

EIDGENÖSSISCHE FINANZKONTROLLE
CONTRÔLE FÉDÉRAL DES FINANCES

Audit of 2017 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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Summary of the audit

1 The 2017 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.

The financial situation is worrisome

2 The financial situation of the UPU is worrisome for two main reasons. Firstly, the 2017 financial year ended in a loss of 13.3 million CHF. This loss therefore adds to the accumulated deficit and exacerbates the situation regarding own funds, which remain negative at 98.4 million CHF at the end of 2017. Furthermore, the entry into force of the standard IPSAS 39 on employee benefits will necessitate a new method for recognition of actuarial gains and losses, which will have significant negative consequences for the UPU's net assets. According to the latest estimations, the recalculation will be made through an adjustment of 83 million CHF, which will be deducted from own funds on 1 January 2018.

3 Secondly, the situation regarding the Union's liquid assets is a matter for concern. The SFAO notes, firstly, that the total outstanding receivables rose to 66.8 million CHF by the end of 2017. The SFAO also points out that these receivables include 10.2 million CHF that may be regarded as doubtful debts. In addition, the Union should have paid a total of 5.4 million CHF into the UPU Provident Scheme in 2017 in order to uphold its guarantee of ensuring a minimum degree of coverage at 85%. This payment was not made owing to the tight cash flow situation. According to the actuarial expert's latest calculations, the total amount needing to be paid in order to ensure a minimum 85% degree of coverage is approximately 11 million CHF.

Significant doubt as to the Union's ability to continue as a going concern

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. For this reason, the SFAO recommended that the UPU present concrete proposals for discussion at 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. The SFAO also requested that the General Management evaluate the organization's ability to continue as a going concern. Having examined the situation and the simulations of likely 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 medium term.

Regulations, standards and information

Financial regulations and purpose of the audit

5 Financial year 2017 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).

6 This report describes the audits of the UPU's consolidated financial statements drawn up at 31 December 2017, 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.

7 The 2017 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

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

9 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.

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

11 The result of the audit was initially communicated to the Finance Directorate (DFI) at meetings on 21 December 2017 and 5 June 2018. The latter meeting served as the final discussion, and was held in the presence of Mr P. Clivaz, Deputy Director General; Mr O. Dreier, Chief Accountant; Ms S. Houhou and Ms M. Lita, experts from the Accounting and Treasury Programme; and Ms X. Fu, Governance, Risk Management and Management Information Systems Coordinator. The SFAO was represented by Mr D. Monnot, Head of Audit Mandates, and Mr A. Crevoiserat, Audit Manager.

12 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.

13 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.

14 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.

15 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 14 June 2018. They are included in this report.

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

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

Examination of the work of the internal auditor

17 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. As of 2018, the mandate will be assigned to a new service provider.

18 The internal audit reports² that were reviewed contain interesting observations that require action on the part of the UPU. However, these observations have no direct influence on the work of auditing the 2017 consolidated financial statements.

Follow-up of recommendations

19 Review of the recommendations shows that the International Bureau has made efforts to speed up their implementation. There were 21 outstanding recommendations in the report of 16 June 2017. Only nine of these remain, listed in Annex 2 to this report. Four recommendations relate to management processes, three to information technology, and two to financial reporting.

IT audits

Work done

20 During the interim audit performed at the end of 2017, the SFAO conducted an IT audit focusing, among other things, on general IT controls. In terms of the financial internal control system (ICS), these cover the following areas:

- Change management;
- Access rights management;
- Management of IT operations.

21 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 general IT controls relating to the Navision financial application to be adequate to cover the IT risks surrounding regular accounting and bookkeeping.

22 However, the SFAO considers the general IT controls relating to the Navision payroll application to be inadequate for human resources. The processes for monitoring, control, governance and oversights do not yet comply with best practice in this area, nor are they completely aligned with the processes applied by the Postal Technology Centre (PTC).

23 The PTC organizes its control processes and measures in accordance with recognized standards, such as the IT Infrastructure Library (ITIL). ITIL is a set of recommendations for globally-recognized best practice. These recommendations relate to various areas, but those which are most pertinent to the work of the UPU are change management and access rights. These best practices are already being followed adequately by the PTC, but this is not the case across all units of the organization. IT processes relating to finance or human resources should therefore be adapted.

² The reports issued in 2017 were the following:

- Management structure review;
- Completion of a risk analysis.

24 In comparison with last year, the IT landscape has changed considerably. The DL.PIM unit has been integrated into the PTC, and this has 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.

25 The SFAO welcomes the replacement of IT applications for human resource management by a new Navision application. However, as already mentioned, the processes for monitoring, control, governance and oversight do not yet comply with best practice in this area.

26 The SFAO also followed up the recommendations from previous audits. DL.PIM's integration into the PTC has also had an impact on the outstanding recommendations from previous IT audits. The SFAO notes positive progress in the treatment of the recommendations issued. The reorganization of the IT function has addressed three of the six outstanding recommendations. For the remaining three, action plans and implementation deadlines have been set.

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

Evaluation of the SFAO

The SFAO has verified the existence of general IT controls and has found them to be only partially adequate. Some best practices are already being followed adequately by the PTC, but this is not the case across all units of the organization. IT processes relating to finance or human resources should therefore be aligned with the processes of the PTC.

Recommendation 1

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.

Comments 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. (Date planned for implementation: end of 2019)

Audit of 2017 consolidated financial statements

28 The audit carried out related to the 2017 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

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

30 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

31 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.

32 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 2017 financial year. The excess expenses for the 2017 financial year amount to 13,297,403 CHF. The previous financial year ended in excess income of 1,404,768 CHF.

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

IPSAS implementation

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

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

35 These five standards replace the following standards: IPSAS 6 (Consolidated and Separate Financial Statements); IPSAS 7 (Investments in Associates); and IPSAS 8 (Interests in Joint Ventures). The UPU has applied the new standards 34 and 35 since 2016.

Going concern

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

37 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 this decrease is essentially due to two factors: payments made to recapitalize the UPU Provident Scheme, and the increase in receivables. The Union's guarantee to the Provident Scheme is the factor with the greatest impact on cash flow. 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.

38 The payment due in 2017 was 5.4 million CHF. This payment was not made, so as to prevent the Union's tight cash flow situation from deteriorating further. According to the actuarial expert's latest calculations (as of 31 December 2017), the total amount needing to be paid to ensure a minimum 85% degree of coverage is approximately 10.6 million CHF, plus interest at 2.75% amounting to 0.3 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. Moreover, based on the situation as of 31 December 2017, the SFAO advises that, according to the actuary, the amount needed to reach a 100% degree of coverage is 56.4 million CHF.

39 A task force on the stability and sustainability of the UPU Provident Scheme was formed by the Istanbul Universal Postal Congress to discuss various ways of stabilizing the situation. Among those suggested, the only quick and effective option would be to ask member countries to cover the cost of recapitalizing the Provident Scheme. However, such a measure would require a two-third majority among member countries, as it would involve exceeding the established ceiling of expenditure.

40 In the light of the situation, the SFAO asked the UPU General Management to evaluate its ability to continue as a going concern. The General Management based its assessment on a five-year liquidity plan which takes into account various possibilities. 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.

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.

Recommendation 2

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.

Comments by the Director General

We agree with this recommendation. Proposals relating to this matter will be submitted to the 2018 Extraordinary Congress. (Date planned for implementation: 2020 (end of cycle).)

Cash and cash equivalents

41 The balances of the various cash accounts at 31 December 2017 were compared with those obtained from statements issued by the depositories. The cash amounts posted (48.6 million CHF in total) comply with the principle of the availability of funds within 90 days.

42 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 2017, the UPU held 22.6 million CHF, with the balance of 26 million CHF being subject to restrictions. It should be noted that the proportion of cash freely available to the Union was 21.6 million CHF at the end of 2016, 24.6 million CHF at the end of 2015 and 30 million at 31 December 2014. With regard to the deteriorating cash-flow situation, the SFAO refers once again to the section on going concern.

Investments

43 Total current investments amounted to 100.5 million CHF at the end of 2017. Meanwhile, investments only realizable after 31 December 2018 amounted to 2.4 million CHF and were presented with the non-current assets. Total investments therefore amounted to 103 million CHF, up slightly from 102.3 million CHF at 31 December 2016.

44 In 2014, the UPU decided to invest 70 million USD in a capital guarantee fund. At year end, the value of this fund was 68.4 million USD, up slightly from the balance of 67.7 million USD at the end of 2016. This capital guarantee fund is due to end and be reimbursed in June 2018.

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

Accounts receivable (exchange and non-exchange transactions)

46 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 2017 showed no particular problems.

47 Current receivables (from both exchange and non-exchange transactions) represented a net value of 53.1 million CHF (37.9 million CHF at the end of 2016), and non-current receivables (from non-exchange transactions) of 13.8 million CHF (12.6 million CHF at the end of 2016). Overall, there was a significant increase in total receivables between 2016 (50.6 million CHF) and 2017 (66.8 million CHF).

48 In last year's report, the SFAO noted that, owing to the holding of the 2016 Istanbul Congress, several countries subject to sanctions asked to benefit from an amortization schedule so as to recover their voting rights. One of the consequences of signing an amortization schedule is the dissolution of the provision for doubtful debts linked to the total amount covered by the schedule. The rules applied by the UPU result in significant distortions in the accounting results over time – in the years when Congresses are held, significant income is presented in the accounts. It was for this reason that the SFAO recommended that the UPU consider a change in the rules on the provision for doubtful debts, in order to increase the comparability of results over time. Following consideration, 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 will be applied from 1 January 2018.

49 As already noted, the slowness with which certain member countries pay their statutory contributions is unfortunate, and impacts negatively on the cash-flow situation.

50 The SFAO also draws attention to the ageing analysis of receivables due in note 4 to the consolidated financial statements. For the Union, this analysis shows that there is a total amount of 10.2 million CHF representing unpaid and doubtful debts. This represents close to one third of the Union's net receivables at the end of 2017. This situation requires special attention on the part of the UPU.

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

52 Following that proposal, measures were taken by the International Bureau (IB). Two proposals to amend articles 146 and 151 of the General Regulations were thus submitted to the Council of Administration (CA). The CA decided to present the proposals to the 2016 Congress, with a view to harmonizing the rates of interest on overdue payments for arrears of contributions and for sales of supplies (interest rate of 5% in both cases), and maintain different payment conditions for contributions and sales of supplies (payment deadline of three months for contributions and six months in other cases).

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

54 On account of this inaction, the situation remains unchanged. The SFAO's proposal therefore still stands, and the UPU is encouraged to take the necessary steps to address this matter at the Extraordinary Congress, which will be held in Addis Ababa in the second half of 2018.

Comment by the Director General: A new proposal will be submitted to the 2018 Extraordinary Congress.

Inventories

55 Inventories are recorded on the balance sheet for a total of 192,580 CHF (311,999 million CHF at the end of 2016). They consist of barcode labels, UPU souvenirs offered for sale, and postage stamps.

56 The decrease compared with 2016 stems largely from the stocks of international reply coupons (IRCs), following the change in supplier in 2017. Stocks of partially finished IRCs, still held by the previous supplier, were destroyed. The terms of the agreement signed with the new English supplier state that the latter remains the owner of IRCs up until their delivery to the Posts via the UPU. The amount of 88,085 CHF presented as IRC stock at the end of 2017 represents the paper stocks bought by the UPU. But there is no longer any semi-finished IRC stock, as had been the case up until 31 December 2016.

Other current and non-current assets

57 Other current assets total 2.9 million CHF and include, in particular, prepaid expenses and deferred charges, staff advances, other advances and tax advances.

58 During the interim audit, the SFAO conducted an audit focusing on staffing, and more specifically on salary advances, Social Fund advances and other advances. The checks did not reveal any particular problems aside from the following point. It was noted that several education grant advances had been made in 2015 and 2016, and that these were still outstanding in November 2017. In theory, the staff members concerned should have made the payments for their children's school fees and the advances should have been settled. This situation was brought to the attention of the DFI, which has taken the necessary steps to regularize the situation. During the final audit, the SFAO noted that these advances had indeed been settled.

59 Social Fund advances due to be repaid in more than a year's time total 25,500 CHF and are presented under "Other non-current assets".

Equipment

60 Tangible assets amounted to 1.9 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.

61 The detailed checks on the amounts put to account in 2017 did not reveal any particular problems. A critical review and detailed tests in different expenditure accounts were also performed to check that the principles for accounting of tangible assets had been followed. Here again, the checks did not reveal any particular problems.

Intangible assets

62 The balance under this heading stood at 370,372 CHF. During the interim and final audits, the SFAO performed a critical review and detailed tests of the different expenditure accounts in order to ensure that the principles for recognition of intangible assets had been followed. The checks did not reveal any particular problems.

Land and buildings

63 The value of the building as recorded on the balance sheet is 25.3 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. The checks did not reveal any particular problems.

Accounts payable and accrued expenses

64 The amount of 31.8 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.

65 The substantial increase in the balance compared to the end of 2016 (+15 million CHF) was due to the increase in UPU*Clearing creditors (increase similar to that of UPU*Clearing accounts receivable).

Short-term employee benefits

66 The provision for overtime and accrued leave days amounts to 1.9 million CHF, which is very slightly higher than in 2016. The accuracy and relevance of the amounts was checked by analyzing the individual data of UPU staff.

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

68 The SFAO recommended that the UPU find a technical solution to avoid the need for such manual entries. However, no measures have been taken. The SFAO notes that the UPU prefers to manage the existing risk through laborious and time-consuming checks.

Deferred revenue

69 Deferred revenue is recognized as a liability on the balance sheet for a total amount of 74.7 million CHF. It represents the assessed contributions billed in advance, and tied funds received from third parties. The figure was higher than in 2016 as a result of an increase in current Quality of Service Fund (QSF) projects.

70 Following the implementation of an old 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, with several inactive funds being closed as a consequence. However, as of 31 December 2017, six inactive funds totalling 103,682 CHF were still open. This work should therefore be continued in 2018 so that the SFAO's recommendation can be seen as being completely implemented.

71 At the end of 2017, there were no longer any negative funds shown under conditional voluntary funds. The SFAO notes that this is a positive situation which indicates that these funds are being managed prudently.

Advance receipts

72 Advance receipts totalled 81.4 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 70.9 million CHF at the end of 2017.

Funds-in-trust held for translation services

73 The three translation services are not included in the consolidation perimeter. They are the subject of separate financial statements still presented in accordance with other accounting standards. The amount of 7.1 million CHF, shown under current liabilities, represents the three current accounts managed by the Union on behalf of the translation services. The amounts held are as follows: 4.6 million CHF for the Arabic Translation Service, 2.1 million CHF for the English Translation Service, and 0.4 million CHF for the Portuguese Translation Service.

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

Borrowing

75 The interest-free loan representing funds borrowed from the Swiss Confederation to build the headquarters building is shown under two distinct headings on the liabilities side of the balance sheet. The portion of the loan that is payable in the upcoming year is shown under current liabilities for an amount of 375,760 CHF (the same amount as at 31 December 2016). The portion of the loan that is not payable in the upcoming year is shown under non-current liabilities for an amount of 751,516 CHF (1,127,276 CHF at 31 December 2016). The loan payable after one year is shown on the balance sheet at amortized cost, using the effective interest rate method.

76 Calculated using a discount rate of 1.15%, the value of the theoretical interest for 2017, which the UPU would have had to pay if the loan had been carried out under normal market conditions, would be 16,799 CHF. As for the total value of the interest waived up until the final reimbursement in 2020, this amounts to 25,439 CHF.

Provisions

77 The provision entered on the liabilities side of the balance sheet concerns proceedings and litigation under way. Following the reorganization carried out in 2015, a number of staff members had their contracts terminated, and the persons concerned challenged these terminations, filing cases with the International Labour Organization's Administrative Tribunal.

78 In late 2017 and early 2018, three verdicts were delivered by that Tribunal. The amounts to be paid out to the three persons involved were calculated and funded in late 2017. Three new cases were filed during the financial year under review, concerning the same three people terminated in 2015. The Legal Affairs Directorate provided its best estimate of the amount that the UPU might have to pay for the three new pending cases. The payments to be made following the verdicts and the

filing of these new cases account for the significant increase in the provision amount between 31 December 2016 (0.9 million CHF) and 31 December 2017 (2.6 million CHF).

Long-term employee benefits

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

80 Long-term employee benefits, calculated in accordance with IPSAS 25 using the projected unit credit method, are shown as a liability on the balance sheet for an amount of 146.8 million CHF. The two most significant amounts concern net obligations to the UPU Provident Scheme (98.4 million CHF) and after-service health insurance (46.1 million CHF). The details of all the obligations are given in note 12 to the consolidated financial statements.

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

82 The SFAO examined the correct application of IPSAS 25, the completeness and accuracy of the data used as a basis for the actuary's calculations, the assumptions used, and the entries into the accounts. This important item in the UPU balance sheet is IPSAS-compliant.

83 Last year, the SFAO requested statistics on commutations of capital made upon retirement. From these statistics it was noted that such commutations of capital were relatively frequent. However, the actuarial assumptions refer to there being no commutations of capital. At the SFAO's request, the DFI addressed this issue with its actuarial expert in 2017, and the assumptions used in the calculations were adapted accordingly. In the latest actuarial survey, a rate of commutation of 15% was used for calculations. The SFAO finds this figure to be more realistic than the previously used rate of 0%.

84 IPSAS 25 was replaced by IPSAS 39 on 1 January 2018. One important consequence is that the so-called "corridor" approach has been abandoned. This method was used by the UPU up until 31 December 2017, which means that actuarial differences are not immediately shown in the accounts. In the 2018 accounts, this change in standard will mean retroactive application of the new rules: in other words, restatement of the figures for 2017. At the SFAO's request, the UPU asked its actuarial expert to calculate employee benefit liabilities in two different ways: according to IPSAS 25 and the new IPSAS 39. The DFI took the necessary steps. Nevertheless, a cursory examination of the report produced according to IPSAS 39 showed that not all the comparative figures and information for 2017 – which will be required for the 2018 consolidated financial statements – were present. A new request must therefore be made to the actuary. The SFAO will check during the 2018 interim audit whether the UPU has all the necessary information for the financial statement calculations.

85 The SFAO draws the DFI's attention to the fact that, in the next financial statements, note 12 on employee benefits will need to be reviewed. With the new IPSAS 39 standard, some additional details will need to be provided. Although it will not issue a formal recommendation, the SFAO encourages the UPU to carry out a detailed analysis of the IPSAS 39 standard, so as to identify the additional elements to be included.

86 A new concept has been introduced with the new IPSAS 39, namely that of risk sharing. The valuation of Swiss pension funds according to international financial reporting standards (IFRS, IAS 19) has been the subject of a lengthy debate between experts and businesses. The employer's obligation towards its pension fund can be difficult to define. For example, stabilization measures

may entail changes in employees' benefits. This means that risk is shared between the employer and employees.

87 In its last report, the SFAO recommended that the UPU conduct a study, with its actuarial expert, to determine the possibilities in terms of taking account of the concept of risk sharing, which will be introduced with the entry into force of the new IPSAS 39.

88 The DFI took the necessary steps with its actuary. From the initial analyses, it became clear that this concept will not apply to the UPU. This is mainly due to the fact that the UPU provident plan is based on pre-defined benefits, which greatly limits the options available. The UPU has therefore decided not to consider the notion of risk sharing in the future.

Net assets

89 Net assets comprise tied own funds³, untied (or uncommitted) own funds⁴, 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 2017, the shortfall on the balance sheet stood at 98.4 million CHF.

90 In 2017, the "Special Fund Cafeteria" reserve, whose balance has not changed in several years, was incorporated into the "Social Fund capital". This incorporation was recommended by the SFAO in its last report.

91 At 31 December 2017, the WNS reserve – which is part of the tied own funds – had a negative balance of 53,532 CHF. As income is expected in 2018, 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 2018.

Revenue and expenses

92 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.

93 As regards staff costs, detailed checks were carried out on the March 2017 salaries of about 20 people. All the elements making up the salary were checked, and no errors were found.

94 Significant changes to the remuneration scales entered into force on 1 January 2017. These followed the implementation of the UN General Assembly decision to unify the salary scales for the DG, DDG, D and P categories, by removing the distinction between staff members with and without dependants. So that this decision does not have a negative financial impact on the staff members concerned, a grade and step matching table was drawn up by the UN. In the interim audit, the SFAO checked that the table was being correctly implemented for a sample of 15 staff members and found no problems.

95 Following these salary checks, a negative point needs to be raised in terms of the keeping of personnel files, which is unsatisfactory. 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 declarations and the associated documents (proof of financial support for a father or mother, declaration of schools, spouses' pay slips, etc.) are not systematically filed in the personnel files, but are deposited with a DRH staff member. According to information received, it appears that no one is

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

⁴ Accumulated deficit of Union funds.

formally responsible for filing these documents. This is the third time that the SFAO has raised this issue without seeing any improvement. As the situation is not showing signs of improvement despite the oral recommendations made during previous audits, the SFAO has decided to issue a formal recommendation this year for this problem.

96 Moreover, the SFAO noted that decisions regarding salary increments were not routinely classified in personnel files. Entitlement to salary increments is not, however, automatic; as staff rule 103.4.7 states, the General Management can decide to withhold a staff member's next increment. As such evidence is missing from files, it is not possible to ensure that salary increments are being approved by the General Management.

Evaluation of the SFAO

The SFAO feels that personnel files must be better maintained. These files should be up to date and contain all the necessary evidence to account for the different elements of the salary and the various allowances provided, which is not currently the case.

Recommendation 3

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.

Comments by the Director General

We agree with this recommendation. Concrete measures will be undertaken by the DRH. (Date planned for implementation: July 2019)

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

Related party information

98 Note 18 to the consolidated financial statements shows an amount of 3.4 million CHF for 2017, corresponding to the salaries (annual average) of the 10.7 senior managers at the UPU. The total amount for 2016 was 2.9 million CHF for 10 senior managers.

99 IPSAS 20, paragraph 34 (a), expressly requires that a distinction be made between the individuals at the head of an organization and the directors reporting to them. However, in its recent financial statements, the UPU has never made this distinction, despite the SFAO's recommendations.

100 For the first time this year, the UPU has presented related party information to comply with the requirements of IPSAS 20. The total aggregate remuneration for the Director General and the Deputy Director General amounted to 854,736 CHF (829,858 CHF in 2016). The remuneration of the other directors totalled 2.5 million CHF (2.1 million CHF in 2016).

Statement of cash flow

101 The SFAO reviewed the positions in the table of cash flows (financial statement IV) and checked the amounts presented against the opening and closing balances. The table shows no significant error.

Financial risks

102 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.

103 The SFAO wishes, however, to draw attention to the section on liquidity risk. In this section, the UPU mentions serious cash-flow issues which could result from making two payments of 5.5 million CHF in 2018 and 2019 to recapitalize the UPU Provident Scheme. This situation represents a material uncertainty which may cast significant doubt on the UPU's ability to continue as a going concern. However, after carefully examining the situation and simulations of likely changes in cash-flow, the General Management believes that operations are not threatened in the medium term.

Unrecognized contractual commitments

104 According to IPSAS 1⁵, the notes should provide information on unrecognized contractual commitments. In addition, according to IPSAS 17⁶, the notes must also indicate, for each category of tangible assets included in the consolidated financial statements, the amount of contractual commitments for the acquisition of property, plant and equipment. The process introduced by the DFI enabled unrecognized contractual commitments totalling 20 million CHF (8.1 million CHF at the end of 2016) to be identified. This increase is essentially due to the signing of three major contracts in 2018 with Quotas GmbH (engagement from 2018 to 2020 for 7.1 million CHF), Fincons Group AG (engagement from 2018 to 2022 for 3.3 million CHF) and Altran AG (engagement from 2018 to 2022 for 2.5 million CHF).

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

Contingent liabilities

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

107 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 2017, the total amount of 11.9 million CHF (11.4 million CHF at the end of 2016) 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

⁵ IPSAS 1, point 129d

⁶ IPSAS 17, point 89c

same methodology as for staff benefit obligations for Union staff and staff of the other entities included in the consolidated accounts.

Segment reporting

108 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

109 The SFAO has no additional entries not put to account to mention.

Conclusion

110 As a result of the work carried out, the SFAO is in a position to confirm that the UPU's 2017 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.

111 The SFAO highlights, however, the importance of taking concrete measures during the 2018 Extraordinary Congress, so as to increase the organization's ability to continue as a going concern. It refers to the section on liquidity risk in note 24 of 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.

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

Swiss Federal Audit Office
(External Auditor)
Eric-Serge Jeannet
Deputy Director

Didier Monnot
Head of Audit Mandates

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 2017, 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 2017, 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 refers to the section on liquidity risk in note 24 of 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 as to 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, 5 June 2018.

Swiss Federal Audit Office
(External Auditor)
Eric-Serge Jeannet
Deputy Director

Didier Monnot
Head of Audit Mandates

Annex 2: Follow-up of recommendations from previous audits

Audit report of the financial statements

As indicated in paragraph 19, this annex sets out the status of the recommendations issued in previous audit reports that have not been implemented.

<i>Audit report</i>		<i>Recommendations</i>			
<i>No.</i>	<i>Date</i>	<i>No.</i>	<i>Type</i> ¹	<i>Unit</i>	<i>Planned date of implementation</i>
12390	20.12.2012	4	Management	DRH	31.12.2016
12390	20.12.2012	6	Management	DRH	31.12.2016
13262	13.06.2013	3	IT	PTC	30.06.2017
13262	13.06.2013	5	IT	PTC	31.03.2017
14190	30.06.2014	2	IT	PTC	31.12.2016
14192	19.02.2015	6	Management	DIRCAB	31.12.2017
15064	02.09.2016	4	Management	GR-MIS	31.12.2017
16114	27.06.2016	1	FS	DFI	31.12.2017
17072	16.06.2017	1	FS	DFI	31.12.2018

¹FS: recommendations concerning the consolidated financial statements and accounting

Management: recommendations concerning management in general

IT: recommendations concerning information technology

As the table shows, there are still 9 outstanding recommendations. 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 September 2017

The recommendation has been partially implemented as a checklist for separation from service has been created. However, the administrative instruction relating to working hours is still in the process of being updated.

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

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

Status according to the follow-up conducted in September 2017

The recommendation is still considered open as the UPU has not yet issued an internal directive on the allocation of working days to the headings of Programme and Budget.

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

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 2017

With the merger of DL.PIM and the PTC, a single method of project management is now in place – namely, the method used by the PTC. However, the project to introduce the Navision payroll application was not managed using this method. This recommendation is therefore still open and will remain so until the current method of project management is being applied consistently to all IT projects carried out by the organization.

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 2017

The UPU wishes to use a single request management tool (ADILOFT) across the whole organization following the merging of DL.PIM and the PTC. However, this harmonization has been delayed, owing to the former DL.PIM wishing to continue working with its tool (Easy Vista). A migration from Easy Vista to ADILOFT will be discussed again in the course of 2018.

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 2017

The access rights for the new Navision payroll application have been based on previously-used rights. However, several issues remain to be addressed, such as, for example, the external consultant still having access to the UPU's live data. This recommendation is therefore still open and will not be closed until all functions of the Navision payroll application have been implemented.

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

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

Status according to the follow-up conducted in September 2017

This recommendation has not been fully implemented. The first phase may be considered completed. However, the SFAO has not found evidence to prove that the UPU has put into place for each directorate a process for managing risk matrices and reviewing their relevance.

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

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

Status according to the follow-up conducted in September 2017

A comparison of the evolution of risk matrices could not be carried out in September 2017, as the SFAO was not able to obtain them for all the directorates. It was therefore not possible to check on the implementation of this recommendation.

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

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

Status according to the follow-up conducted in May 2018

The work commenced and several funds were closed in 2016 and 2017. However, as six inactive funds totalling 103,682 CHF were still open as of 31 December 2017, the recommendation cannot be considered fully implemented.

Recommendation 1 from the 16 June 2017 report (No. 17072) on the audit of the 2016 consolidated financial statements: The SFAO recommends that the UPU study a possible change in the rules on the provision for doubtful debts, in order to avoid the significant distortions currently seen in accounting results and thus improve the comparability of results.

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

Status according to the follow-up conducted in May 2018

The UPU decided to provision all invoices issued more than two years ago, regardless of whether they are covered by an amortization schedule. The DFI carried out an analysis to assess the impact of this change to accounting methods for accounts receivable. However, the UPU decided that the change in accounting methods will only be implemented on 1 January 2018. The recommendation therefore still stands.