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To the Council of Administration of the

UNIVERSAL POSTAL UNION - UPU

Berne

Internal audit report 07.2022

Annual internal audit activity reporting 2022

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1 ANNUAL ACTIVITY REPORT

Internal audit function

The internal audit charter establishes that "the internal auditor writes an annual report, with view to be presented, in its entirety, at the next Council of administration meeting, together with the appropriate observations from the Director General".

Handover of the internal audit mandate

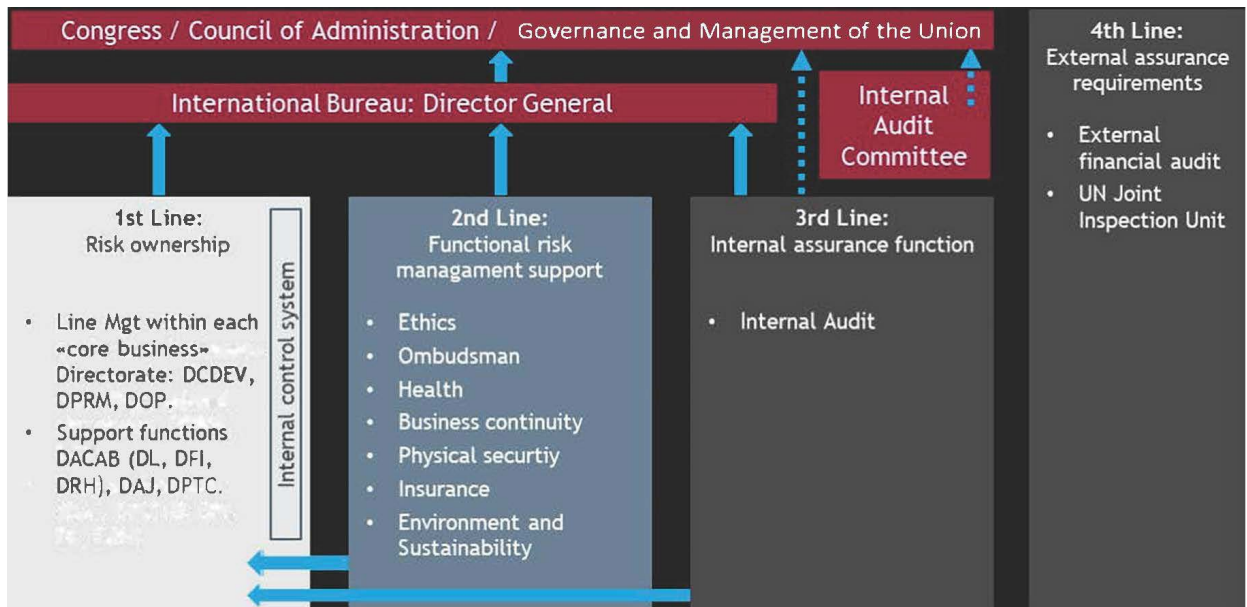
Following a "UPU internal audit" tender, BDO was selected by the Tender and Procurement Committee to take over the internal audit function for six years 2018 - 2023.

To confirm our understanding of the UPU's environment in its various business segments, BDO gained knowledge on the basis of actual documentation of the organisation. Moreover, meetings with the external auditor, le contrôle fédéral des finances, were carried out to obtain a better understanding of the institution. On this basis, a risk assessment, an audit planning for the year 2018 and a rotation plan for the years 2018 - 2023 were established.

Internal audit as part of the wider UPU risk management framework

The above-mentioned charter states that, "internal auditing is defined at UPU, as an independent function bringing to the Director General and, through him, to the Governing Bodies, the assurance that the organisation is managed in an efficient manner".

The internal audit forms part of the wider risk management framework that is based on the concept of the "lines of defence". The UPU framework is outlined below:



Risk assessment & audit planning 2022

According to the IIA norms, the internal audit evaluates the risk of the organisation at the planning stage. The risk assessment and the audit planning were elaborated on the basis of the strategy 2022-2025 presented at the congress in Abidjan in 2021, the existing risk assessment from 2022, the knowledge gained through the handover process and eventual specific expectations from the International Bureau.

On January 24, 2022, the new general management of the UPU and BDO had a meeting to discuss the risk assessment and the audit planning. The 2022 audit planning was then approved by the Director General.

2 INTERNAL AUDIT 2022 - MAIN OBSERVATIONS

For the year 2022, we planned four audit reports. Of those, three remain in schedule of the audit plan where one mission was replaced during the process. One of the Audits is still ongoing and a further audit will occur during the 4th quarter of 2022. At the time of our Annual Internal Audit Activity 2022 Reporting, two audits (Internal audit report 03.2022 - Recruitment process and Internal audit report 04.2022 - Separation from services) were not yet fully completed and have a provisional status. We do not expect our reporting to change in this regard.

For each of those assignments, a planning memorandum was issued, the main objectives of those assignments were:

- Review the coverage of the identified risks;
- Review the organisation of the area audited;
- Identify and discuss management's actions and responses to the risk drivers;
- Identify areas of potential further improvement in Management's actions and responses.

All the recommendations issued in our reports were presented to the General Management in order to gather their remarks.

All the internal audit reports were presented to the Internal Audit Committee.

The conclusions of those audits were not designed to underline well-functioning elements in the internal control system, but rather to draw Management's attention to relative weaknesses if any.

The findings and recommendations stemming from the internal audits performed have been discussed with the management teams concerned. Those teams share the conclusions and have established action plans with a view to strengthening Management's responses to the risk drivers.

Internal audit report 06.2021 - Achievement of the strategic objectives

The objective of this audit is to assess the organisation and the internal controls related to the achievement of the strategic objectives for the cycle 2017 - 2020 and for 2021.

We evaluated / reviewed the following processes / areas:

- Achievement of the strategic objectives for the cycle 2017 - 2020
- Achievement of the strategic objectives for 2021

Our main observation is the following:

1. *There is no red thread between the 15 smart KPIs and the Business plan*

The 15 SMART KPIs are defined in the IWPS but the Istanbul business plan does not resume all of them.

We recommend that you include Top KPIs into the business plan when defining them, so that they can be further tracked in the corresponding strategy implementation reports.

Internal audit report 03.2022 - Recruitment process

The objective was to audit the recruitment process, the related regulations and workflows, to audit recruitment cases based on samples to see if there are any systematic issues or if procedures are not being followed. Also objective of this audit was to identify areas of improvement and political bias in recruitments.

At the time of our Annual Internal Audit Activity 2022 Reporting, the audit was not yet fully completed and has a provisional status. Management's responses to the findings and recommendations are pending. However, we do not expect our reporting to change in this regard.

We audited the following processes/areas:

- Regulations
- Recruiting process / workflow
- Recruitments 2017 - 2021

Our main observations are the following:

1. Review composition and number of panel members

The composition and number of members of the selection panels may have various reasons, which we neither assess nor qualify. However, the previous number of 6 members and the new number of 5 members (since mid-February 2022) involved for a recruitment seems high to us (this also under consideration of the resources binding, problems of availability, scheduling and organization respectively the internal costs).

We recommend to review the number and composition of the panel members with regard to necessity and reducing them if possible; this within the entire recruitment process and/or individual process phases and work steps.

This recommendation is also in the context and result due to the sample testing and analysis performed with regard to the time course of the recruitment process.

2. Consideration of internal candidates (International Bureau) during the recruiting process

Special consideration should be given to Internal Candidates (International Bureau) when scoring and shortlisting. It must be ensured that their application has been duly considered.

Despite having certain advantages of internal recruitment there may also be disadvantages.

If the gain in competence and innovation within UPU is relevant for the position, we recommend to rely on technically experienced external individuals who have the potential to bring the necessary or desired innovation into UPU.

3. Policy on employment of retirees

The reasons listed in the policy for when a retiree shall not be recruited again are definitive and leave no room for discretion.

We recommend, if there are no other reasons to the contrary, that the relevant provisions when a retiree shall not be recruited again to be reviewed and, if necessary, flexibly adjusted.

4. Reporting during the recruitment phases to the departments and persons involved

The processes and workflows do not explicitly list a reporting to the involved departments /persons on the work status in the recruitment process.

In order to take adequate account of communication and the exchange of information during the recruitment process, we recommend to complete the processes and workflows in this regard and to implement an appropriate reporting in the process.

5. Shortening the duration of the job publication

The duration of the job publication until the submission deadline in e-recruitment and among the member states seems rather long.

We recommend to consider a shortening. This would allow the earlier start of the subsequent work.

6. Implementation of a system/tool which supports an automatically longlisting and shortlisting of the applications received

The number of days between the application deadline and the evaluation of CV's / application documents may indicate a high manual effort to create the list or capacity bottlenecks in DRH. The same may be the case when the APC performs the review of the submitted CV's and application documents.

We recommend implementing an appropriate system/tool or feature in the e-recruitment system which automatically checks the submitted applications for the screening, the long- and shortlisting and as a result supports and accelerates the process. When evaluating the system/tool, it should also be ensured that no changes can be made to the application documents by the candidates after the application has been submitted, so that screening, the long- and shortlisting can already begin during the publication of the vacancy. This is not the case today.

7. Shortening the duration between application deadline and written test

The number of days from the application deadline until the written test seems rather long for a potential candidate.

We recommend considering a shortening or that suitable measures for a shortening are examined and implemented.

8. Publication of vacancies

Vacancies are published on the UPU website, on the website of UN Jobs and on the website of the International Civil Service Commission (ICSC). The member countries will be informed about the vacancies as well.

There are many ways and platforms to reach potential candidates. Depending on the requirement profile, it can therefore be helpful to specifically publish the vacancy also on other e-platforms (industry-/country-specific). It can also be helpful to register former candidates who were recommended by the APC at the time, that have not been selected in an applicant pool and to contact them directly and in advance if vacancies arise again. If fitting, we recommend checking whether similar cooperation with other UN organizations or member countries is also possible in this regard.

9. Personnel planning / vacancy planning in the context of succession planning and career opportunities

From the interviews held with DRH, we conclude that in the past there were fewer internal career opportunities for the employees. However, the staff organization is requesting to give internal candidates more chances to develop their careers.

Without assessing or qualifying the existing personnel planning, we recommend to start filling vacancies and succession planning in good time and with foresight (also as part of regular performance reviews of the employees). This in particular regarding internal, potential successors, where high potential is seen.

Within strategic personnel planning and development, it can be effective to pay particular attention to and take into account the performance assessment of internal employees with high potential. This can be achieved by introducing suitable training, management programs and tests. We recommend to review this and to be introduced where appropriate.

10. HR-Reporting, key figures / key performance indicators (KPI's) in the recruitment process

The existing reporting system of DRH (Directorate Human Resources) to the Council of Administration covers various areas and provides a good overview in the human resources area. With regard to the recruitment process, the report includes information on the number of applications as well the key figure rate of completion of the recruitment process within three months of the job advertisements closing.

Other key figures / KPI's relating to the recruitment and human resources management are not reported or provided (e.g., key figures related to success factors, balanced scorecard, value-based management). They could be of use and interest and could ultimately impact the success of the UPU's business.

We recommend considering to report or to implement additional appropriate key figures/KPI's in the reporting to the Council of Administration and/or to the DG and directorates to support the control and monitoring of business activities in this area.

Internal audit report 04.2022 - Separation from services

The aim of the audit was to find reasons for UPU's failure in the court proceedings. Once those reasons were identified, recommendations could be drawn to avoid possible high expenses in future, especially because of staff departures, respectively to avoid legal proceedings and court cases. Internal and external reputational damage can occur, where especially the image of UPU among staff and the UN organization suffers.

At the time of our Annual Internal Audit Activity 2022 Reporting, the audit was not yet fully completed and has a provisional status. Management's responses to the findings and recommendations as well as additional requested documentation are pending. However, we do not expect our reporting to change in this regard.

Our main observations are the following:

11. Training of procedural steps

Bad exchange of information and insufficient documentation did occur. We observed that the persons involved in the process were not completely aware of the risks connected to a separation from service, in terms of legal consequences. They were not properly instructed on how to proceed in such a case in terms of internal communication and documentation.

In trainings, involved employees (Directors, HR, DAJ, executive Management etc.) should gain better awareness of the importance of individual process steps, i.e. about the process and responsibilities of separations and services. Furthermore, it is important that they are aware of the independence in interviews. Involved employees should know about the rules and regulations. Additionally, they should be trained on process responsibilities due to the importance of ensuring that the process leader legally obtains and receives the information.

12. Keep track of decisions - records / flow of internal information

Inadequate information flow and exchange did occur. This was noted at the beginning of the process, when neither HR nor DAJ were properly involved in the separation of services and therefore not all regulations were adhered. Also, HR did not hold detailed employee files. Based on our interviews, it also emerged that not all information reached the DAJ at the time when the disputes started and therefore, UPU was not able to adequately defend itself in court. Further observations on our part are for one, unawareness of such cases' importance when handling them.

We advise to keep the employee files up to date. We also recommend keeping record of interviews, hearings or other discussions and document decisions and process steps to avoid a lack of information that could be used against the UPU. It is also important to build and cultivate relationships between employees and supervisors, directors, and HR. Also, the DAJ should be involved at the moment where a risk of a legal dispute connected to a separation of service is identified.

13. Adjustment to the rules of separation of services

Two parties (employee and Director General) were not provided with equal information, it led that the employee went to court. Staff rules (110.4) did not allow complete information to be passed on to staff.

We recommend the staff rules 110.4 to be reconsidered and, if necessary, adjusted because it did not allow complete information to be passed on to staff.

14. General review of the terms of employment

We note that relatively large amounts have been paid in the last ten years for severance payments as well as through court judgments. This is also partly due to the legal basis of the employment relationships.

We recommend evaluating if an adjustment to legal basis regarding the payment modalities in case of a termination could be done. It means the compensation that is paid out should be revised as appropriate. And in case of a new employment the conditions of employment should also be revised. The maximum fixed employment period of three years could be reduced, consequently there is less to pay in such case of termination. This can however only be done, if the measures do not contradict the international civil services law.

Internal audit report 06.2022 - Follow up of recommendations

Each recommendation which has been regularized or closed since the last review has been commented.

A recommendation is considered regularized when the UPU has implemented the correct actions. On the other hand, it is considered closed when changes in the organization had the effect, that the recommendation is no longer applicable. Further there are recommendations in progress for which the according actions have not yet been implemented. Those recommendations have not been included in the report.

Before the follow up's 2022 audit, there was a total of 13 open recommendations. Out of those, 6 recommendations have been regularized and 2 were closed. Consequently, a total of 5 recommendations remains in progress after the current reporting period.

3 FINAL REMARK

Following the decision by the Finance and Administrative Committee of the Council of Administration in November 2014, member countries can request access to Internal Audit reports to the International Bureau, as per the terms of circular 61 sent to member countries on 11 May 2015.

Through the following statements, we confirm that we comply and have complied with the independence requirements during the period. We confirm that we received full support and cooperation from the persons involved in our audit and we would like to thank them.

Berne, 22 September 2022

BDO Ltd

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