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To the Council of Administration of the

UNIVERSAL POSTAL UNION - UPU

Berne

Internal audit report 03.2023

Annual internal audit activity reporting 2023

21 September 2023
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1 ANNUAL ACTIVITY REPORT

Internal audit function

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

Handover of the internal audit mandate

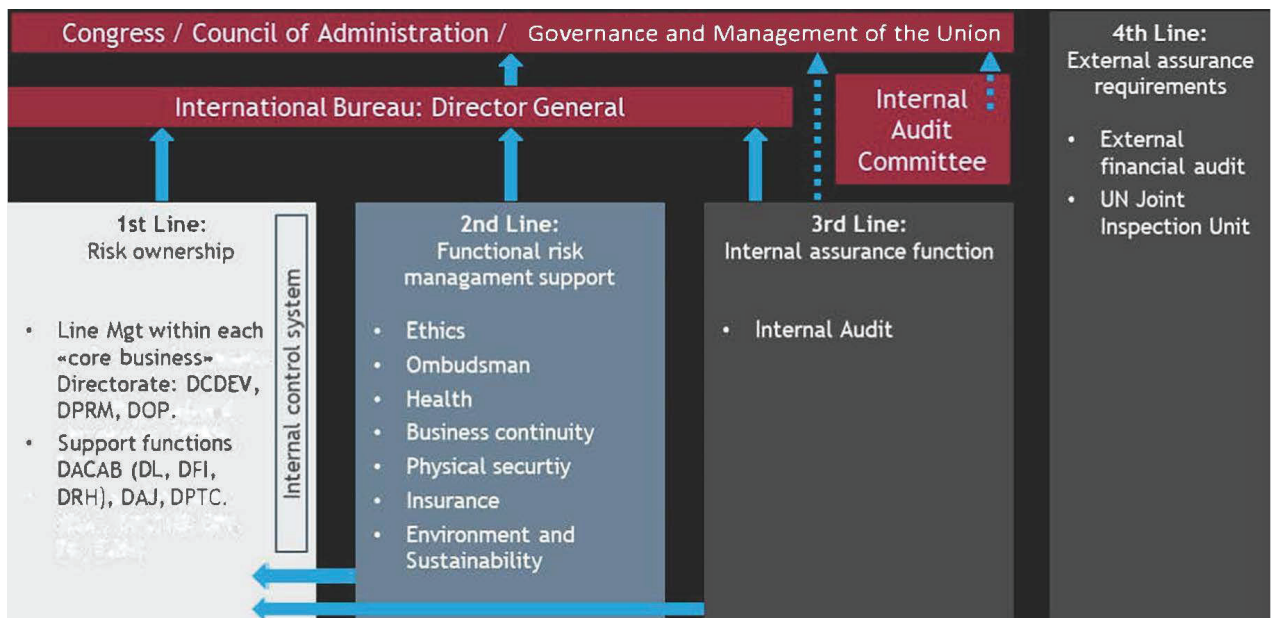
Following a "UPU internal audit" tender, BDO was selected by the Tender and Procurement Committee to take over the internal audit function for six years 2018 - 2023.

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

Internal audit as part of the wider UPU risk management framework

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

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



Risk assessment & audit planning 2023

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

2 INTERNAL AUDIT 2023 - MAIN OBSERVATIONS

For the year 2023, we will issue one audit report. This report covers a very broad theme and includes 3 subtopics. For this reason, we have not carried out 3 separate missions, as it was usually the case in the previous years. The last mission of 2022 was completed at the beginning of this year and the signed version is dated March 2023. For this reason, we present this mission in the current report.

At the time of our Annual Internal Audit Activity 2023 Reporting, one audit (Internal audit report 02.2023 - Home office) was not yet fully completed.

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 gather their remarks.

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

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

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

Internal audit report 05.2022 - Project Management Website

The objective of this audit was to uncover the factors that led to the Website Project not meeting expectations in any of the dimensions: time, deliverables, and cost.

We evaluated / reviewed the following processes / areas:

- Project initiation phase
- Project planning phase
- Project execution
- Project performance control
- Project closure

Our main observation is the following:

1. Deployment of project management specialists

UPU did not deploy any project management specialists with adequate know-how and experience to lead a complex and costly project. The project relied predominantly on the skills of the external solution providers.

Additionally, even though the project was very much dependent on technology, the involvement of IT specialists was not adequate. The fact that the IT Department has an established project management practice would have called for a more significant contribution from IT.

We do recommend assigning project executives with adequate knowhow and experience in relation to the complexity and challenges realizing the specific challenges.

If there are no internal resources available, we do recommend engaging with external specialist. In any case, we do recommend not to solely rely on project management resources from the involved vendors or service partners.

Implementation planned by the end of 2023.

2. Establish a project management framework

There is currently no project management framework established within UPU. There are no guide-lines available initializing and executing a project.

We do recognize the IT Department is using a project management tool supporting their project execution. Nevertheless, using a tool in IT only (with special adaptations for IT projects) without a generally agreed project management framework within UPU (e.g. project management policy, standardized governance roles) is suboptimal at best.

We recommend implementing a project management framework with adequate guidelines and procedures. Project management staff should be trained and adherence to the respective rules and regulations should be enforced.

Implementation planned by the end of 2024.

3. Establish project governance and controlling function

There are no project governance structures and controlling functions in place (e.g. requirement to establish a project steering committee, project owner responsibilities, project controlling, project risk management and controlling guidelines).

Project governance bodies (e.g. project steering committees, executive management) do not have verified information in the area of project controlling and project risk controlling to perform their function adequately.

We do recommend amending the project management framework with the guidelines for project governance structures and bodies as well as controlling functions. Respective functions should be installed both on a project-by-project basis as well as managing the execution of the strategic plan (e.g. project portfolio management and controlling).

Implementation planned by the end of 2024.

4. Project closure or re-launch

At the time of the audit, the project was not finished yet. Although there is a significant underachievement compared to the original objectives and the risk of not having a technical setup deemed adequate for a successful long-term operation, no re-assessment of the situation is planned yet.

We reckon that not lift the current state of the UPU websites up to current industry standards and improve the overall technical integration of web services is not an option. Therefore, halting the project and perform a re-launch seems to be the only viable option.

We recommend halting the project and to perform an assessment identifying the future technical and organizational setup to meet the originally defined objectives. Additionally, the current setup should be challenged to determine whether the capabilities to publish web content and functionalities are addressing current and estimated future requirements.

Once there is viable concept available going forward, a new project with all lessons should be initiated. Implementation planned by the end of 2023.

Internal audit report 02.2023 - Home office

The objective of the audit was to evaluate the long-term impacts of implementing a home office policy

We evaluated / reviewed the following processes / areas:

- Home office regulations
- Pilot project PTC and DL
- Project management

At the time of submitting this annual activity report, we have not yet completed our mission about home office. The results of this mission and the recommendations will be presented at the CA C1 meeting in November 2023.

Internal audit report 04.2023 - 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 2020 - 2022. This review evidence a completion of 6 recommendations out of 23 in January 2023, 1 was closed whereas the remaining 16 are in progress.

3 FINAL REMARK

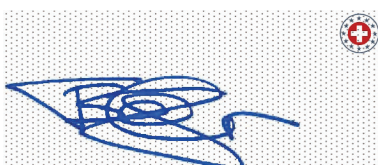
Following the decision by the Finance and Administrative Committee of the Council of Administration in November 2014, member countries can request access to Internal Audit reports to the International Bureau, as per the terms of circular 61 sent to member countries on 11 May 2015.

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

The internal audit function of BDO Ltd end in 2023, there will be no other additional internal audit report issued by BDO Ltd. We would like to thank all the people involved in our various projects for their availability and for their pleasant collaboration.

Berne, 21 September 2023

BDO Ltd



Thomas Bigler
Swiss CPA
Auditor in Charge



Laurence Gilliéron
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