

EIDGENÖSSISCHE FINANZKONTROLLE
CONTRÔLE FÉDÉRAL DES FINANCES
CONTROLLO FEDERALE DELLE FINANZE
SWISS FEDERAL AUDIT OFFICE



Doc 10 An 1

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 has been 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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Universal Postal Union (UPU)

Summary of the audit

Audit opinion without reservation

1. The 2020 financial statements of the 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 SFAO is able to issue an audit opinion without reservation.
2. The SFAO noted weaknesses in the understanding and implementation of the risk assessment and monitoring of controls, and in the process relating to education grants. The SFAO has made three new recommendations in this regard. While the Finance Directorate (DFI) has made progress in the account closure and financial statement preparation procedure, certain aspects thereof need to be improved.
3. The SFAO was able to carry out and finish the audit work on schedule despite the restrictions resulting from the COVID-19 pandemic. It also noted the progress of the project to digitalize accounting data and personnel files, the implementation of which will allow the efficiency and effectiveness of processes to be improved.

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

4. The financial situation of the UPU is worrisome. Firstly, the balance sheet showed negative equity of 236 million CHF at the end of 2020, while total assets stood at 267 million. Secondly, the situation regarding the Union's liquid assets is a matter for concern. Whereas the Union should act as guarantor for its Provident Scheme when the latter falls below a minimum level of coverage of 85%, the total amount that would need to be paid at the end of 2020 to achieve this level of coverage is 26.7 million CHF.
5. The settlement of such an amount would lead to serious cash-flow problems for the Union and, as such, represents a material uncertainty that could cast significant doubt on the organization's ability to continue as a going concern. This issue was acknowledged by the UPU and a long-term financing plan was established with a view to fully recapitalizing the Provident Scheme by 2045. The plan is to be submitted for formal adoption at the next Congress – a decision which would enshrine this objective in the basic Acts of the organization.
6. Other factors could adversely affect the financial situation. The International Bureau building is in need of renovation. The electrical installations and fire protection system are obsolete and need to be brought into line with current standards. In the latest estimation of the architectural consultant, the cost of the most urgent work would be 34 million CHF. Efforts are being made to raise these funds.
7. The collection of receivables is becoming increasingly difficult and the COVID-19 pandemic is not facilitating the matter. The Council of Administration (CA) will propose measures to the 2021 Congress aimed at improving the collection of receivables.

8. The SFAO requested that the General Management evaluate the organization’s ability to continue as a going concern. Having examined the situation and the simulations of possible changes in cash flow, the General Management concluded that the organization’s ability to continue as a going concern is not threatened in the short term.

Execution of the audit

Purpose and scope of the audit

9. The purpose of the financial audit is to issue an opinion on the consolidated financial statements of the Universal Postal Union (UPU), on the basis of IPSAS, for the financial year ending 31 December 2020.
10. Financial year 2020 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 IPSAS.
11. The consolidated financial statements comprise 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 consolidated financial statements.
12. 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, which require the audit to be so planned and conducted as to obtain reasonable assurance that the consolidated financial statements are free of significant irregularities.
13. The 2020 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.

Key areas of the audit

14. For the purposes of the audit, the SFAO performed a risk assessment, on the basis of which it identified the main risks, the key areas to be audited, and the audit approach.
15. The ISA define the role that the auditor must fulfil with regard to the risk of potential misstatements in the financial statements, whether caused by fraud or error (ISA 240). Consequently, the External Auditor adopted procedures specific to this field.

#	Description of potential risk of misstatements	Audit findings
1	<i>Override of controls by the Management</i> The Management can reject or ignore controls, requirements and guidelines (significant risk).	§ 44–45

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

#	Description of potential risk of misstatements	Audit findings
2	<p><i>Operational continuity</i></p> <p>There is significant doubt as to the operational continuity of the UPU.</p> <p>The assumptions for the organization's continuity of operations are no longer being met.</p>	§ 49–64
3	<p><i>Recognition of revenue</i></p> <p>Recovery of doubtful debts is insufficient.</p> <p>Insufficient provision for needs in respect of reserves and depreciation.</p>	§ 71–73
4	<p><i>Investments</i></p> <p>Significant errors in the valuation of investments.</p>	§ 69–70
5	<p><i>Employee benefits</i></p> <p>Obligations are not correctly entered in the accounts.</p> <p>The assumptions used by the Management in evaluating commitments in respect of employee benefits are not reasonable or sufficient.</p>	§ 84; 99–102

Communication with the Management and management bodies during the audit

16. During the preparatory phase of the audit, the SFAO met with Mr P. Clivaz, Deputy Director General, and Mr J.-A. Ducrest, Director of Logistics.
17. In the course of 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.
18. The findings of the audit were communicated to the DFI at meetings on 18 December 2020 and 28 June 2020. The latter meeting served as the final discussion, and was held in the presence of Mr P. Clivaz, Deputy Director General; Mr V. Dubenko, Director of Finance; Mr J.-A. Ducrest, Director of Logistics; Mr R. Cuadra, Acting Director of Human Resources; Mr O. Dreier, Accounting, Budget and Treasury Programme Manager; and Ms X. Fu, Risk Controlling and Management Information Systems Coordinator.

The SFAO was represented by Mr D. Monnot, Head of Audit Mandates, Mr M. Köhli, Competence Centre Manager, and Ms V. Bugnon, Audit Manager.

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

Examination of the work of the Internal Auditor

20. 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.

21. The internal audit reports² that were reviewed contain some interesting observations which, while requiring action on the part of the UPU, did not have a direct and significant impact on the work of the SFAO.

Internal control system

22. Each year, the SFAO notes the controls carried out at the organization level and general IT controls. For each financial year, it examines the account closure and financial statement preparation procedure.

Controls at the organization level

23. The Union has an internal control system (ICS) manual setting out the ICS objectives and describing the ICS components applicable to the organization. The various roles and responsibilities are also set out therein.

Control environment

24. The UPU has put into place a code of conduct entitled “Code of conduct: An employee’s guide to proper professional conduct”, as well as a system for financial disclosure (via statements) and sources of possible conflicts of interest in the activities of international civil servants. In its independent report of 3 September 2020, PricewaterhouseCoopers (PwC) indicated that it had not identified any real conflicts of interest for the disclosure period 2019. The examination focused on 57 staff members with responsibilities involving potential conflicts of interest. The results were presented to the CA in December 2020.
25. The SFAO notes that the UPU worked on the issue of ethics in 2020. The Ethics Office, for which the mandate is currently assigned to PwC, did not identify any irregularities for the year 2020. It organized ethics training on the theme “Diversity and inclusion within the UPU” and raised staff awareness about the ethics challenges associated with the COVID-19 pandemic and telework. The CA noted the Ethics Office annual report 2020 in 2021.
26. The SFAO notes that the health crisis did not jeopardize the functioning of the various management committees, which continued to meet regularly in 2020.

Risk assessment

27. Every three years, the UPU undertakes an assessment of the strategic risks faced by the organization. This exercise was first carried out in 2014, and then again in 2017. The next risk assessment, initially planned for 2020, is being performed in 2021. The Internal Auditor supports the UPU in this connection by providing it with a methodology and consolidating the results. Some 15 to 20 risks emerge from the assessment.

² The reports examined were the following:

- Report 01.2020: Risk assessment and audit planning
- Report 02.2020: Communication with member countries
- Report 03.2020: Cyber security
- Report 04.2020: Annual internal audit activity reporting 2020
- Report 05.2020: Follow-up of recommendations
- Report 06.2020: Management of business continuity in relation to COVID-19

Evaluation of the SFAO

The SFAO feels that it would be appropriate to conduct this detailed assessment through a “bottom-up” approach on a regular basis. It feels, however, that the UPU should also carry out an annual risk assessment at the organization level. In the interim, a simplified “top-down” approach suffices.

Recommendation No. 1 (priority level 2)

The SFAO recommends that the UPU put into place an annual risk assessment at the organization level.

Director General’s comments

The General Management agrees with this recommendation. The International Bureau will carry out an annual strategic risk assessment through a “top-down” approach. The Management Committee will meet to assess the main strategic risks identified in the previous risk analysis.

(Scheduled date for implementation: December 2021)

Control activities

28. The Union has put into place a number of risk and control matrices. The ICS manual provides information on defining the controls and measuring their effectiveness.

Evaluation of the SFAO

The SFAO recalls that it is important for the organization’s staff to be familiar with these risk and control matrices, which should be applied on a daily basis as they constitute a main component of an effective ICS.

Director General’s comments

The General Management shares the view expressed by the External Auditor. The organization’s staff are already familiar with the matrices. A focal point has been assigned for each directorate and strategic unit (EMS and QSF), who is responsible for providing his or her colleagues with information on the ICS (including the matrices used).

The directorates/units have been informed that the ICS must be included among their daily activities and that the risk/control matrices must be updated on a regular basis. Regular awareness raising is, however, necessary in order to ensure optimal use of the ICS.

Monitoring of controls

29. Monitoring procedures have been put into place, particularly the annual monitoring loop provided for in the ICS manual. The monitoring loop comprises three stages: updating the inventory and analyzing processes; monitoring the ICS; and reporting on the general performance of the ICS.
30. The SFAO notes that the monitoring process is lengthy. It is not carried out every year. The UPU has put into place a three-year rotating system. The Union reviewed the financial risks in 2019 and the risks associated with the five ICS components in 2020. The global risk analysis will be conducted in 2021. The organization will recommence the rotation in 2022 with the financial risk assessment.
31. At the time of conducting this audit, the UPU was yet to finalize the 2020 report on the status of the ICS.

Evaluation of the SFAO

The SFAO feels that there is confusion between risk analysis at the organization level and monitoring of controls. The risk analysis 2020 in respect of the five ICS components represents more a review of the components than a risk analysis of operational processes.

The process owners need to review the risk and control matrices annually. A three-year rotation is not satisfactory as it does not allow any changes in the time frame to be covered.

The ICS assessment can be performed throughout the year rather than at a specific moment. Doing so would allow the assignments of process owners and programme managers to be lightened and better distributed. To simplify matters, each directorate could perform this assessment by focusing on certain key aspects of the ICS or higher risk ones. Each individual control and process should not necessarily be monitored annually.

The results of the annual monitoring must be made available in a timely manner to allow the Management to respond quickly to any shortcomings identified.

Recommendation No. 2 (priority level 2)

The SFAO recommends that the UPU organize annual ICS monitoring, taking into account risks and resources so as to remain efficient.

Director General's comments

The General Management agrees with this recommendation. Following the implementation of the ICS and the organization of the first monitoring loop (operational risk analysis) in 2014, and of subsequent ones in 2015 and 2016, a structural change was carried out in 2017. The ICS monitoring resumed in 2019 with the organization of risk/control self-assessment.

Since 2019, the International Bureau has been organizing annual ICS monitoring by assessing a particular risk category each year: assessment of the risks associated with processes with a financial impact in 2019, and assessment of risks related to non-specific processes (described in the ICS manual) in 2020.

The UPU will adapt its annual ICS monitoring in an efficient manner according to the Auditor's expectations and the stages agreed.

(Scheduled date for implementation: December 2021)

General IT controls

32. During the interim audit at the end of 2020, the SFAO carried out an IT audit focusing, among other things, on general IT controls. In terms of the financial ICS, these cover the following areas:
 - Change management;
 - Access rights management;
 - Management of IT operations.
33. The SFAO verified the existence of general IT controls by carrying out on-site surveys. It cannot fully confirm the existence of the ICS in this area owing to a lack of examples (e.g. programme changes) or evidence (e.g. verification of authorized users in access management).

34. The SFAO notes that recommendations 1 of report 18055 and 5 of report 13262 have not yet been fully implemented. These recommendations are aimed at best practice in the areas of programme changes and NAVISION access rights, and provide for the handling and management of IT requests. Additional information is provided in Annex 1 to the present report.
35. The SFAO did, however, find the other general IT controls to be adequate to cover the IT risks associated with regular accounting and bookkeeping.

Account closure and financial statement preparation procedure

36. In the 2018 financial statements audit report, the SFAO issued a recommendation on the improvement of the ICS relating to the account closure and financial statement preparation procedure.
37. The DFI took a number of steps to improve the situation. The full financial statements were submitted to the SFAO from the start of the audit and were of good quality. The number of adjustments resulting from the audit decreased. The supporting documents submitted to the SFAO were of improved quality, particularly the summary table of bonds valued at amortized cost.
38. The UPU has not, however, allocated open debit and credit items according to the currency of the original transaction for the information relating to financial instruments, as was requested in the last audit report.
39. The SFAO notes that the preparation of financial statements involves numerous manual stages. When an element is updated in the Excel file, the other headings associated therewith are not updated automatically. Consequently, the information in the financial statements is not consistent and cannot be identified in any controls.
40. The SFAO notes that controls are provided for in the account closure and financial statement preparation procedure. These controls, however, are performed on screen and are not documented. An external consultant reviews the financial statements. The SFAO notes that the UPU has not acted on all its comments. For example, it pointed out that the USPS receivable of 32 million CHF should be entered under accounts receivable rather than other assets. The UPU has not corrected this error. The SFAO proposed that an adjustment be made during the audit.
41. In the light of these issues, the SFAO considers that certain areas of the ICS relating to the account closure and financial statement preparation procedure need to be improved. Recommendation 1 of report 19027 therefore stands.
42. The SFAO also took stock of the progress of the project to digitalize accounting data and personnel files. It hopes that the implementation thereof will facilitate the work of the Union's staff and improve the efficiency and effectiveness of processes.

Main results of the audit of 2020 consolidated financial statements

43. The audit carried out related to the 2020 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

44. In auditing the consolidated financial statements, the SFAO performed analytical procedures and detailed tests. As in past years, it used an accounting data extraction tool. During the final audit, an external consultant was asked to perform a journal entry testing (JET) analysis.
45. 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.

Implementation and conformity with IPSAS

46. The IPSAS Board has published two new standards, which will take effect after 31 December 2020:
- IPSAS 41: Financial Instruments (coming into force on 1 January 2023, initially planned for 1 January 2022);
 - IPSAS 42: Social Benefits (coming into force on 1 January 2023, initially planned for 1 January 2022).
47. IPSAS 41 will entail, among other things, changes in the valuation of investments and depreciation of financial assets such as accounts receivable. The rules relating to provisions for debts will need to be thoroughly reviewed. Significant work needs to be done to prepare for the implementation of this new standard. The UPU has already begun to follow the work of the Task Force on Accounting Standards. The standards require retrospective application, which entails restatement of the opening balances. The standard, however, provides for certain simplifications.

Evaluation of the SFAO

The entry into force of IPSAS 41 will have significant consequences for the UPU. It is important that the organization anticipate the impacts caused by the introduction of this standard. Without making any formal recommendation, the SFAO encourages the UPU to take the necessary steps to seriously prepare for the entry into force of IPSAS 41. It is essential to adopt a common approach in conjunction with the other UN specialized agencies. As a result of the postponement of the date of entry into force, the preliminary work did not begin in 2020. It must, however, begin in 2021. Reinstatement of the accounts at 1 January 2022 and for the financial year 2022 could be avoided as a result of the simplifications provided for by the standard.

Director General's comments

The International Bureau will begin studying the impacts of the entry into force of IPSAS 41 on the UPU accounts from 2021 so as to facilitate its application as of 1 January 2023.

48. IPSAS 42 provides indications on the accounting of expenses relating to social benefits. Social benefits are defined as cash transfers paid to specific individuals and/or households to mitigate the effect of social risk. This new standard will have no impact on the UPU financial statements.

Operational continuity

49. Under the going concern assumption, it is presumed that an organization will be continuing in its operations for the foreseeable future. The financial statements were prepared on the basis of this assumption.
50. The UPU's readily available liquid assets have been steadily decreasing over the past few years. They stood at 8.1 million CHF at 31 December 2020 compared with 16.1 million CHF at 31 December 2019. Taking into account a 10 million CHF investment made in 2020 to avoid negative interest on the bank accounts, the readily available liquid assets amount to 18.1 million CHF. Although the cash increased in 2020 to 60.1 million CHF (42.5 million in 2019), this situation needs to be taken seriously.
51. The recapitalization of the UPU Provident Scheme has a major impact on the level of the Union's liquid assets. The Union has a guarantee obligation vis-à-vis the Provident Scheme, and several payments have been made or partially made in recent years with the aim of increasing the scheme's degree of coverage to the minimum level according to the provisions of the Provident Scheme Constitution.
52. Between 2017 and 2019, the Union only partially honoured its guarantee commitments. In 2020, the payment of 3.7 million CHF allowed the Union's guaranteed interest to be fully covered. According to the actuarial expert's latest calculations (situation at 31 December 2020), the total amount needing to be paid in order to ensure a minimum 85% degree of coverage is 26.7 million CHF. The settlement of such an amount would lead to serious cash-flow problems. This situation points to a material uncertainty which may cast significant doubt on the organization's ability to continue as a going concern. For information, the coverage deficit at 31 December 2020 amounted to 81 million CHF according to the annual report of the UPU Provident Scheme for 2020.
53. To ensure the long-term sustainability of the UPU Provident Scheme, the CA will submit additional financing measures to the 2021 Congress. The CA proposes that the institution be fully recapitalized over a 25-year period, in two consecutive phases:
 - up to a coverage rate of 85% by the end of the Abidjan Congress cycle (2024);
 - up to a coverage rate of 100% by 2045 at the latest, subject to a re-assessment of the Union's financial position and, as the case may be, the recapitalization timeline.
54. To that end, it is proposed that an annual contribution of budgetary resources equivalent to 10% of the annual expenditure ceiling be allocated until a 100% coverage rate is achieved, for the purposes of which a corresponding budgetary ceiling will be established by each successive Congress. The ceiling established by Congress shall not be revised by the CA between Congresses.

55. The CA also proposed that the option of joining the United Nations Joint Staff Pension Fund once the Provident Scheme is fully recapitalized or as otherwise deemed feasible by the CA be maintained.
56. If these measures are adopted by the 2021 Congress, they will have little impact on the level of the Union's liquid assets, as they will be financed by an increase in the contributions of member countries and of budgetary savings.
57. The Union is planning to ask the translation services and other UPU entities (PTC, EMS, UPU*Clearing and IRC) to play a part in the stabilization of the Provident Scheme. Indeed, to date, only the Union has made payments aimed at recapitalizing the Scheme. Seeking a contribution from these other entities would be justified, as their staff are also insured by the Provident Scheme. While this objective is still being pursued, the actual preparatory work for invoicing the amounts due has been suspended pending approval of the initial measures by the 2021 Congress.
58. In 2019, the withdrawal of the United States of America from the UPU was avoided. It would have had significant financial impacts. The 2019 Congress took the decision to amend the UPU Convention. Under article 28bis, designated operators of member countries meeting certain conditions can self-declare rates, subject to the payment to the Union of fees totalling 40 million CHF over five years. The United States (USPS), meeting those conditions, decided to remain a member of the UPU while self-declaring its rates from 1 July 2020.
59. Under article 28bis as amended, the 40 million CHF is allocated as follows: 16 million CHF to a UPU tied fund for the implementation of projects on electronic advance data exchange and postal security, under the terms of a letter of agreement concluded between the relevant designated operator and the Union; and the remaining 24 million CHF to a tied fund covering the long-term liabilities of the Union, as defined by the CA, under the terms of a letter of agreement concluded with the relevant designated operator and signed 7 August 2020.
60. The 16 million CHF portion has no impact on the Union's readily available liquid assets as it is earmarked for project funding. The remaining 24 million CHF is to be allocated to recapitalizing the UPU Provident Scheme. The 2020 annual notification from USPS presents the allocation of the first paid tranche of 8 million CHF: 1,589,730 CHF allocated to the implementation of projects; and 6,410,270 CHF allocated to the tied fund covering the Union's long-term liabilities. The Union has directly transferred this amount to the Provident Scheme. The United States establishes the assignment of the 8 million CHF annual payment.
61. The renovation work to be done to the building constitutes another factor adversely affecting the Union's readily available liquid assets. Initial studies have made it possible to estimate that the investment amount needed is approximately 34 million CHF. As the organization is unable to meet the cost of this work itself, funding is being sought. The International Bureau has worked on various possible scenarios ranging from obtaining loans from the host country to financing via the market. It is liaising with the FIPOI and other partners, such as external service provider companies.
62. The SFAO notes that the collection of receivables has proven difficult for a number of years. The amount of unpaid debt is significant, with the provision for doubtful debts standing at 35.4 million CHF at the end of 2020. The SFAO reminds the International Bureau that the collection of receivables is all the more important in the context of the COVID-19 pandemic. The SFAO notes that with view to improving the collection of receivables, a CA task force has developed proposals to amend the Acts of the Union relating thereto. Those proposals will be submitted to the 2021 for approval.

63. The SFAO asked the UPU General Management to evaluate the UPU's ability to continue as a going concern. The General Management based its assessment on a five-year liquidity plan which takes account of the various possibilities. The SFAO notes that the evolution over five years for the three scenarios (worst case, average case and best case) points to an ongoing decrease in the readily available liquid assets. According to the worst-case scenario, the cash flow would be 2 million CHF below its current level at the end of 2025, which is worrisome. The SFAO notes that the UPU Management's assumption was made on the basis that the investments in the building will be financed entirely by external funding bodies. The liquidity plan does not provide for the Union financing a portion thereof. Despite this, the conclusion reached by the General Management was that the UPU is able to continue as a going concern in the short and medium term.
64. It is essential for the General Management to ensure that available resources are used in the most economical manner possible, so as to avoid further reducing the UPU's ability to continue as a going concern. Furthermore, only essential investments in the building should be made until external funding is guaranteed.

Evaluation of the SFAO

While operational continuity may not be under imminent threat, the SFAO still considers the financial situation of the UPU to be concerning.

Director General's comments

The UPU always retains sufficient liquidity to service its short-term debt. The General Management is aware of the gravity of the situation and is seeking suitable funding solutions.

Cash and cash equivalents

65. The balances of the various cash accounts at 31 December 2019 were compared with those obtained from statements issued by the depositories. The cash amounts posted (60.1 million CHF in total) comply with the principle of the availability of funds within 90 days.
66. 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 2020, the UPU held a total of 8.1 million CHF, with the balance subject to restrictions. The Union's readily available liquid assets continued to fall this year, standing at 16.1 million CHF at 31 December 2019. The SFAO notes that the Union made two fixed-term investments of 5 million CHF apiece in 2020 to avoid negative interest on the bank accounts. Without those investments, the readily available liquid assets would have totalled 18.1 million CHF at 31 December 2020. The SFAO recalls that the readily available liquid assets still totalled over 30 million CHF at the end of 2014. They have decreased by more than two thirds in six years.
67. Further to recommendation 2 of report 20338, in January 2021, the UPU terminated its business relationship with the bank with a low rating (BBB). At 31 December 2020, the Union was holding liquid assets totalling 296,528 million CHF with this institution.
68. As part of the audit procedures relating to fraud, the SFAO noted that payments are often made in cash by the International Bureau, particularly for the following purposes: salary advances for individual amounts ranging from 3,000 to 5,000 CHF paid to new staff members arriving in Switzerland without a banking relationship; and reimbursement of certain travel expenses associated with the sessions of the UPU bodies.

Evaluation of the SFAO

All payments are documented and approved. The SFAO considers, however, that these types of payments should be made via the organization's bank accounts and in accordance with the existing payment processes for staff in order to reduce the risk of fraud.

Director General's comments

The DFI does its utmost to avoid making transactions in cash, but is obliged to do so in certain circumstances.

Investments

69. Total current investments amounted to 56.5 million CHF at the end of 2020. Meanwhile, investments only realizable after 31 December 2021 amounted to 41.9 million CHF and were presented with the non-current assets. Total investments therefore amounted to 98.3 million CHF, down from 116.9 million CHF at 31 December 2019.
70. As a reminder, in 2018 the UPU acquired a number of bonds with maturities ranging from 2019 to 2022 for a total of 70.5 million USD. These bonds are considered held-to-maturity financial assets. In line with IPSAS 29, they are valued at amortized cost, using the effective interest rate method. At 31 December 2020, these bonds were presented in the balance sheet for a total of 66 million CHF.

Evaluation of the SFAO

In response to the evaluation of the SFAO at the 2019 closure, the Union has improved its accounting and closing procedure for bonds. The organization has updated the closing documents by incorporating key data in them. Their presentation is clear. A risk of error continues to exist, however, in evaluating the bonds, as they are entered into a consolidated file manually and separately from various source documents. The bond closure procedure has been described in the financial statement preparation procedure. The four-eyes review put into place needs to be formally documented. It will be taken into account in the implementation of recommendation 1 of report 19027 on the ICS, relating to the closing and financial statement preparation procedure.

Director General's comments

The General Management agrees with this assessment. Improvements will be made to the closing procedures taking into account the suggestions above.

Accounts receivable (exchange and non-exchange transactions)

71. 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 2020 showed no particular problems.
72. Current receivables (from both exchange and non-exchange transactions) represented a net value of 54.6 million CHF (51.3 million CHF at the end of 2019), and non-current receivables (from non-exchange transactions) 24.1 million CHF (0.2 million CHF at the end of 2019). The balances at 31 December 2020 include the 32 million CHF receivable from the contract with USPS for the financing of the UPU Provident Scheme and specific projects. The 8 million CHF

corresponding to the 2021 tranche are presented in the current assets, whereas the balance of 24 million CHF has been entered under non-current assets. It should be noted that the UPU*Clearing receivables declined by 4.7 million CHF.

73. The SFAO notes that the collection of receivables has proven difficult for a number of years. The amount of unpaid debt is significant, with the provision for doubtful debts standing at 35.4 million at the end of 2020 (33.8 million CHF at the end of 2019). The SFAO noted that a CA task force had established measures aimed at improving the recovery of arrears. These measures will be submitted to the 2021 Congress for approval and include the following: rescheduling the existing debts over more than 20 years under certain conditions; adapting automatic sanctions; and speeding up the recovery of arrears by means of two options. The CA taskforce also proposes that a permanent group be set up to examine the recovery of arrears on an ongoing basis.

Evaluation of the SFAO

The UPU welcomes the UPU's efforts in supporting the collection of receivables. Once the measures have been approved by Congress, they should be implemented immediately to allow the collection of receivables issue to be addressed rapidly and seriously. The liquidity situation must not be exacerbated.

Director General's comments

The General Management agrees with this evaluation and, using all the means approved by the 2021 Congress, will pursue a resolute policy vis-a-vis the collection of receivables.

Inventories

74. Inventories are recorded on the balance sheet for a total of 170,727 CHF (180,220 million CHF at the end of 2019). They consist of barcode labels, UPU souvenirs offered for sale, and postage stamps.

Other current and non-current assets

75. Other current assets total 4.5 million CHF and include, in particular, prepaid expenses and deferred charges, staff advances, other advances and tax advances.
76. Social Fund advances due to be repaid in more than a year's time total 15,500 CHF and are presented under "Other non-current assets".
77. During the audit, the UPU informed the SFAO of the potential for fraud occurring as a result of education grant misstatements. In response, the SFAO performed additional audit procedures on the education grant advances.

Evaluation of the SFAO

The impact of the UPU's consolidated financial statements drawn up at 31 December 2020 is not material. However, the process for the granting, monitoring and regularization of education grant advances and education grants must be improved in a number of areas.

- The DRH failed to provide certain invoices to the DFI, and advances remained open in the accounts as a result. There are shortcomings in the transmission of information between the DRH and the DFI.

- Payment authorizations by the DFI are not always clearly document on advance request forms.
- The proofs of payment of tuition fees requested and provided by staff members must cover the entire amount of benefits payable by the UPU and include sufficient detail to allow the Union to identify the beneficiary and purpose of the payment.
- The granting of advances for a future school year while advances remain open for current or previous school years must be on an exceptional basis, in accordance with the process. When an exception is made, the reasons justifying it must be clearly documented.

Recommendation 3 (priority 1)

The SFAO recommends that the UPU review the education grant process and put into place adequate controls that will allow any misstatements arising from fraud or errors to be avoided and identified.

Director General's comments

To prevent this type of situation from arising, the General Management has decided to systematically review all the processes and administrative instructions concerning education grants as well as the associated controls. In addition, as part of the management automation process, particular focus will be placed on all the processes involving the two directorates (DRH and DFI).

(Scheduled date for implementation: December 2021)

Equipment

78. Tangible assets amounted to 1.1 million CHF at the end of the financial year. They are broken down into two categories: 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 valued as assets on the balance sheet. The UPU has begun the implementation of recommendation 4 of audit report 20338, which deals with the inventory and relocation of the stamp collection (see Annex 1).
79. There were no significant acquisitions or activations in 2020. A critical review and detailed tests of different expenditure accounts were also performed to check that the principles for accounting of tangible assets had been followed.

Intangible assets

80. The balance under this heading stood at 0.9 million 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 new UPU website was launched in 2020. The total acquisition costs (596,550 CHF) were amortized from May 2020.

Land and buildings

81. The value of the building as recorded on the balance sheet is 21.9 million CHF. The rights for use of the land were not recognized. The non-repayable subsidies received are presented as deductions from the value of the building.

Accounts payable and accrued expenses

82. The amount of 19.7 million CHF on the liabilities side of the balance sheet was substantiated in the course of the checks. The balances of the different accounts checked here are regularly monitored by the DFI.
83. The decrease in the balance at the end of 2019 (-5.4 million CHF) was mainly due to a similar decrease in UPU*Clearing accounts payable.

Short-term employee benefits

84. The provision for overtime and accrued leave amounts to 3.1 million CHF, an increase of 0.8 million CHF compared to 2019. Owing to the COVID-19 pandemic, the International Bureau exceptionally authorized staff to carry over more than 60 days of accrued annual leave from 2020 to 2021, as well as any home leave entitlements. The accuracy of the amounts was checked by analyzing the individual data of UPU staff members.

Deferred revenue

85. Deferred revenue is recognized as a liability on the balance sheet for a total amount of 105.1 million CHF. It represents the assessed contributions billed in advance, and tied funds received from third parties. The increase of 26.4 million CHF compared with 2019 can be explained by two types of transaction.
86. The 2020 accounts include the deferred revenue associated with the USPS contribution of 32 million CHF for the years 2021 to 2024. Initially recorded under current liabilities, the SFAO proposed that the long-term portion of 24 million CHF be presented under non-current liabilities.
87. Advances associated with QSF projects in progress decreased by 8.1 million CHF.
88. In addition, the SFAO requested that the UPU present the available assets and PPS*Clearing guarantees under "Advances" rather than "Deferred revenue". The comparative figures have been adapted accordingly.

Advance receipts

89. Advance receipts totalled 83.9 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 69.1 million CHF at the end of 2020 (74.2 million CHF at the end of 2019), as well as available assets and PPS*Clearing guarantees, which increased by 6.6 million CHF compared with 2019.

Funds-in-trust held for translation services

90. The three translation services are not included in the consolidation perimeter. The UPU has no significant influence or control over the decisions and activities of these services. The activities are decided upon solely by the bodies of the three services, and their annual accounts are approved by the same bodies. This is also the case for the budget and expenses. The UPU is merely the agent for the management and administration of these three services. They thus have separate financial statements.
91. The amount of 7.2 million CHF, shown under current liabilities, represents the three current accounts managed by the Union on behalf of the translation services. The amounts held are as follows: 4.3 million CHF for the Arabic Translation Service, 2.3 million CHF for the English Translation Service, and 0.5 million CHF for the Portuguese Translation Service. The General Management informed the SFAO that the UPU does not intend to reimburse the translation services for these current accounts, as these services' long-term employee benefits (Provident Scheme and health insurance scheme) far outstrip the amount of these short-term assets.

Borrowing

92. The interest-free loan representing funds borrowed from the Swiss Confederation was entirely repaid in 2020, which means that there are no longer any liabilities in this regard. The Union did not take out any other loans in 2020.

Provisions

93. The provision entered on the liabilities side of the balance sheet concerns proceedings and litigation under way. It had halved since 2019, falling from 150,000 CHF to 75,000 CHF at the end of 2020.
94. In 2020, the Administrative Tribunal of the International Labour Organization (ILOAT) delivered judgements on two existing disputes at 31 December 2019. The plaintiffs' respective cases were dismissed. There were no financial consequences for the UPU and the provision of 150,000 CHF was dissolved.
95. In 2020, two new cases were filed with the ILOAT. The Legal Affairs Directorate (DAJ) provided its best estimate of the amount that the UPU might have to pay for the legal proceedings under way. The UPU established a provision of 75,000 CHF at 31 December 2020.
96. The DAJ also informed the SFAO that a third case had been filed with the ILOAT in spring 2021. At the time of writing this audit report, the possible consequences of this dispute have not been established and are not provided for in the consolidated financial statements at 31 December 2020.
97. The SFAO has noted that the UPU and the UPU Provident Scheme have decided to formally withdraw their declaration recognizing the jurisdiction of the ILOAT and to recognize that of the United Nations Appeals Tribunal (UNAT). This change in jurisdiction will enter into force on 21 May 2021. The ILOAT will hand down judgements for the three pending cases already filed with it, but all new cases will be filed with UNAT.

98. To fulfil the conditions and criteria of UNAT, the UPU must constitute an appeals committee, which will be primarily responsible for dealing with legal affairs. It will need to be independent from the UPU, as it will be empowered to take decisions in the settlement of disputes. The organization is currently establishing the said committee.

Long-term employee benefits

99. Actuarial liabilities relating to pensions and various other UPU employee benefits were put to account in accordance with IPSAS 39. The actuarial analysis was performed by the UPU consultant actuary.
100. Long-term employee benefits, calculated using the projected unit credit method, are shown as a liability on the balance sheet for an amount of 280.2 million CHF. The two most significant amounts concern net obligations towards the UPU Provident Scheme (223.4 million CHF) and after-service health insurance (52.6 million CHF). The details of all the obligations are given in note 12 to the consolidated financial statements.
101. The liabilities for active staff working or retirees having worked in the three translation services were calculated separately by the consultant actuary, as their accounts are not consolidated.
102. The SFAO examined the application of IPSAS 39, the completeness and accuracy of the data used as a basis for the actuary's calculations, the assumptions used, and the entries into the accounts. The SFAO did not note any significant errors.

Net assets

103. 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 2020, the shortfall on the balance sheet stood at 236.1 million CHF.
104. At 31 December 2020, the two tied reserves "WNS" and "Barcode labels" – which are part of the tied own funds – had a negative balance (93,713 CHF and 49,828 CHF, respectively). Since income is expected in 2021, and the balance of this fund is reasonable, the SFAO has not made a proposal to reassign this reserve as a deduction from uncommitted own funds. The UPU is encouraged, however, to continue to monitor these tied reserves and record them in the accounts as necessary.

Staff expenses

105. Staff expenses, which amounted to 53.2 million CHF in 2020, represent the UPU's largest expenditure item (63% of its total expenditure). The number of full-time equivalent employees remained stable compared with 2019. The increase in staff expenses (3.9 million CHF)

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

⁴ Accumulated deficit of Union funds.

was largely as a result of fluctuations in employee benefit obligations (Provident Scheme and after-service health insurance).

106. In addition to the analytical procedures, detailed checks were carried out on the salaries of about 40 people in 2020. These checks did not reveal any errors in terms of the scales applied and the salary amounts. Personnel files are properly maintained.
107. The SFAO noted certain erroneous classifications of expenditure by type of staff expenses in note 21 of the consolidated financial statements. The UPU took this into consideration.

Other revenue and expenses

108. 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.
109. 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.
110. The SFAO noted that Côte d'Ivoire's contribution of 1.1 million CHF to finance the 2021 Congress had been entered in the accounts under revenue 2020. This voluntary contribution should be deferred at the end of 2020 as, in accordance with IPSAS 23, it is revenue with conditions. The UPU has made the necessary correction.

Statement of cash flow

111. 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.
112. The UPU made the corrections required to ensure that the cash flow table corresponds with the closing balances of the balance sheet.

Related party information

113. Note 18 to the consolidated financial statements shows an amount of 3.0 million CHF for 2020, corresponding to the salaries (annual full-time equivalent) of the 10 senior managers at the UPU. The total amount for 2019 was 3.1 million CHF for 9.9 senior managers (annual full-time equivalent).
114. In accordance with IPSAS 20, note 18 draws a distinction between the individuals at the head of an organization and the directors reporting to them. In 2020, the total aggregate remuneration for the Director General and the Deputy Director General amounted to 0.8 million CHF, and that for the other directors to 2.2 million CHF.

Reconciliation between the budget and actual amounts

115. 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.

116. 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 for the 2020 financial year. The excess expenses for the 2020 financial year amount to 1,664,662 CHF. In 2019, they amounted to 4,995,694 CHF.
117. As regards the budget implementation, the SFAO refers to the International Bureau’s comments in the consolidated financial statements.

Events after the reporting date

118. Note 23 to the financial statements provides information on events occurring after the reporting date. No events significantly affecting the consolidated financial statements for 2020 were noted.
119. The COVID-19 global pandemic no longer represents a subsequent event. The effects of the health crisis must, however, be taken into consideration in the liquidity risk and the analysis of the going concern assumption.

Financial risks

120. 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 was checked and considered to be correct in all but one case. The SFAO observed that the open balances of debtors and creditors for the presentation of financial instruments by currency were allocated according to the account currency, except in the case of UPU*Clearing.

Evaluation of the SFAO

The SFAO considers that open debit and credit items should be allocated according to the currency of the original transaction and not according to the account currency used for accounting purposes, which is not an appropriate basis under IPSAS. As the discrepancies between the currencies remains acceptable, the SFAO did not request a correction. However, as the UPU had not reviewed the allocation of open items as of the 2020 closing procedure, recommendation 1/19027 on the ICS, relating to the closing and financial statement preparation procedure, remains open.

Director General’s comments

This issue will be included in the revision of the account closure and financial statement preparation procedure.

121. The SFAO wishes to draw attention to the section on liquidity risk. In this section, the UPU mentions serious cash-flow issues which could result from the payment of 30 million CHF for the recapitalization of the UPU Provident Scheme. The effects of the COVID-19 global pandemic could also affect the liquid assets. As already noted, this situation represents a material uncertainty which may cast significant doubt on the UPU’s ability to continue as a going concern.

Leasing and unrecognized contractual commitments

122. According to IPSAS 1⁵, the notes should provide information on unrecognized contractual commitments. In addition, according to IPSAS 17⁶, the notes should also indicate, for each category of tangible assets included in the consolidated financial statements, the amount of contractual commitments for the acquisition of property, plant and equipment. At 31 December 2020, unrecognized contractual commitments totalled 14.3 million CHF.
123. The UPU was not a lessee in 2020 and had no commitments relating to operational leasing. In accordance with IPSAS 13⁷, the UPU mentions the income expected from rental of premises. The information presented had no significant errors.

Contingent liabilities

124. As explained in note 26 to the consolidated financial statements, the Union has relationships with three language groups which provide translation services to the UPU member countries belonging to each group. These groups function independently of the Union, which is why 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 ILOAT are to be borne by the language group concerned.
125. 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. The probability of this risk materializing is low. The UPU therefore mentioned the obligations relating to staff benefits as a possible liability. At the end of 2020, the total amount of 18.5 million CHF (18.6 million CHF at the end of 2019) represented the net obligations of these three services towards their staff for the Provident Scheme and health insurance after separation from service. The amount in question was calculated by the UPU consultant actuary using the same methodology as for staff benefit obligations for Union staff and staff of the other entities included in the consolidated accounts.

Segment reporting

126. 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

127. Misstatements, including omissions, 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. The SFAO considers an individual misstatement to

⁵ IPSAS 1, point 129d

⁶ IPSAS 17, point 89c

⁷ IPSAS 13, point 69

be material if it exceeds 60,000 CHF. The impact of misstatements in the interpretation of the financial statements as a whole is considered material if it exceeds 750,000 CHF in total.

Additional unadjusted entries

128. There were no additional unadjusted entries.

Additional adjusted entries

129. The following table lists the additional entries noted during the audit and recorded.

Amount (in CHF)	Description	Effect on result/ own funds
32,000,000	Reclassification of USPS receivable from "Other assets" to "Accounts receivable"	0
24,000,000	Reallocation of the long-term portion of USPS deferred revenue	0
7,043,075	Reclassification of PPS*Clearing available assets, including year-on-year comparison (394,642 CHF)	0
1,100,000	Correction of recognition of voluntary contribution to the 2021 Congress	-1,100,000
	TOTAL	-1,100,000

Insufficient information or incorrect presentation

130. The SFAO identified a number of errors in the annex to the consolidated financial statements 2021. All the misstatements have been corrected.

Audit recommendations

131. This chapter summarizes the recommendations issued in previous audit reports and the recommendations resulting from the audit of the account closure 2020.
132. During the interim and final audits, the SFAO identified areas for improvement in the control environment and the education grant process. The two new recommendations on the assessment of risks and monitoring of controls are contained in the “Internal control system” chapter of the present report, while that concerning education grants can be found in the “Other current and non-current assets” paragraphs.
133. The recommendations made within the framework of previous account closure and financial monitoring audits have been followed up and their implementation status was reviewed at the end of May 2021. The recommendations of the IT governance audit of 16 July 2020 will be followed up in 2022.
134. The SFAO notes that the International Bureau has moved forward with the implementation of its recommendations. Regarding the 14 open recommendations, two of them have been implemented, and progress has been noted with the implementation of the other ones.

Recommendations implemented

135. The SFAO considers that the following recommendations have been implemented since the last audit.

References		Recommendations
No.	Unit	
2/20338	DFI	<p>Audit of 2019 consolidated financial statements:</p> <p>The SFAO recommends that the UPU reduce its risk by investing funds only in banks or other institutions offering a high level of security.</p> <p>Follow-up in May 2021:</p> <p>In January 2021, the UPU terminated its business relationship with the bank with a low rating (BBB).</p>
3/20338	DFI	<p>Audit of 2019 consolidated financial statements:</p> <p>The SFAO recommends that the UPU examine its receivables management procedure with a view to eliminating the existing weaknesses. It should also explore the possibility of fully utilizing the Navision accounting system to avoid the need for any manual restatements when preparing financial statements.</p> <p>Follow-up in May 2021:</p> <p>The weaknesses identified in the 2019 audit have been addressed. The UPU has not modified its receivables management procedure. Certain manual stages continue to be necessary in preparing financial statements. As no errors were noted, the SFAO considers this recommendation closed.</p>

Recommendations still outstanding

136. The monitoring carried out by the SFAO revealed that the following recommendations remain open. The details can be found in Annex 1 to the present report.

Audit report		Recommendations			
No.	Date	No.	Type ¹	Unit ²	Planned date of implementation
12390	20.12.2012	4	Management	DRH	31.12.2016
13262	13.06.2013	5	IT	DCTP	31.03.2017
18055	05.06.2018	1	IT	DCTP	31.12.2019
18055	05.06.2018	2	FS	DFI	31.12.2020
19027	02.07.2019	1	FS	DFI	31.12.2019
20338	24.08.2020	1	Management	DL	31.12.2024
20338	24.08.2020	4	Management	DL	31.12.2021
20091	16.07.2020	1	IT	DCTP	31.12.2020
20091	16.07.2020	2	IT	DCTP	31.12.2021
20091	16.07.2020	3	IT	DCTP	31.12.2021
20091	16.07.2020	4	IT	DCTP	31.12.2022
20091	16.07.2020	5	IT	DCTP	31.12.2022

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

² FS: Human Resources Directorate
 DCTP: Postal Technology Centre Directorate
 DFI: Finance Directorate
 DL: Logistics Directorate

* * *

137. This report was originally written in French; the SFAO points out that the French version is therefore the official version.
138. It would like to emphasize the good spirit of collaboration and openness that prevailed throughout the performance of the audit, despite the particular conditions resulting from the COVID-19 pandemic. 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.

Berne, 28 June 2021

SWISS FEDERAL AUDIT OFFICE

(External Auditor)

Eric-Serge Jeannet
Deputy Director

Martin Köhli
Competence Centre Manager

Priority levels of SFAO recommendations

The SFAO sets priorities for its recommendations based on defined risks (1 high, 2 medium, 3 low). Examples of risks include, instances of unviable projects, illegal or irregular acts, or issues of liability or damage to reputation. The effects and level of probability are thus considered.

Annex 1: Follow-up of recommendations from previous audits

As indicated in paragraph 136, this annex sets out the status of the recommendations issued in previous audit reports that have not been implemented.

Audit report		Recommendations			
No.	Date	No.	Type ¹	Unit ²	Planned date of implementation
12390	20.12.2012	4	Management	DRH	31.12.2016
13262	13.06.2013	5	IT	DCTP	31.03.2017
18055	05.06.2018	1	IT	DCTP	31.12.2019
18055	05.06.2018	2	FS	DFI	31.12.2020
19027	02.07.2019	1	FS	DFI	31.12.2019
20338	24.08.2020	1	Management	DL	31.12.2024
20338	24.08.2020	4	Management	DL	31.12.2021
20091	16.07.2020	1	IT	DCTP	31.12.2020
20091	16.07.2020	2	IT	DCTP	31.12.2021
20091	16.07.2020	3	IT	DCTP	31.12.2021
20091	16.07.2020	4	IT	DCTP	31.12.2022
20091	16.07.2020	5	IT	DCTP	31.12.2022

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

²FS: Human Resources Directorate
 DCTP Postal Technology Centre Directorate
 DFI: Finance Directorate
 DL: Logistics Directorate

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 May 2021: The recommendation has been partially implemented, with the creation of a checklist for separation from service. However, administrative instruction 22/Rev 6 on working hours has still not been formally approved by the Management.

Recommendation 5 from the 13 June 2013 report (No. 13262) on the audit of the 2012 consolidated 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 December 2020: A project is under way which should allow for management of all UPU IT services. The new system will also cover the processing of requests. It has been decided that the EasyVista tool will be used exclusively from now on. Migration of open requests from the ADILOFT system will form part of this project. This also includes an update from the current version of EasyVista. The project was first delayed in 2019, and then postponed until 2021/2022 owing to the conditions associated with the COVID-19 pandemic.

Recommendation 1 from the 5 June 2018 report (No. 18055) on the audit of the 2017 consolidated financial statements:

The SFAO recommends that the UPU apply recognized best practices in change management and access rights for the Navision application across all units of the organization.

Comment by the Director General: We agree with this recommendation. Measures will be taken to ensure that best practices are applied across all units of the organization.

Status according to the follow-up conducted in December 2020: Although external service providers have access to staff data, the access is limited to their period of intervention. This matter is

therefore resolved. In addition, reviews of user access rights do not comply with best practice for the following reasons:

- An Excel printout of a basic list of existing users cannot be considered as valid evidence.
- The list bears no date or signature.

Recommendation 2 from the 5 June 2018 report (No. 18055) on the audit of the 2017 consolidated financial statements:

The SFAO recommends that the UPU prepare concrete proposals for the 2018 Extraordinary Congress, so that the organization's supreme body can take the necessary decisions to resolve the problem of recapitalizing the UPU Provident Scheme and ensure the organization's long-term sustainability.

Comment by the Director General: We agree with this recommendation. Proposals relating to this matter will be submitted to the 2018 Extraordinary Congress.

Status according to the follow-up conducted in May 2021: The financing contract with USPS was signed in 2020. USPS is financing the long-term liabilities to the tune of 24 million CHF from 2020 to 2024. In 2020, USPS made a payment of 6.4 million CHF to the UPU, which the UPU transferred to the Provident Scheme.

The CA will also submit additional financing measures to the 2021 Congress to ensure the sustainability of the UPU Provident Scheme. The CA proposes that the institution be fully recapitalized over a 25-year period, in two consecutive phases:

- up to a coverage rate of 85% by the end of the Abidjan Congress cycle (2024);
- up to a coverage rate of 100% by 2045 at the latest, subject to a re-assessment of the Union's financial position and, as the case may be, the recapitalization timeline.

To that end, it is proposed that an annual contribution of budgetary resources equivalent to 10% of the annual expenditure ceiling be allocated until a 100% coverage rate is achieved, for the purposes of which a corresponding budgetary ceiling will be established by each successive Congress. The ceiling established by Congress shall not be revised by the CA between Congresses.

The CA also proposed that the option of joining the United Nations Joint Staff Pension Fund once the Provident Scheme is fully recapitalized or as otherwise deemed feasible by the CA be maintained.

The decisions will be adopted by the next Congress, scheduled for August 2021.

Recommendation 1 from the 2 July 2019 report (No. 19027) on the audit of the 2018 consolidated financial statements:

The SFAO recommends that the DFI take steps to improve the ICS for account closure and financial statement preparation by the end of the 2019 financial year.

Comment by the Director General: The International Bureau agrees with the recommendation and will take appropriate steps to improve the ICS for account closure and financial statement preparation.

Status according to the follow-up conducted in May 2021: While the situation has improved, the SFAO considers that the ICS relating to the account closure and financial statement preparation procedure needs to be further improved. Weaknesses persist. These are elucidated in the chapter

of this report on the ICS relating to the account closure and financial statement preparation procedure.

Recommendation 1 from the 24 August 2020 report (No. 20338) on the audit of the 2019 consolidated financial statements:

The SFAO recommends that the UPU define a concept and then put in place professional tools to enable it to act as building owner and protect the value of the main building in the long term.

Comment by the Director General: As part of the building renovation plans, the International Bureau is currently analyzing management models that incorporate the role of the building owner to ensure that the value of the main building is preserved. The development phases of the project will follow a schedule jointly drawn up by the host State, the FIPOI and the UPU General Management. Furthermore, the Director General is proposing the inclusion of a reference to the future creation of a renovation reserve and a maintenance fund, in accordance with best practice.

Status according to the follow-up conducted in May 2021: Initial studies have made it possible to estimate that the investment amount needed is approximately 34 million CHF. As the organization is unable to meet the cost of this work itself, funding is being sought. The International Bureau has worked on various possible scenarios ranging from obtaining loans from the host country to financing via the market. It is liaising with the FIPOI and other external partners.

Recommendation 4 from the 24 August 2020 report (No. 20338) on the audit of the 2019 consolidated financial statements:

The SFAO recommends inventorizing the UPU stamp collection. In addition, to improve the physical protection of the collection, plans should be made to relocate collection B.

Comment by the Director General: The Director General has evaluated the cost of inventorizing the UPU stamp collection and protecting its assets. The inventory and protection costs as proposed are considered disproportionate. The International Bureau will not be implementing this recommendation as it stands. However, the International Bureau proposes that these assets should be valued at 2.5 million CHF for insurance purposes.

With respect to the physical protection of the UPU stamp collection, arrangements are being made with the Museum of Communication.

Status according to the follow-up conducted in May 2021: With respect to the physical protection of the UPU stamp collection, the UPU has contacted the Museum of Communication in Berne, which is not, however, interested. The International Bureau is currently working on three other options: i) placing the collection with an external service provider; ii) contacting the Federal Office of Culture; and iii) relocating collection B to another part of the UPU building. The International Bureau is continuing its efforts in seeking an external service provider. If such efforts prove inconclusive, the UPU will consider an internal solution.

As regards the stamp collection inventory, three phases are planned:

- Phase 1: physical reorganization of the UPU stamp collection and separation of collections A and B (2019–2021). This phase is in progress.
- Phase 2: electronic archiving and digitalization (2021–2024).
- Phase 3: inventory and valuation of the universal stamp collection (2024–2027).

Recommendation 1 from the 16 July 2020 report (No. 20091) on the IT governance audit:

The SFAO recommends that the UPU establish an IT steering committee composed of members of the directorates and reporting to the General Management. This committee will make decisions on governance issues and cross-cutting aspects of IT (e.g. architecture, information security) that apply to the whole organization.

Comment by the Director General: The International Bureau agrees with this recommendation. It will evaluate the necessary changes to existing governance structures with a view to setting up an IT steering committee, which, among other things, will make decisions on governance issues and cross-cutting aspects of IT (e.g. architecture, information security) that apply to the whole organization.

Status according to the follow-up conducted in May 2021: The UPU has put into place an IT Advisory Committee comprising six members, including the Deputy Director General and four directors. This committee is charged with supervising all internal IT projects concerning the International Bureau and financed under the Union's regular budget. The SFAO wishes to emphasize that the term "advisory" would not appear to be in line with the objective of its recommendation, which is namely that the committee should take decisions on questions of governance. The first meeting is scheduled for July 2021. The SFAO will assess the implementation of the recommendation once the committee has become active.

Recommendation 2 from the 16 July 2020 report (No. 20091) on the IT governance audit:

The SFAO recommends that the UPU launch a project to organize and coordinate the management and finalization of outstanding issues relating to the integration of the PIM into the DCTP. As part of this, the UPU should ensure that the issues regarding the organizational chart (i.e. multiple roles fulfilled by the Director of the DCTP, the position of the person responsible for the information security management system) are resolved. The UPU should finalize the harmonization and redesign of processes and update the documentation (in particular with regard to the strategy, providers and suppliers, IT services and budgetary management vectors), and take stock of the lessons learned from this integration process.

Comment by the Director General: The International Bureau agrees with this recommendation. The DCTP is running a project to harmonize processes and documentation for all of its activities (both for the IB and the Telematics Cooperative). The project will incorporate the points mentioned in this recommendation with a view to finalizing this integration.

Status according to the follow-up conducted in May 2021: This recommendation will be followed up when the 2022 audit is conducted.

Recommendation 3 from the 16 July 2020 report (No. 20091) on the IT governance audit:

The SFAO recommends that the UPU take stock of risk management practices, define work priorities, and launch a project dedicated to improvement. This project should aim to achieve a unified approach to risk management, as well as shared processes and tools, and a common understanding of risk management issues.

Comment by the Director General: The International Bureau agrees with this recommendation. Initiatives to improve risk management will be launched. Particular attention will be paid to promoting a common risk management methodology shared by the specialist and IT teams.

Status according to the follow-up conducted in May 2021: This recommendation will be followed up when the 2022 audit is conducted.

Recommendation 4 from the 16 July 2020 report (No. 20091) on the IT governance audit:

The SFAO recommends that the UPU prioritize the definition and initiation of activities to optimize and extend the information security management system across the organization.

Comments by the Director General: The International Bureau agrees to take steps to optimize and extend the information security management system across the organization, building on expertise already acquired in-house.

Status according to the follow-up conducted in May 2021: This recommendation will be followed up when the 2022 audit is conducted.

Recommendation 5 from the 16 July 2020 report (No. 20091) on the IT governance audit:

The SFAO recommends that the UPU define and implement architectural governance, adopting an approach and principles that are in line with IT activities for the International Bureau and the Telematics Cooperative. The UPU should ensure that it defines in advance the level of maturity envisaged for this initiative.

Comment by the Director General: The International Bureau agrees with this recommendation and will take appropriate measures to define and implement architectural governance as part of the DCTP harmonization process set out in recommendation 2. The level of maturity targeted by this initiative will be defined beforehand.

Status according to the follow-up conducted in May 2021: This recommendation will be followed up when the 2022 audit is conducted.