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Audit of 2018 financial statements

Universal Postal Union (UPU)

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

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

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

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Audit of 2018 financial statements
Universal Postal Union (UPU)

Summary of the audit

1. The 2018 financial statements of the Universal Postal Union (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 Swiss Federal Audit Office (SFAO) is able to issue an audit opinion without reservation.
2. The SFAO does, however, consider the system of internal control relating to the process of account closure and consolidated financial statement preparation to be flawed, and recommends that the UPU strengthen it.

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

3. The financial situation of the UPU is worrisome. Firstly, the balance sheet shows negative equity of 198 million CHF at the end of 2018, while total assets stood at 227 million. Secondly, the situation regarding the Union's liquid assets is a matter for concern. The Union should act as guarantor for its Provident Scheme when the latter falls below a minimum level of coverage of 80%. As the level of coverage of the Provident Scheme stood at 72.2% at the end of 2018, the total amount to be paid to meet this obligation as guarantor for this minimum level is approximately 25 million CHF.
4. 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. In last year's report, the SFAO recommended that the UPU take steps to recapitalize the UPU Provident Scheme. However, the decisions taken at the Extraordinary Congress in 2018 did not resolve this problem, and the recommendation remains outstanding.
5. Other factors could impact negatively on the financial situation. There is, in particular, a significant risk that the United States of America will leave the UPU. Were this to happen, and if certain member countries decided to reduce their contributions from 2021 onwards, the UPU would need to take additional cost-saving measures to ensure the sustainability of the organization.
6. 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

7. Financial year 2018 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).

8. This report describes the audits of the UPU's consolidated financial statements drawn up at 31 December 2018, 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.

9. The 2018 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

10. 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.

11. 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.

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

13. The result of the audit was initially communicated to the Finance Directorate (DFI) at meetings on 21 December 2018 and 2 July 2019. The latter meeting served as the final discussion, and was held in the presence of Mr P. Clivaz, Deputy Director General; Mr O. Dreier, Accounting, Budget and Treasury Programme Manager; Ms M. Voisard, Ms S. Houhou and Ms A.-C. Kelly, experts with the Accounting, Budget and Treasury Programme; and Ms X. Fu , Governance, Risk Controlling and Management Information Systems Coordinator. The SFAO was represented by Mr D. Monnot, Head of Audit Mandates; Mr M. Köhli, Competence Centre Manager; and Mr A. Crevoiserat, Audit Manager.

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

15. 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.

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

16. 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.

17. 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 3 July 2019. They are included in this report.

18. 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

19. 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, and the mandate was assigned to a new service provider in 2018.

20. The internal audit reports[2] that were reviewed contain some interesting observations that require action on the part of the UPU. The SFAO underlines in particular the observations made by the Internal Auditor in its October 2018 report on human resource management and business continuity in the payroll process. Some of these observations are very important:

- Data entry for new employees in Navision is not subject to four-eyes review.
- Only one person is capable of preparing the monthly payroll. There is therefore no four-eyes review in this process, and no cover in the event of absence.
- The list of access rights is not up to date. A payroll super user still has access rights even though he left the UPU in September 2017. In addition, there is only one person with super user rights capable of preparing the monthly payroll.

21. The SFAO did not follow up the recommendations made by the Internal Auditor, but it encourages the UPU to take the necessary steps to rapidly correct the problems observed.

Follow-up of recommendations

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

[2] The reports examined were the following:
- Risk assessment and audit planning;
- Human resource management and business continuity in the payroll process.
- Follow-up of recommendations
- Products and services

IT audits

Work done

23. During the interim audit at the end of 2018, 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.

24. The SFAO verified the existence of general IT controls by carrying out on-site surveys. It was not able to confirm the existence or adequacy of such controls in all areas owing to a lack of examples or evidence. It did, however, find the few general IT controls relating to the Navision payroll application to be adequate to cover the IT risks surrounding regular accounting and bookkeeping.

25. All the same, the SFAO considers the general IT controls relating to the Navision payroll application to be inadequate for human resources. This was also confirmed by the examination made by the Internal Auditor (see paragraph 20).

26. The Postal Technology Centre (PTC) has organized its control processes and measures in accordance with recognized standards, such as the IT Infrastructure Library (ITIL), which is a set of recommendations for globally-recognized best practice. IT processes relating to finance or human resources should therefore be adapted according to ITIL. A recommendation on this subject was issued last year. This has not yet been implemented.

27. The integration of the Logistics Directorate's IT and Methods Programme into the PTC had a significant impact on IT controls. The implementation of the new human resources application should also be mentioned for its influence on the controls and the ICS. The SFAO noted that integration has not yet been fully achieved. For IT, oversight and controls relating to financial and human resources applications are not in line with current best practices.

28. 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 by means of the same processes.

29. As regards business continuity management, certain security measures are in place, such as backing up of data outside the organization. However, a formalized strategy and measures relating to building security are still lacking.

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

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

Audit of 2018 consolidated financial statements

32. The audit carried out related to the 2018 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

33. 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.

34. 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

35. 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.

36. 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 2018 financial year. The excess income for 2018 was 78,584 CHF. The previous financial year ended in excess expenses of 8,879,644 CHF.

37. The SFAO notes that the excess expenses for the previous financial period presented in the 2018 financial statements (8,879,645 CHF) differs from that shown in the 2017 financial statements (13,297,403 CHF). This difference stems from retrospective restatements made in the annual accounts. The following section provides more details on this subject.

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

Retrospective restatements of the annual accounts

39. Changes to accounting methods were applied from 1 January 2018 in the following areas:

- Provision for doubtful debts: all debts dating back more than two years are now provisioned, regardless of whether they are covered by an amortization schedule.
- Employee benefits: application of IPSAS 39, which came into force on 1 January 2018, replacing IPSAS 25.

40. In accordance with IPSAS 3, retrospective restatement of the financial statements was performed following these two changes to the accounting methods. The detailed implications of these restatements are set out in note 2b to the financial statements.

41. The restatement of employee benefits had a positive impact of 4,486,407 CHF on the 2017 result, while that relating to the provision for doubtful debts had a negative impact of 68,648 CHF.

42. The retrospective restatement of employee benefits following the switch to IPSAS 39 had a considerable impact on own funds: the consolidated net assets at 31 December 2017 fell from -98 to -191 million CHF.

IPSAS implementation

43. The IPSAS Board has published three new standards which will take effect after 2018:

- IPSAS 40: Public Sector Combinations (coming into force on 1 January 2019);
- IPSAS 41: Financial Instruments (coming into force on 1 January 2022);
- IPSAS 42: Social Benefits (coming into force on 1 January 2022).

44. IPSAS 40 will have no impact on the UPU financial statements, unless a regrouping of organizations occurs.

45. 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. The UPU will need to invest significant work in preparing for the application of this new standard. The SFAO encourages the organization 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. Restatement at 1 January 2021 will thus need to be performed for the 2022 account closure.

46. 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 will have no impact on the UPU financial statements.

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

47. In the 2013 financial statements audit report, the SFAO issued a recommendation on various aspects of the ICS relating to the account closure process that needed to be improved. Certain measures were taken by the UPU and, in the audit of the 2016 accounts (report 17072), the recommendation was considered closed. However, during the present audit, the SFAO noted that the situation has deteriorated, for the following reasons:

- The consolidated financial statements were not ready at the beginning of the audit.
- The consolidated financial statements subsequently sent were very incomplete and contained numerous errors.
- The documentation needed to validate the various balances was inadequate, and several documents requested prior to the audit to support the work were prepared late.

48. The SFAO is aware that the closing of the 2018 accounts was more difficult than that of previous years. With changes in accounting methods and retrospective restatements, the workload was exceptionally high. All the same, around 10 different versions of the 2018 financial statements were transmitted in the course of the audit. This situation prevented the SFAO from working efficiently. The organization and planning of the preparation of the annual accounts by the DFI was inadequate. In addition, the four-eyes review of the financial statements was flawed. This situation is not satisfactory.

Evaluation of the SFAO

The ICS for account closure and financial statement preparation is flawed.

Recommendation 1

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.

Comments 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.

(Planned implementation date: December 2019)

Going concern

49. 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.

50. The UPU’s liquid assets have been steadily decreasing over the last few years, and this situation needs to be taken 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 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.

51. To prevent the cash flow situation from deteriorating, the payment planned for 2017 (5.4 million CHF) was not made, and in 2018 only the sum of 2.4 million CHF was paid into the Provident Scheme instead of the 5.6 million due. The Union therefore failed to honour its guarantee commitments. According to the actuarial expert's latest calculations (situation at 31 December 2018), the total amount needing to be paid in order to ensure a minimum 80% degree of coverage is 24.9 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 31 December 2018, the amount needing to be paid by the Union in order to ensure 100% coverage is 89 million CHF.

52. At the Extraordinary Congress in Addis Ababa in October 2018, two resolutions relating to the Provident Scheme were passed. Firstly, the minimum degree of coverage was reduced from 85% to 80%. This decision goes against both the recommendation by the expert in occupational providence matters and the opinion of the External Auditor. It also does not abide by the decision of the supervisory authority. Secondly, the International Bureau was charged with entering into negotiations with the United Nations Joint Staff Pension Fund with a view to the Union's participation in that fund. This does not, however, eliminate the need to recapitalize the Provident Scheme before any transfer. In the SFAO's view, neither of these measures is capable of resolving the problem of recapitalizing the UPU Provident Scheme. For this reason, it considers that recommendation 2/18055 from its last report remains relevant.

53. In addition, two other factors threaten the organization's cash flow:

- The renovation work needed on the building;
- The risk that the United States of America leaves the UPU.

54. The renovation work is needed because the electrical installations and fire protection are obsolete and need to be brought into line with current standards. Some refurbishment work is also planned in order to host new tenants. According to the latest available estimates, the cost of the work will total some 14.5 million CHF. As the organization is unable to meet the cost of this work itself, a request for funding has been made to the Swiss Confederation. However, even if this meets with a positive response, a financial contribution by the UPU will be essential.

55. The United States denounced the UPU Constitution and announced its withdrawal from the organization on 18 October 2018. The UPU management is doing everything it can to find a solution that will persuade the United States to remain a member of the organization. However, there is a major risk of withdrawal. This would have significant financial consequences. The inflow of funds from this country amounts to approximately 2.7 million CHF per year (2.1 million in mandatory contributions to the Union and 0.6 million from other contributions and various products). Though the 2019 contributions are payable in full by the United States under the current rules, a definitive withdrawal would impact the income of the organization as of 2020. It should be noted that an Extraordinary Congress is being held in September 2019. This will allow for discussion of the various possible options linked to the US announcement of withdrawal. This Extraordinary Congress is seen as a final chance to find a solution.

56. If the US departure is confirmed, the SFAO believes that the UPU should consider the possibility of billing that country for its share of the overall amount of 24.9 million owed under the

Provident Scheme guarantee. Such a step appears justified as, by leaving the organization, the United States could no longer participate in the future financing of the Provident Scheme.

57. The UPU should also consider a contribution by the translation services to the recapitalization of the Provident Scheme: to date, the Union alone has made payments aimed at recapitalizing the Scheme. Seeking the translation services' assistance would be justified, as their staff are also insured by the Provident Scheme.

58. 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 would find itself in deficit in 2023, 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.

59. 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.

Evaluation of the SFAO

Although operational continuity may not be threatened in the short term, the SFAO still considers the financial situation of the UPU to be worrisome.

Comments by the Director General

The General Management fully shares the view expressed by the External Auditor. The General Management recalls that it has repeatedly drawn member countries' attention to this situation (Congress, Council of Administration). Consequently, the 2016 Istanbul Congress and 2018 Addis Ababa Congress confirmed that this concern was being taken on board in the form of the setting up of task forces on the financing of the organization and on the Provident Scheme issue (long-term Union obligation).

Cash and cash equivalents

60. The balances of the various cash accounts at 31 December 2018 were compared with those obtained from statements issued by the depositories. The cash amounts posted (52.7 million CHF in total) comply with the principle of the availability of funds within 90 days.

61. 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 2018, the UPU held only a total of 19.5 million CHF, with the balance subject to restrictions. The steady fall in cash freely available to the Union continued this year. The CFAO recalls that this portion still totalled 30 million CHF at the end of 2014.

62. During the interim audit, the SFAO examined the internal control system (ICS) in cash and investment processes. This audit yielded a good result and the SFAO noted that the ICS in question exists and works efficiently. This examination did, however, reveal that one person had individual signing authority on a bank account. This problem stemmed from an error by the bank, and the necessary measures were quickly taken to ensure that the principle of joint signature by two persons is followed for all accounts.

Investments

63. Total current investments amounted to 38.8 million CHF at the end of 2018. Meanwhile, investments only realizable after 31 December 2019 amounted to 69.3 million CHF and were presented with the non-current assets. Total investments therefore amounted to 108.1 million CHF, up slightly from 103 million CHF at 31 December 2017.

64. In 2014, the UPU invested 70 million USD in a capital guarantee fund. The fund was reimbursed in 2018. Following a call for tenders, a new portfolio manager mandate was awarded to a Swiss bank, and the UPU decided to invest its funds in a new financial instrument. In October 2018, several bonds with maturities ranging from 2019 to 2022 were acquired for a total of 70.5 million USD.

65. These bonds are considered held-to-maturity financial assets. In line with IPSAS 29, they are therefore valued at amortized cost, using the effective interest rate method. At 31 December 2018, these bonds were presented in the balance sheet for a total of 69.1 million CHF.

Accounts receivable (exchange and non-exchange transactions)

66. 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 2018 showed no particular problems.

67. At the Extraordinary Congress in Addis Ababa, a resolution was adopted to standardize the invoiced interest rates on debts in arrears for services and those for statutory contributions. The rate is now 5% for all debts in arrears. This change, proposed by the SFAO in its 2014 financial statements audit report, will reduce the risk of error and lighten the administrative burden for the DFI.

68. Current receivables (from both exchange and non-exchange transactions) represented a net value of 34.5 million CHF (56.7 million CHF at the end of 2017), and non-current receivables (from non-exchange transactions) 0.5 million CHF (0.2 million CHF at the end of 2017). Overall, there was therefore a significant decrease in total receivables between 2017 (56.9 million CHF) and 2018 (35 million CHF). This fall was mainly due to a fall of 21 million CHF in UPU*Clearing receivables.

69. In its report of 16 June 2017, the SFAO noted that the rules applied by the UPU on provision for doubtful debts result in significant distortions in the accounting results over time, with significant income presented in the accounts in the years when Congresses are held, and the opposite effect in other years. It was for this reason that the SFAO recommended that the UPU consider a change in these rules, in order to increase the comparability of results over time. The UPU decided to provision all invoices issued more than two years ago, regardless of whether they are covered by an amortization schedule. These new rules have been applied since 1 January 2018.

70. This change in accounting methods not only serves to avoid variations in the result that are not justified from an economic point of view, but also to improve the quality of financial information. In the ageing analysis of receivables in note 4 to the 2017 consolidated financial statements, before restatement, the UPU presented an amount of more than 10 million CHF for unpaid and doubtful debts towards the Union. This large amount formed part of the net

receivables shown on the assets side of the balance sheet, and represented almost one third of the Union's net receivables at the end of 2017. At 31 December 2018, these unpaid and doubtful debts are fully provisioned and as such are no longer presented in the balance sheet.

Inventories

71. Inventories are recorded on the balance sheet for a total of 192,326 CHF (192,580 million CHF at the end of 2017). They consist of barcode labels, UPU souvenirs offered for sale, and postage stamps.

Other current and non-current assets

72. Other current assets total 4.2 million CHF and include, in particular, prepaid expenses and deferred charges, staff advances, other advances and tax advances. The significant increase compared to the balance at 31 December 2017 (2.9 million) was due in large part to interest accrued on bonds acquired in 2018.

73. Social Fund advances due to be repaid in more than a year's time total 24,633 CHF and are presented under "Other non-current assets".

Equipment

74. Tangible assets amounted to 2.1 million CHF at the end of the financial year. They are broken down into two types: IT equipment and other equipment (machines, furniture and material). The depreciation is based on the straight-line methodology in accordance with the estimated useful life of the asset, as defined in note 2 to the consolidated financial statements. In line with IPSAS, the various heritage assets, such as the stamp collection, were not capitalized.

75. The detailed checks on the amounts put to account in 2018 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.

76. During the interim audit, the SFAO carried out an inventory of a few tangible assets to verify their existence. This check led to the identification of a sum of 120,504 CHF corresponding to preliminary studies on the updating of the electrical installations. This element did not meet the conditions for being capitalized. The DFI made the necessary corrections.

Intangible assets

77. The balance under this heading stood at 503,637 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.

Land and buildings

78. The value of the building as recorded on the balance sheet is 24 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

79. The amount of 11.7 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.

80. The substantial drop in the balance at the end of 2017 (-20.1 million CHF) was mainly due to a similar decrease in UPU*Clearing accounts payable.

Short-term employee benefits

81. The provision for overtime and accrued leave days amounts to 2 million CHF, a slight increase compared to 2017. The accuracy of the amounts was checked by analyzing the individual data of UPU staff.

Deferred revenue

82. Deferred revenue is recognized as a liability on the balance sheet for a total amount of 73.3 million CHF. It represents the assessed contributions billed in advance, and tied funds received from third parties. The amount is stable compared with 2017.

83. Following a recommendation by the SFAO, the DFI prepared a list of inactive tied third-party funds and tied own funds. This approach enables funds that are able to be closed to be identified. This work began in 2016 and continued throughout 2017 and 2018, with the majority of inactive funds being closed, and the SFAO considers the recommendation to have been implemented. A process enabling systematic identification of inactive funds has been put in place and steps have been taken to process them.

84. At the end of 2018, there were no negative funds shown under conditional voluntary funds.

Advance receipts

85. Advance receipts totalled 86.7 million CHF, slightly up on the previous year (+6%). They essentially comprise the credits available to designated operators for carrying out QSF projects, which amounted to 77.7 million CHF at the end of 2018.

Funds-in-trust held for translation services

86. 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.

87. The amount of 7.2 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: 4.5 million CHF for the Arabic Translation Service, 2.3 million CHF for the English Translation Service, and 0.4 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

88. The interest-free loan representing funds borrowed from the Swiss Confederation to build the headquarters building is shown under two distinct headings on the liabilities side of the balance sheet. The portion of the loan that is payable in the upcoming year is shown under current liabilities for an amount of 375,760 CHF (the same figure as at 31 December 2017). The portion of the loan that is not payable in the upcoming year is shown under non-current liabilities for an amount of 375,756 CHF (751,516 CHF at 31 December 2017). The loan payable after one year is shown on the balance sheet at amortized cost, using the effective interest rate method.

89. Calculated using a discount rate of 1.15%, the value of the theoretical interest for 2018, which the UPU would have had to pay if the loan had been carried out under normal market conditions, would be 12,671 CHF. As for the total value of the interest waived up until the final reimbursement in 2020, this amounts to 12,768 CHF.

Provisions

90. The provision entered on the liabilities side of the balance sheet concerns proceedings and litigation under way. In late 2017 and early 2018, three verdicts with significant financial consequences were published by the Administrative Tribunal of the International Labour Organization. A total of 1.9 million CHF was paid in 2018 to the persons concerned.

91. Three cases that already existed in 2017 are still in progress, and a new case was filed during the 2018 financial year. These cases still concern the people who 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. This estimate is 452,000 CHF. The total amount of the provision was significantly lowered following the large payouts in 2018.

Long-term employee benefits

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

93. Long-term employee benefits, calculated using the projected unit credit method, are shown as a liability on the balance sheet for an amount of 242.4 million CHF. The two most significant amounts concern net obligations to the UPU Provident Scheme (202.7 million CHF) and after-service health insurance (35.4 million CHF). The details of all the obligations are given in note 12 to the consolidated financial statements.

94. The benefits 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.

95. 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.

96. As already noted, the switch from IPSAS 25 to IPSAS 39 had a very significant impact on the UPU accounts, with long-term employee benefit obligations rising from 146.8 million CHF (2017 accounts according to IPSAS 25) to 242.4 million (2018 accounts according to IPSAS 39). This is due to accounting for the unrecognized accumulated actuarial loss using the corridor method that was applied up until 31 December 2017. In accordance with IPSAS 3, the accounts of previous financial years were restated to provide a basis of comparison.

Net assets

97. 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 2018, the shortfall on the balance sheet stood at 197.6 million CHF.

98. At the end of 2018, the WNS reserve – which is part of the tied own funds – had a negative balance (58,565 CHF at 31 December 2018). As income is expected in 2019, the SFAO has not made a proposal to reassign this reserve as a deduction from uncommitted own funds. The UPU should, however, monitor this fund throughout 2019.

Revenue and expenses

99. 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.

100. As regards staff costs, in-depth analytical examinations and detailed checks were carried out on the salaries of about 40 people for the period from 1 January to 30 September 2018. All the elements making up the salary were checked, and no errors were found.

101. Despite the recommendation made in the report of 5 June 2018, the keeping of personnel files is still not satisfactory. The SFAO found that in several cases, family declarations were missing from files, and where they were present, they often were not up to date. This is in spite of the fact that the DRH regularly requests these declarations from the persons concerned. These documents and the associated ones (proof of financial support for a father or mother, declaration of schools, spouses' pay slips, etc.) are not systematically filed in the personnel files. The DRH still needs to make efforts to improve this situation.

102. 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.

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

[4] Accumulated deficit of Union funds.

Related party information

103. Note 18 to the consolidated financial statements shows an amount of 3.1 million CHF for 2018, corresponding to the salaries (annual average) of the 10.4 senior managers at the UPU. The total amount for 2017 was 3.4 million CHF for 10.7 senior managers.

104. 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 822,864 CHF, and that of the other directors was 2.3 million CHF.

Statement of cash flow

105. 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.

Financial risks

106. 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 has been checked and is correct.

107. The SFAO does, however, wish 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 25 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

108. 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 2018, unrecognized contractual commitments totalled 3.4 million CHF.

109. 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

110. 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

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

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.

111. However, some of the ILO case law indicates that a potential Union obligation towards staff of the three translation services cannot be completely ruled out. Low though this risk is, the UPU mentioned the obligations relating to staff benefits as a possible liability. At the end of 2018, the total amount of 17 million CHF (16.3 million CHF at the end of 2017) 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

112. 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.

List of additional entries not put to account

113. The SFAO identified certain problems in the course of the audit and proposed account entries to correct them. These were recorded by the DFI. There are thus no additional entries not put to account to mention.

Conclusion

114. As a result of the work carried out, the SFAO is in a position to confirm that the UPU's 2018 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.

115. The SFAO does, however, point out that the financial situation is 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 for the organization. As indicated in note 24, this situation represents a material uncertainty which could cast significant doubt on the organization's ability to continue as a going concern. The SFAO's opinion on this matter remains unchanged.

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

SWISS FEDERAL AUDIT OFFICE

(External Auditor)

Eric-Serge Jeannet Deputy Director	Martin Köhli 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 2018, 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 2018, and its financial performance and cash flows for the financial year ending on that date, in accordance with the provisions laid down in the International Public Sector Accounting Standards (IPSAS) and the UPU Financial Regulations.

Basis for the opinion

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

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. As indicated in note 24, this situation represents a material uncertainty which could cast significant doubt on the organization’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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, the SFAO exercises professional judgement and maintains professional scepticism throughout the audit. It also:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for its opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the UPU's internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management;
- Draws conclusions as to the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the UPU's ability to continue as a going concern. If the SFAO concludes that a material uncertainty exists, the SFAO is required to draw attention in its auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify its opinion. Its conclusions are based on the audit evidence obtained up to the date of its auditor's report. However, future events or conditions may cause the UPU to cease to continue 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, 2 July 2019

SWISS FEDERAL AUDIT OFFICE

(External Auditor)

Eric-Serge Jeannet Deputy Director	Martin Köhli Competence Centre Manager

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	13.06.2013	5	IT	PTC	31.03.2017
14190	30.06.2014	2	IT	PTC	31.12.2016
18055	05.06.2018	1	IT	PTC	31.12.2019
18055	05.06.2018	2	FS	DFI	31.12.2020
18055	05.06.2018	3	FS	DRH	31.07.2019

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

Six recommendations are still outstanding. A detailed list of the recommendations still outstanding along with their current status is presented below.

Detailed 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 June 2019:

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 2018:

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 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.

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

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

Status according to the follow-up conducted in November 2018:

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 now a matter for the PTC. The SFAO feels that the new separation of functions is better than that seen in the past. As this new process was defined only very recently, the SFAO was not able to verify its operation in practice.

The SFAO noted that "super users" and external parties have excessively broad access rights. It should be added that the Internal Auditor has also raised this problem and issued a recommendation.

Regular, documented review of existing users and access rights is still lacking. The recommendation therefore still stands.

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 2018:

The areas of access rights and change management still need to be improved. The Internal Auditor's report showed that measures need to be taken rapidly (see also recommendation 2 in report 14190). The separation of functions in relation to change management is still not satisfactory. Tests following the implementation of changes are not documented, and there is no test environment independent of the production system. 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 June 2019:

Decisions were taken at the 2018 Extraordinary Congress. Firstly, the guarantee threshold for the minimum degree of coverage was reduced from 85% to 80%. Secondly, the Management Board was mandated to enter into negotiations with the United Nations Joint Staff Pension Fund (UNJSPF) with a view to the UPU's participation in that fund and the migration of members to the UNJSPF.

The SFAO's view is that these decisions do not resolve the problem of recapitalizing the UPU Provident Scheme and ensuring the organization's sustainability. The recommendation therefore still stands.

Recommendation 3 from the 5 June 2018 report (No. 18055) on the audit of the 2017 consolidated financial statements: The SFAO recommends that the UPU, and in particular its DRH, take the necessary steps to ensure that personnel files are complete. One person should be formally assigned to classify the different documents in the files.

Comment by the Director General: We agree with this recommendation. Concrete measures will be undertaken by the DRH.

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

The latest detailed checks of personnel files were performed during the interim audit in November 2018. This examination showed that the situation had not improved. Family situation declarations for 2018, or even for 2017, were missing from numerous files.

The SFAO was informed that a DRH staff member had been formally tasked with managing personnel files and keeping them up to date. The SFAO will check during the 2019 interim audit whether this measure has improved the situation. Currently, the recommendation therefore still stands.