

## Universal Postal Union

### 2018 Internal Audit Activity Report

For the attention of Committee 1 (Finance, Human Resources and Governance) of the Council of Administration

#### I. Introduction

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

#### II. Handover of the internal audit mandate

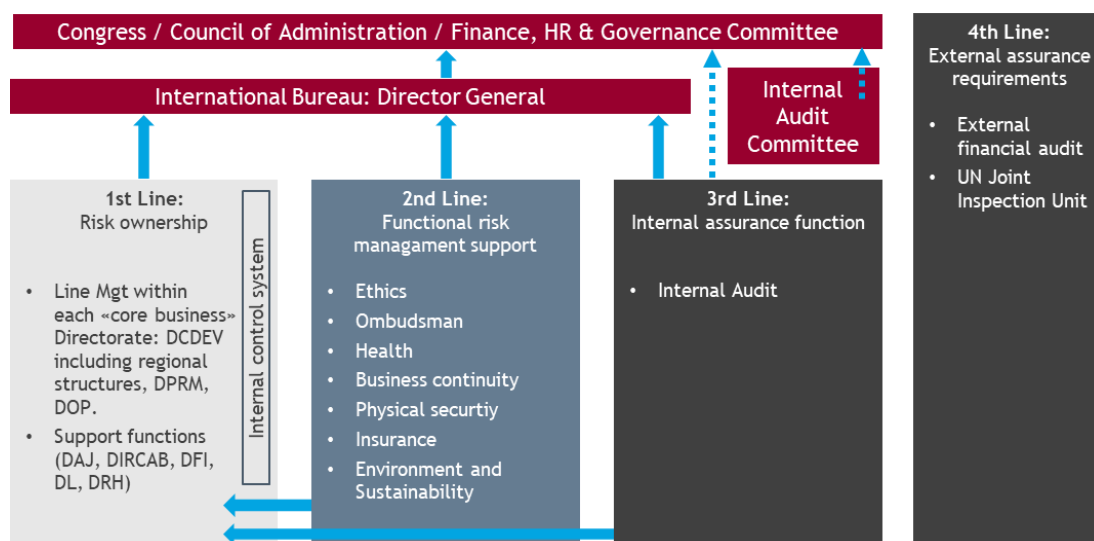
Following a “UPU internal audit” tender, BDO was selected to take over the internal audit function for six years 2018–2023.

In order to obtain an understanding of the environment of the UPU in its various business segments, BDO gained knowledge on the basis of actual documentation of the organisation. Moreover, meetings with the former internal auditors, EY, and the external auditor, le contrôle fédéral des finances, were conducted 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.

#### III. 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”.

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:



#### IV. Risk assessment and audit planning 2018

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 2017–2020 presented at the congress in Istanbul in 2016, the existing risk assessment from 2017, the knowledge gained through the handover process and eventual specific expectations from the International Bureau.

The 2018 audit planning was approved by the Director General.

#### V. Internal audit 2018 – Main observations

For the year 2018, we have issued two audit reports, one including two audits as scheduled in the audit plan, one concerning the audit tracking and one further audit will occur during the 4th quarter of 2018.

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 Executive Management in order to obtain their comments. The Executive Management has accepted our recommendations.

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

The conclusions of those audits were not designed to underline those 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 02.2018 and 03.2018 – Human Resources management and Business Continuity Management (BCM) in the payroll process*

The aim of this audit was to review the organisation of the human resources management in the following areas:

- Human resources management of the employees;
- Recording and management of working hours;
- Payroll process;
- Implementation of International Civil Service Commission (ICSC);
- Organisation of the business continuity management in the payroll process;
- Access rights.

Our main observations are the following:

##### 1 *4-eyes principle within the process of new joiner registration*

The registration of new employees in the Navision payroll system is performed by an employee of the Human Resources Directorate after collecting all the required documentation. There is no 4-eyes control applied within the process of registration. However, certain indirect controls were identified in the areas of pension fund and the Finance Directorate.

We recommend to ensure a 4-eyes principle on the registration of new employees in the Navision payroll system since the data registered is considered key as a basis for the payroll process.

## 2 *Storage of employees' files*

The files of the employees are held physically in the offices of the Human Resources Directorate. No electronic copies of those files are made.

We recommend to make an electronic copy of employees' files to ensure the continuity of employees' data.

## 3 *Update of the data and documentation of the employees*

Annually, the Human Resources Directorate asks every employee for potential modification of basic employee data to ensure that the data in the system and the corresponding documentation are on a current state. This process was not formally carried out during the year 2017.

We recommend to perform this control at least annually.

## 4 *Follow-up of payments*

There exists a manual listing of all the expenses requests by staff members which is completed on the basis of the Travel Authorisation Form estimating the expenses. Unfortunately there is no control and constant follow up of the actual payments. A control that the payment has not already happened is made with the Finance Directorate in case of doubt.

We recommend you to implement an internal procedure to follow the payments of the several expenses. We also recommend to put in place a 4-eyes principle and ensure a frequent supervision, through frequent controls, of the process.

## 5 *Application of the correct DSA rate for the settling-in-grants*

The calculation of the settling-in-grants is based on the DSA for Switzerland fixed by the ICSC. In the 7 cases reviewed the rate applied was CHF 390 although this rate corresponds to the one for 2015. Since then the rate has fluctuated as follows:

- 01.12.2015 – 01.06.2017: CHF 370
- 01.07.2017 – 01.06.2018: CHF 383

In consequence, respective payments throughout this period were not correct. We recommend you to implement an internal procedure to follow the payments of the several expenses. We also recommend to put in place a 4-eyes principle and ensure a frequent supervision, through frequent controls, of the process.

We recommend to update the DSA and pay the settling-in-grants in accordance to the ICSC and to evaluate the eventual changes to undertake for the period going from the 1st of December 2015 to 1st of June 2018. We also recommend to put in place a 4-eyes principle and ensure a frequent supervision, through frequent controls, of the process.

## 6 *Respect of instructions regarding missions*

For each mission a "Travel Authorisation Form" has to be submitted at least 2 weeks before departure and a "Travel Claim Form" has to be handed to the Human Resources Directorate within 2 weeks after the return for the refund. On 11 cases reviewed, 5 of them did not respect the "Travel Authorisation Form" deadline and one of them did not respect the "Travel Claim Form" deadline.

We recommend to notify the employees who breach the deadline and insist on respecting the imposed deadline.

### 7 *Monthly preparation of the salaries*

The monthly preparation, accounting and payment of the salaries is a key process for UPU. At the day of our audit, only one employee (working at 80%) is capable of doing this process at the Human Resources Directorate. This questions the validity of the 4-eyes control and the continuity of this process.

We recommend to ensure that a second employee is capable of carrying out the monthly payroll process.

### 8 *Internal framework regarding the payroll process*

There is no detailed internal framework describing the work performed monthly by the Human Resources Directorate which would allow a third party to take over the work in the absence of the responsible employee. A checklist summarizes the tasks to perform. However, this checklist does not describe sufficiently the work which would enable someone else to carry out the process on an operational basis.

We recommend to establish a detailed internal procedure describing the work performed monthly during the payroll process and allowing a third party to execute the monthly payroll process.

### 9 *Business Continuity Management strategy*

There is no formal internal framework/strategy defining the organisational BCM for the payroll process at UPU. Moreover, no recovery test was performed during the year 2017.

We recommend to define BCM strategy/procedure for the payroll process. This would ensure that critical business processes can be maintained in the event of major internal or external incidents.

Such would encloses, for example, the following aspects:

- Definition of and determination of scope of the BCM;
- Anchoring of the BCM in the corporate organisation;
- Definition of roles and responsibilities in connection with the BCM;
- Definition of threats and their impact on the company's resources;
- Definition of the frequency with which reviews and tests of plans and measures will be carried out;
- Definition of reporting, communication and training.

### 10 *Access rights matrix*

The matrix of access rights is not up-to-date. It includes "Super utilisateur Payroll" rights for an employee who left UPU in September 2017. Moreover, there is only one person with "Super utilisateur Payroll" rights which would allow to execute the monthly payroll process.

We recommend to update the access rights matrix and ensure that a second person can execute the monthly payroll process.

### *Internal audit report 04.2018 – Follow up of recommendations*

As per good practices, a specific audit focused on the follow up on the recommendations put forward by internal audit over the period 2011–2017. This review evidence a completion of 5 recommendations out of 24 open in March 2017, 2 were closed whereas the remaining 17 are in progress.

## **VII. Availability of Internal Audit reports**

Following the decision by the Finance and Administrative Commission 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, the internal auditor-BDO confirms that BDO complies and has complied during the period with the independence requirements. The internal Auditor-BDO appreciates the full support and cooperation from the persons involved in the audit.