most significant amounts concern net obligations to the UPU Provident Scheme (223.4 million CHF) and after-service health insurance (50.9 million CHF). The details of all the obligations are given in note 12 to the consolidated financial statements.

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

108. The SFAO examined the application of IPSAS 39, 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.

Net assets

109. Net assets comprise tied own funds[3], untied (or uncommitted) own funds[4], and reserves. The reserves are made up of the Social Fund, the IPSAS reserve, the building reserve, and the Special Activities Fund. At the end of 2019, the shortfall on the balance sheet stood at 235 million CHF.

110. At the end of 2019, the WNS reserve – which is part of the tied own funds – had a negative balance (51,014 CHF at 31 December 2019). Given that income is expected in 2020, that the deficit fell in 2019, and that the balance of this fund is not substantial, the SFAO has not made a proposal to reassign this reserve as a deduction from uncommitted own funds. However, the UPU is encouraged to continue monitoring this reserve.

Staff expenses

111. In-depth analytical examinations and detailed checks carried out on the salaries of about 40 people for the period from 1 January to 30 September 2019 did not reveal any errors in terms of the scales applied and the salary amounts.

112. The checks revealed that the DRH had taken measures to improve the handling of personnel files. The recommendation made by the SFAO in its 2018 report was thus implemented.

113. In 2018, the International Bureau applied the recommendations of the International Civil Service Commission, as adopted by the United Nations General Assembly, following the cost-of-living survey conducted in 2016. This resulted in a reduction in the post adjustment for all staff in professional and higher categories from 1 May 2018. For international organizations based in Switzerland, this entailed a reduction of around 7% in the post adjustment. The Geneva-based organizations subsequently appealed against this decision with the ILOAT.

114. In 2019, the ILOAT found the reduction to be irregular, and the post adjustments had to be corrected by the amount of the unauthorized discrepancy for the period concerned. The International Bureau applied the correction for the period from May 2018 to October 2019 and made the corresponding payment along with the November 2019 salaries. This decision

[3] Accumulated surplus of other funds and accumulated surplus of controlled entities.

[4] Accumulated deficit of Union funds.

had a major impact on the 2019 accounts, as the wage bill for November 2019 was around 800,000 CHF higher than for other months of the year.

115. The SFAO checked the accuracy of the calculations made and found a discrepancy arising from the application of a compound monthly interest rate instead of the 5% annual rate specified in the ILOAT decision. However, as this discrepancy was not significant (totalling around 2,000 CHF), the SFAO is not proposing that any correction be made.

Other revenue and expenses

116. 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.

117. 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.

118. The checks carried out by the SFAO revealed that a sum of 300,000 CHF should have been booked under 2019 miscellaneous expenses. This amount represents the UPU's participation in the health insurer's deficit. It is due to be paid in four annual tranches of 75,000 CHF from 2019 to 2022. In 2019, only the first 75,000 CHF tranche was booked, whereas the entire liability should have been put to account. This results in a discrepancy of 225,000 CHF, which is mentioned in the table of additional entries not put to account at the end of this report.

Related party information

119. Note 18 to the consolidated financial statements shows an amount of 3.1 million CHF for 2019, corresponding to the salaries (annual average) of the 9.9 senior managers at the UPU. The total amount for 2018 was also 3.1 million CHF, but for 10.4 senior managers.

120. In accordance with IPSAS 20, note 18 draws a distinction between the individuals at the head of an organization and the directors reporting to them. In 2018, the total aggregate remuneration for the Director General and the Deputy Director General amounted to 0.9 million CHF, and that of the other directors was 2.2 million CHF.

Statement of cash flow

121. 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.

Events after the reporting date

122. Note 23 to the financial statements provides information on events occurring after the reporting date. This year, two important events were highlighted.

123. The first concerned the COVID-19 pandemic, one consequence of which was the postponement of the Côte d'Ivoire Congress from August 2020 to an as yet undetermined date. The UPU considers that the financial impacts of the pandemic are difficult to quantify with any certainty. It anticipates that the situation with respect to accounts receivable will worsen, and that pressure on the Union's cash flow will grow. Payment habits are expected to change

for the worse for 2021 and 2022. These predictions are factored into the cash-flow simulations used by the UPU General Management to assess the organization's ability to continue as a going concern.

124. The second event was the commitment by the United States to pay 40 million CHF over five years following the amendment of the UPU Convention, as approved by the Extraordinary Congress in Geneva in 2019. A specific agreement is due to be concluded in 2020. Detailed information on this matter is provided in the chapter on the UPU as a going concern. The SFAO recalls that, to date, no letter of agreement has been signed and no payments have been made by the United States. The SFAO encourages the UPU to closely monitor this issue and to promptly formalize the agreement.

Financial risks

125. In accordance with IPSAS 28 to 30, the UPU provides various information on the financial instruments in note 24 to the financial statements. This information was checked and considered to be correct in all but one case. The SFAO observed that the open balances of debtors and creditors for the presentation of financial instruments by currency were allocated according to the account currency, except in the case of UPU*Clearing.

Evaluation of the SFAO

The SFAO considers that open debit and credit items should be allocated according to the currency of the original transaction and not according to the account currency used for accounting purposes, which is not an appropriate basis under IPSAS. As the discrepancies between the currencies remain acceptable, the SFAO did not request a correction for 2019. However, it recommends that the DFI review the allocation of open items as of the 2020 closing procedure.

The SFAO is not making a specific recommendation in this regard. It feels that this shortcoming should be taken into account in the implementation of recommendation 1/19027 on the ICS, relating to the account closure and financial statement preparation procedure.

Comments by the Director General

This issue will be included in the revision of the account closure and financial statement preparation procedure.

126. The SFAO wishes to draw attention to the section on liquidity risk. In this section, the UPU mentions serious cash-flow issues which could result from the payment of 30 million CHF to recapitalize the UPU Provident Scheme. As already noted, this situation represents a material uncertainty which may cast significant doubt on the UPU's ability to continue as a going concern.

Unrecognized contractual commitments

127. According to IPSAS 1[5], the notes should provide information on unrecognized contractual commitments. In addition, according to IPSAS 17[6], the notes should 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. At 31 December 2019, unrecognized contractual commitments totalled 12.7 million CHF.

128. In 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 correct.

Contingent liabilities

129. As explained in note 26 to 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.

130. 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. As the probability of this risk materializing is low, the UPU mentioned the obligations relating to staff benefits as a possible liability. At the end of 2019, the total amount of 18.6 million CHF (17 million CHF at the end of 2018) represented the net obligations of these three 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.

Segment reporting

131. This information appears in note 27 to the consolidated financial statements. This reporting allows for assets, liabilities, expenses and revenue to be broken down into the various segments. The presentation adopted by the UPU complies with the requirements of IPSAS 18.

[5] IPSAS 1, point 129d.
[6] IPSAS 17, point 89c.

List of additional entries not put to account

132. The following table lists the additional entries (not put to account) noted during the audit.

Amount (in CHF)	Description	Effect on result/own funds
414,406	Overestimation of interest accrued on bonds	-414,406
70,155	Underestimation of the provision for doubtful debts	-70,155
67,266	Debtors as temporary creditors to be reclassified	0
225,000	Unbooked share of the health insurer's deficit	-225,000
133,482	Miscellaneous income to be reclassified	0
	TOTAL	**-709,561**

133. As the total sum above does not exceed the materiality threshold set for this audit, the audit opinion is issued without reservation.

Conclusion

134. As a result of the work carried out, the SFAO is in a position to confirm that the UPU's 2019 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.

135. The SFAO does, however, point out that the financial situation is very worrying, and that measures need to be taken to guarantee the organization's ability to continue as a going concern. It draws attention to the section on liquidity risk in note 24 to the financial statements, which indicates that the payments to be made to the UPU Provident Scheme could cause serious cash-flow problems. This situation points to a material uncertainty which may cast significant doubt on the UPU's ability to continue as a going concern. The SFAO's opinion on this matter remains unchanged.

136. 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	Martin Köhli
Deputy Director	Competence Centre Manager

Annexes:

1) External Auditor’s report

2) Follow-up of recommendations from previous audits

Annex 1: External Auditor's report

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

Audit report of the financial statements

Opinion

The SFAO has audited the consolidated financial statements of the UPU at 31 December 2019, 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 2019, 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 (ISA). 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.

Significant doubt on its ability to continue as a going concern

The SFAO draws attention to the section on liquidity risk in note 24 to the financial statements, which indicates that the payments to be made to the UPU Provident Scheme could cause serious cash-flow problems for the organization. This situation points to a material uncertainty which may cast significant doubt on the UPU's ability to continue as a going concern. The SFAO's opinion on this matter remains unchanged.

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 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 the ISA 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 the ISA, 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 its operations;
- 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;
- Obtains 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. The SFAO is responsible for the direction, supervision and realization of the UPU audit, and assumes full responsibility for its 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, 24 August 2020

SWISS FEDERAL AUDIT OFFICE[7]

(External Auditor)

Eric-Serge Jeannet	Martin Köhli
Deputy Director	Competence Centre Manager

[7] Postal address: Monbijoustrasse 45, CH-3003 Berne.

Annex 2: Follow-up of recommendations from previous audits

Audit report of the financial statements

As indicated in paragraph 22, this annex sets out the status of the recommendations issued in previous audit reports that have not been implemented.

Audit report		**Recommendations**			
No.	**Date**	**No.**	**Type**[1]	**Unit**	**Planned date of implementation**
12390	20.12.2012	4	Management	DRH	31.12.2016
13262	13.6.2013	5	IT	PTC	31.3.2017
18055	5.6.2018	1	IT	PTC	31.12.2019
18055	5.6.2018	2	FS	DFI	31.12.2020
19027	2.7.2019	1	FS	DFI	31.12.2019

[1] *FS: recommendations concerning the consolidated financial statements and accounting*
Management: recommendations concerning management in general
IT: recommendations concerning information technology

Five recommendations are still outstanding. Their implementation status is presented below.

Table of outstanding recommendations

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.

Comment 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 May 2020:

The recommendation has been partially implemented, with the creation of a checklist for separation from service. However, administrative instruction 22/Rev 6 on working hours has still not been formally approved by the Management.

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.

Comment 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 2019:

A project is under way which should allow for management of all UPU IT services. The new system will also cover processing of requests. It has been decided that the EasyVista tool will be used exclusively from now on. Migration of open requests from the ADILOFT system will form part of this project. This also includes an update from the current version of EasyVista. The project has been delayed and is due to be completed in 2020.

Recommendation 1 from the 5 June 2018 report (No. 18055) on the audit of the 2017 consolidated financial statements: The SFAO recommends that the UPU apply recognized best practices in change management and access rights for the Navision application across all units of the organization.

Comment by the Director General: We agree with this recommendation. Measures will be taken to ensure that best practices are applied across all units of the organization.

Status according to the follow-up conducted in November 2019:

The audit demonstrated that the situation with respect to change management has improved and that various pieces of audit evidence are now produced during the acceptance test and in the separate test environment. However, with respect to access rights, there are still shortcomings in the implementation of controls.

The SFAO points out that one external service provider still has direct access to staff data, which is problematic. In addition, reviews of user access rights do not comply with best practice for the following reasons:

- An Excel printout of a basic list of existing users cannot be considered as valid evidence.
- The list bears no date or signature.

The SFAO therefore feels that this recommendation still stands.

Recommendation 2 from the 5 June 2018 report (No. 18055) on the audit of the 2017 consolidated financial statements: The SFAO recommends that the UPU prepare concrete proposals for the 2018 Extraordinary Congress, so that the organization's supreme body can take the necessary decisions to resolve the problem of recapitalizing the UPU Provident Scheme and ensure the organization's sustainability.

Comment by the Director General: We agree with this recommendation. Proposals relating to this matter will be submitted to the 2018 Extraordinary Congress.

Status according to the follow-up conducted in May 2020:

The current aim is to fully recapitalize the UPU Provident Scheme over a period of approximately 25 years. To this end, the UPU plans to make annual payments of 3.7 million CHF, to be funded in part by the member countries and in part by budgetary savings. A portion of the 40 million CHF to be received from the United States has also been earmarked for the Provident Scheme recapitalization. However, this objective has yet to be enshrined in the basic Acts of the organization with a view to its formal approval. This ought to be done at the next Congress.

Recommendation 1 from the 2 July 2019 report (No. 19027) on the audit of the 2018 consolidated financial statements: The SFAO recommends that the DFI take steps to improve the ICS for account closure and financial statement preparation by the end of the 2019 financial year.

Comment by the Director General: The International Bureau agrees with the recommendation and will take appropriate steps to improve the ICS for account closure and financial statement preparation.

Status according to the follow-up conducted in May 2020:

While the situation has improved, the SFAO considers that the ICS relating to the account closure and financial statement preparation procedure remains inadequate. The weaknesses which persist are elucidated in the chapter of this report on the ICS relating to the account closure and financial statement preparation procedure.