

To the Council of Administration of the

## **UNIVERSAL POSTAL UNION - UPU**

Berne

# **Internal audit report 05.2019**

## **Annual internal audit activity reporting 2019**

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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

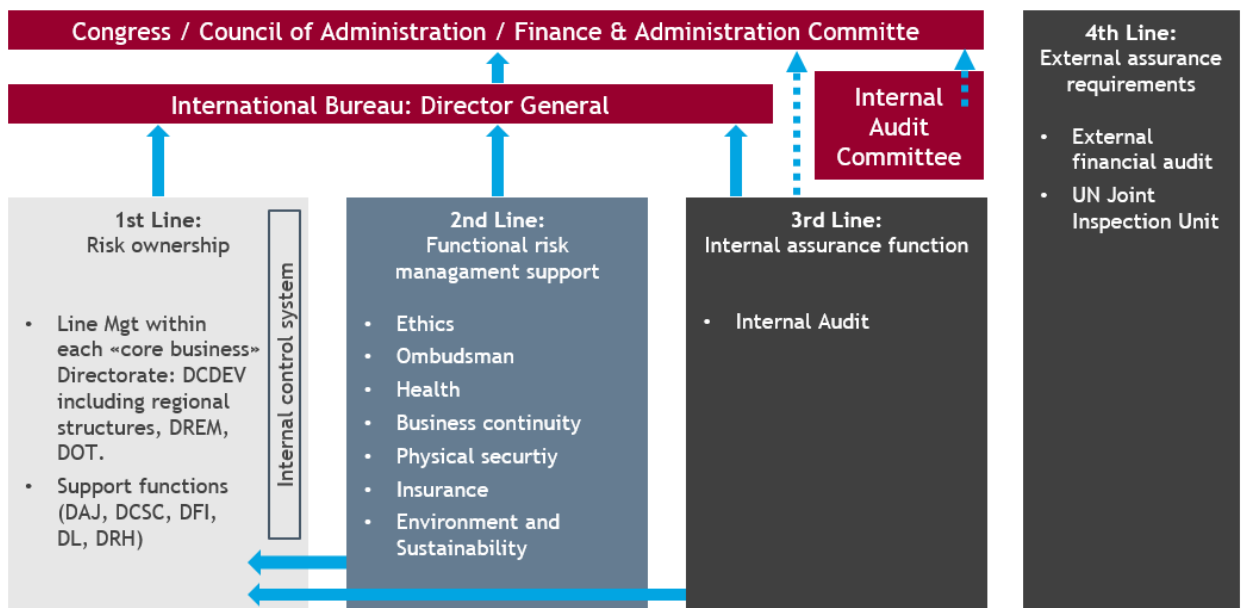
Following a "UPU internal audit" tender, BDO was selected by the Tender and Procurement Committee to take over the internal audit function for six years 2018 - 2023.

In order to confirm our 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 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. In 2019 this planning was not changed.

## 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:



## Risk assessment & audit planning 2019

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 2019 audit planning was approved by the Director General.

## 2 INTERNAL AUDIT 2019 - MAIN OBSERVATIONS

For the year 2019, we have issued four audit reports, three as scheduled in the audit plan, one concerning the audit tracking and one further audit will occur during the 4<sup>th</sup> quarter of 2019.

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

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

All the recommendations issued in our reports were presented to the General Management in order to obtain their comments. The General Management has accepted our recommendations.

All the internal audit reports were presented to the Internal 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 06.2018 - Products and services

The aim of this audit was to review the organisation of products and services in the following areas:

- Performance monitoring
- Operating management of the projects
- Budget and actual figures reporting

Our main recommendations are the following:

1. Risk-control matrix

We recommend to actualize the risk-control matrix and follow it on a yearly basis.

2. Reporting of actual figures

We recommend to present the actual figures to the General Management twice per year.

We recommend to perform a comparison of actual figures vs. budget figures twice per year, to be able to present these at the CA session (C3) and disclose it in the appropriate reports (Strategy Implementation Report and revised Istanbul Business Plan).

This recommendation has been regularised in 2019.

### 3. Internal procedure

We recommend to actualize the existing internal procedure to reflect the annual budgeting process and its related controls. We recommend to include the controls performed during the year enabling the accurate execution of the budgeting process and of the following of the actual figures during the year.

## Internal audit report 02.2019 - Financing

The aim of this audit was to review the organisation of the Finance Directorate (DFI) in the following areas:

- Internal organisation
- Invoicing process trade receivables
- Monitoring of trade receivables

Our main observations are the following:

### 4. No official approved process

The process description has been written upon request of BDO for this audit. This documents is not official and hasn't been approved yet.

We recommend you to obtain approval of the process description as well as to complete it with the controls to be carried out, their frequency and the person responsible

In August an updated version of the document was sent to BDO. We will consider this information during our follow-up-testing in 2020.

### 5. Update of the risk control matrix

The risk matrix for the DFI's processes is not up to date and was last reviewed in 2013.

We also recommend that you include a monitoring system to ensure that the key controls to be performed have been completed. This can be done in the form of a rotation table over several years.

We recommend to actualize the risk-control matrix and follow it on a yearly basis.

In August an updated version of the document was sent to BDO. We will consider this information during our follow-up-testing in 2020.

### 6. Change in the valuation method of accounts receivable

The accounts receivable valuation method has been modified for the 2018 financial year following the recommendations of the external auditors. The change concerns the valuation of receivables: before the change only the receivables of member countries under sanctions were depreciated, whereas now all receivables over 2 years old are depreciated. Due to this change the impact on the debtors for the 2017 financial year that was restated is a decrease of 9.9 Mio in assets.

We recommend that you obtain approval for method changes before implementing them.

It was clarified that this new methodology is following a recommendation of the external auditors. The External audit report is presented to the CA for approval which in fact approved to follow this recommendation.

7. 4-eyes principle within the process of entering data into the system / verification of the total invoiced amount

Every country has its amount of units based on which the annual contribution is calculated. These units have to be entered manually into Navision and then the system produces the invoice automatically and calculates the amount in CHF. The entered data are not verified by a second person.

We recommend ensuring a 4-eye principle before invoicing. This control could be done annually on the total of units being introduced in the system. If the total amount of units is correct, it can be assumed that a possible error will be mentioned by the member country to which too many units are invoiced.

Following the recommendation, a formal entry check has been performed for the 2020 invoicing process.

8. Rethink and tighten the regulations

In case that one yearly contribution of every country remains open for an undefined time, the budget of an entire year can be lost. Furthermore the fact, that a country can omit the payment for a total of 4 consecutive years without having any sanctions there could be suddenly a lack of cash for the UPU

We would recommend to revise and tighten the regulations with the intention to improve the payment behaviour of the countries.

## Internal audit report 03.2019 - Pension Fund

The aim of this audit was to review the organisation of the Pension Fund in the following areas:

Financial Situation

Our main observations are the following:

9. Immunity status of persons responsible Bodies and individuals and legal requirements and obligations applicable

The fact that the Pension Fund has been de facto unrecoverable in the past must be seen in the context of the assessment that the applicable supervisory structures and recommendations of the Pension Fund bodies were applied partially only in the past due to its special status as a supranational organization and on the decisions of the congress not supporting financial measures in the extent necessary to restructure the fund.

We would recommend an expert opinion on the effects of the immunity assessment of the persons responsible for the Pension Fund, in particular with regard to:

-Liability risks for members of the Board of Trustees, taking into account the special situation of the UPU Pension Fund (other bodies and supervisory authorities have been making recommendations for several years regarding the restructuring of the Pension Fund, which are not implemented by the Pension Fund)

-Duty of subordination (direct supervision, BVG Guarantee Fund) and its consequences (Gap analysis on additional regulatory requirements to be respected)

-How can the demarcation be assessed on a legally sound basis?

-For example, various legal and regulatory requirements are observed, but not reorganization requirements and respect for recommendations of governing bodies and supervisory authorities.

#### 10. Examination of subordinations

Due to the assessment of the legal situation as lined out earlier in this document, the effectiveness of the ordinary supervisory authorities and other supervisory bodies and institutions for pension funds in Switzerland, are weakened. Furthermore, the UPU Pension Fund does not contribute to the LOB Guarantee Fund.

We would recommend to clarify the possibility of participation to the LOB Guarantee Fund.

#### 11. Task force / Restructuring plan

The installation of a task force is judged to be positive. In order to achieve its urgently needed de facto effectiveness in improving the financial situation, an exceptionally high degree of legal and actuarial competence on the one hand, and the provision of the necessary competences on the other, appears to be a basic prerequisite.

We would recommend a review by the task force of the composition, tasks, know-how and competencies for the preparation of a restructuring plan.

High actuarial competence and specific legal BVG know-how on the one hand, and the allocation of the necessary decision-making powers on the other, are of central importance here.

It is recommended that the task force be supplemented by an external expert, such as the pension insurance expert in charge, or at least that the refinancing concept be drawn up in close consultation with the latter.

#### 12. Respect of the recommendations of the bodies and supervisory authorities

Irrespective of the assessment as to the immunity of the Pension Fund UPU, the continuous non-respect of the specific recommendations of the supervisory authority, external auditors and external pension insurance experts appears to be suitable for further increasing the risk exposure of the other persons responsible for the UPU, in particular the members of the Board of Trustees on the one hand, and the publicity risk for the UPU itself on the other.

With regard to recommendations for the refinancing of the UPU Pension Fund by external bodies, we note that the content of these recommendations must be regarded as well-founded and that they largely correspond to our assessment of the situation.

In view of the financing situation, it should also be borne in mind that, in addition to the obvious imbalance in current financing (benefit obligations vs. contribution payments), the so-called 'third contributor', the performance of the investments, is in danger of continuously losing its effect and contribution due to a further delay in effective refinancing measures.

As at 31 December 2018, for example, only around 72% of the minimum necessary asset amount is still available, on which a performance can be achieved in positive years on the stock markets, so that a restructuring on one's own merits without further financial support can no longer be regarded as realistically feasible.

It is understood that the non-support of additional means by the congress heavily endangers the necessary refinancing of the UPU Pension Fund.

We would recommend to respect the recommendations of external auditors, oversight authority and pension fund expert and financial support in the course of the budgeting process, including support for such measures by the congress.

### **Internal audit report 04.2019 - 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 2011-2018. This review evidence a completion of 13 recommendations out of 30 open in March 2018, 6 were closed whereas the remaining 11 are in progress.



### 3 FINAL REMARK

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

Berne, 12 September 2019

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