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

Audit of the 2022 consolidated financial statements

Universal Postal Union (UPU)

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In accordance with article 149 of the General Regulations approved at the 27th Congress in Abidjan in 2021, 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.

For more information, please contact:

Mr Eric-Serge Jeannet, Deputy Director, tel. +41 58 463 10 39, eric-serge.jeannet@efk.admin.ch

Mr Didier Monnot, Head of Audit Mandates, tel. +41 58 463 10 48, didier.monnot@efk.admin.ch

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Universal Postal Union (UPU)

Summary of the audit

Audit opinion without reservation

1. The 2022 financial statements of the UPU were prepared in accordance with the International Public Sector Accounting Standards (IPSAS). The SFAO is able to issue an audit opinion without reservation.

The organization's internal control system is progressing.

2. An effective internal control system reduces the risk of significant irregularities in the financial statements. In order for such a system to operate, it must be formally documented, and staff must be familiar with it. The SFAO has noted progress with the implementation of such a level of internal control. Further developments are needed and awaited.

3. Regarding organization-level risks, the UPU will start conducting its biannual risk assessment in 2023. Following the reorganization of the International Bureau, the SFAO feels that the perceived independence of the Legal Affairs Directorate is no longer guaranteed. The organization still needs to make further progress in documenting its internal control system, in particular the risk and control matrices.

4. General IT controls require adjustments. The efficacy of change management is not guaranteed, meaning that general IT controls are ineffective. It is therefore essential that these controls be formalized further. Management of access rights and of information security needs to be improved.

5. The account closure process and preparation of the 2021 financial statements were not of satisfactory quality. In 2022, the International Bureau reinforced its internal control system by implementing the audit recommendations issued by the SFAO in this area. The SFAO still notes areas for improvement in terms of the valuation of liabilities and estimation of the provision for doubtful debts.

Execution of the audit

Purpose and scope of the audit

6. The purpose of the financial audit is to issue an opinion on the consolidated financial statements of the UPU, on the basis of the International Public Sector Accounting Standards (IPSAS), for the financial year ending 31 December 2022.

7. Financial year 2022 was governed by the relevant provisions of the Constitution and of the General Regulations (Abidjan 2021); by the Financial Regulations and the Rules on Financial Administration, Accounting Organization and Control of the UPU; and by IPSAS.

8. 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.

9. The audit was conducted in accordance with the International Standards on Auditing (ISA[1]), 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.

10. The 2022 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

11. 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.

12. 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.

No.	Description of potential risk of misstatements	Audit findings
1	*Override of controls by the Management* The Management can reject or ignore controls, requirements and guidelines (significant risk).	§ 14; 56–57

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

No.	Description of potential risk of misstatements	Audit findings
2	*Operational continuity* There is significant doubt as to the operational continuity of the UPU. The assumptions for the organization's continuity of operations are no longer met.	§§ 65–79
3	*Recognition of revenue and evaluation of debts* Sales and voluntary contributions are overvalued, fictitious or periodically misclassified. Recovery of doubtful debts is inadequate. Insufficient provision is made for needs in respect of reserves and depreciation.	§§ 85–87; §§ 107–112
4	*Investments* There are significant errors in the valuation of investments.	§§ 81–84
5	*Employee benefits* Liabilities are not correctly entered in the accounts. The assumptions used by the Management in evaluating commitments in respect of employee benefits are not reasonable or sufficient.	§§ 89–90; §§ 97–101
6	*Staff costs* Staff costs are erroneous, incomplete and/or misclassified.	§§ 114–115

Communication with the Management and management bodies during the audit

13. During the preparation of the audit, the SFAO met with Mr J.-A. Ducrest, Director of Finance; Mr O. Dreier, Accounting, Budget and Treasury Coordinator; and Ms X. Fu, Governance and Internal Control Programme Coordinator.

14. In the course of the audit work, the SFAO met with the Executive Management, J.-A. Ducrest, Mr O. Dreier and other employees in the Finance Directorate (DFI), and with members of other International Bureau directorates, depending on the subject matter.

15. The findings of the audit were communicated to the Deputy Director General and the DFI at meetings on 16 December 2022 and 27 June 2023. The latter meeting served as the final discussion, and was held in the presence of Mr M. Metoki, Director General; Mr M. Osvald, Deputy Director General; Mr A. Miyaji, Special Senior Adviser; Mr O. Boussard, Director of Administration and Cabinet, Mr J.-A. Ducrest, Director of Finance; Mr O. Bernieu, representative of the Postal Technology Centre; Ms X. Fu , Governance and Internal Control Programme Coordinator; and Ms L. Razafy, Director of Human Resources. The SFAO was represented by Mr E.-S. Jeannet, Deputy Director of the SFAO, and Ms V. Bugnon, Audit Manager.

16. 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

17. During the interim and final audits, the SFAO conducted a review of the work of the Internal Auditor. The internal audit function has been outsourced since 2011.

18. The internal audit reports[2] 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

19. 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. For the 2022 financial year, the SFAO also took note of the internal control system (ICS) relating to operating expenses.

Controls at the organization level

20. The Union has an 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 in the manual.

Control environment

21. According to the ICS manual, to provide an effective control environment, the UPU has committed to pursuing integrity and ethical values, establishing structures, authorities and responsibilities, and ensuring the competency and accountability of its staff.

22. Ethics and integrity are central themes for the UPU. An Ethics Office, which has been outsourced since 2016, is mandated to assist the UPU Director General in ensuring that International Bureau staff act in accordance with the UPU's missions and perform their duties in line with the highest standards of competency and integrity. It helps to estab-

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[2] The reports examined were the following:
- Report 01.2022: Risk assessment and audit planning
- Report 03.2022: Recruitment process
- Report 04.2022: Separation from services
- Report 05.2022: Project management website
- Report 06.2022: Follow-up of recommendations
- Report 07.2022: Annual internal audit activity reporting 2022

lish a culture of ethics, transparency and accountability at the International Bureau secretariat. In 2022, the annual training organized by the Ethics Office was on the theme "Preventing fraud and corruption". The Ethics Office presented its annual report to the Council of Administration in May 2023.

23. The code of conduct, entitled "An employee's guide to proper professional conduct", also allows the organization to discuss staff ethics and integrity.

24. The UPU has a system for financial disclosure and sources of possible conflicts of interest in the activities of international civil servants. In its independent report of 23 September 2022, BDO indicated that it had not identified any real conflicts of interest for the disclosure period 2021. The examination focused on 57 staff members, some of whose responsibilities involve potential conflicts of interest. BDO issued recommendations to help the UPU continue to promote and maintain compliance with the financial disclosure programme. The results were presented to the Council of Administration in October 2022.

25. In terms of communication and transparency, most information is available on the UPU website, including internal and external audit reports and follow-up on audit recommendations. The SFAO also notes that the minutes of Management Committee meetings have been published on the UPU intranet since 2022.

26. Having taken office on 1 January 2022, the new Executive Management decided to reorganize the International Bureau with effect from 1 June 2022. The May 2022 Council of Administration accepted this. Under this reorganization, the Human Resources, Logistics and Finance Directorates have been regrouped under the Administration and Cabinet Directorate, with a view to improving inter-directorate collaboration. The Legal Affairs Directorate (DAJ), formerly attached directly to the Executive Management, has been transferred to the Policy, Regulation and Markets Directorate. The aim of this reorganization was to bring the DAJ closer to the directorate with which it works most. The International Bureau indicated to the SFAO that measures are in place to prevent any conflict of interest or impediment to independence in the resolution of certain legal matters. The International Bureau gave an assurance that the DAJ still has direct access to the Executive Management where necessary.

27. In parallel, the UPU reviewed the various committees in place up to 2021. On the basis of previous observations by the SFAO, the UPU changed the name of the Internal Audit Committee in order to prevent any confusion regarding its roles and responsibilities. It is now called the Oversight Advisory Committee.

Evaluation of the SFAO

The SFAO considers the UPU's control environment, as defined in the objectives set out in the ICS manual, to be effective and appropriate to the organization, with the exception of the independence of the Legal Affairs Directorate. Independence should include both actual independence and perceived independence. The SFAO did not identify any actual impediments to the independence of the DAJ's activities. However, the SFAO feels that, with the current organizational structure, the perceived independence of the DAJ is no longer guaranteed.

Comment by the Director General

In order to take the SFAO's evaluation into account, the IB organizational chart will be adapted and the Legal Affairs Directorate will have a direct reporting line to the Executive Management.

Risk assessment

28. 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 and 2021. On each occasion, the Internal Auditor supports the UPU by providing it with a method and consolidating the results. The last assessment identified 17 risks, with four classified as being significant: namely, the UPU's raison d'être; funding; talent acquisition and retention, and conflicts of interest.

29. In its report of 28 June 2021, the SFAO issued audit recommendation No. 1, calling on the UPU to carry out a "top-down" assessment of strategic risks at least annually. On 17 December 2021, the UPU Management met to discuss the strategic risk assessment. The discussions were recorded in the meeting minutes. However, the evaluation of the risks was not documented. The updated risk level was not reported and a conclusion and overview were missing. In 2022, the new UPU Executive Management did not organize any similar exercise. The SFAO noted the International Bureau's decision to carry out the strategic risk assessment every two years (rather than each year), in line with the strategic cycle (Congress cycle and mid-term examination of strategy implementation). The next assessment will be carried out in 2023, before the UPU Strategy Conference, which is due to be held during the Extraordinary Congress.

Evaluation of the SFAO

Recommendation No. 1 from the 28 June 2021 report (No. 20339) has been partially implemented. The SFAO will evaluate its implementation in a future audit.

Director General's comments

The risk assessment exercise will be conducted as part of focus group discussions in the coming months. This exercise is on schedule and will be held before the Extraordinary Congress. We note the recommendation of a simplified top-down approach and will record the evaluation of risks as suggested.

Control activities

30. The Union has introduced a number of risk and control matrices for each directorate. The ICS manual provides information on defining the controls and measuring their effectiveness. During its last audit, the SFAO provided the International Bureau with a number of observations and points for improvement in terms of the documentation of control activities.

31. Following recommendation No. 2 in the report of 31 August 2022 (No. 21481), the International Bureau launched a review of risk and control processes and matrices. The SFAO notes that the risk and control matrices for the DRH were only adapted in May 2023. The SFAO will assess these latest adaptations during its next audit, as they cannot be applied retroactively. On the basis of the other matrices, the SFAO noted that certain

controls were to be found in several matrices. These matrices are not based on cross-cutting processes, but rather on the responsibilities of each department for several financial processes (in silos).

32. For the DFI matrices, the SFAO noted that:

- The frequency of controls is not completed or defined for every control.
- The description of the proof of the control is not completed or defined for every control.
- Certain control descriptions assume that the control has not yet been put in place (e.g. "plan …").
- External audits are sometimes indicated as controls. According to the Institute of Internal Auditors (IIA Global)[3], the third and fourth lines should not form part of the organization's ICS.
- Certain controls are still activities (e.g. all bills are prepared in the accounting system).

33. The SFAO also notes that the ICS and its objective are not understood by all directorates. The ICS self-evaluation questionnaires for 2022 showed that not all staff know about the ICS, or that regular training on the ICS is needed.

Evaluation of the SFAO

The risk and control matrices as prepared in mid-December still do not meet the objectives of an effective and efficient ICS. The directorate-specific internal control documentation makes it difficult to gain an overview of a cross-cutting financial operating process. Efforts are still needed on the International Bureau's part to raise awareness of the ICS and the value that it adds. Recommendation 2 of the report of 31 August 2022 is still being implemented.

Comment by the Director General

Efforts will be made to improve the matrix to gain an overview of a cross-cutting financial operating process to be followed by all IB directorates. Awareness raising will be carried out at both directorate and organization levels.

Monitoring of controls

34. Monitoring procedures have been put in 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.

[3] Institute of Internal Auditors (IIA Global) Three Lines Model, source: www.theiia.org.

35. Following recommendation No. 2 of the report of 28 June 2021 (No. 20339), the UPU introduced a self-assessment questionnaire on the ICS for each directorate.

36. In 2021, the SFAO considered that the areas identified for improvement could still be taken into consideration in implementing the audit recommendations. These areas for improvement covered both the self-assessment questionnaire and the presentation of the results to the Executive Management.

37. For the 2022 financial year, the UPU adapted the questionnaire in line with the SFAO's comments. The organization improved the content and the frequency of presentation of the results to the Executive Management.

Evaluation of the SFAO

The UPU has completed implementation of recommendation No. 2 from the report of 28 June 2021 (No. 20339).

Director General's comments

This recommendation has been implemented, as confirmed by the External Auditor.

General IT controls

38. During the interim audit at the end of 2022, the SFAO carried out an audit of general IT controls. The enterprise resource planning (ERP) application related to these controls is the Dynamics NAV system (Navision), which is the main system used to support financial processes. In terms of the financial ICS, the general IT controls cover the following areas:

- Change management;
- Access rights management and information security;
- Management of IT operations.

Change management

39. The controls relating to change management must provide reasonable assurance that the modifications made to existing IT resources are registered, authorized, tested, approved and documented.

40. The SFAO noted gaps in the source documentation for changes made in the course of the production launch.

Evaluation of the SFAO

Without documentation, the efficacy of change management is not guaranteed and cannot be approved. Recommendation No. 3 from the 31 August 2022 report (No. 21481) has not been implemented.

Comment by the Director General

The UPU IB agrees with this recommendation. Source documentation on change management procedures will be revised.

(Scheduled date for implementation: December 2023, DCTP)

Access rights and information security

41. The controls relating to access rights and information security must provide reasonable assurance that access to data files and programs is restricted to authorized persons. The SFAO identified six key controls in this area.

42. The SFAO concluded that all key controls are effective, but did find some scope for improvement.

43. The Navision application has not been updated for five years and contains several inherent critical vulnerabilities. The Navision MS SQL database has also been lacking a critical security patch since June 2022. The Windows server where the Navision database is hosted also lacks some critical patches.

Evaluation of the SFAO

The Navision system has some critical vulnerabilities which could leave it open to an external or internal attack. On the advice of the SFAO, the Navision operating system and database were modified during the audit. The Navision application has not been updated since 2017 and contains critical vulnerabilities.

Recommendation No. 1 (priority level 1)

The SFAO recommends that the UPU eliminate the critical vulnerabilities in the Navision application, which was last updated in 2017.

The recommendation is accepted.

Comment by the Director General

The UPU IB agrees with this recommendation. All software patches have been applied to the application. The upgrade of the Navision application is subject to the availability of resources.

(Scheduled date for implementation: December 2024, DCTP)

44. The SFAO noted some critical points regarding access to the UPU server room. There is a non-personal access card for one user. Three facility managers have access to the open server racks. The Director of Logistics has access to the server room.

Evaluation of the SFAO

The server racks need to be closed off and access to them given on a “need-to-know” basis. Otherwise, there is a risk of physical damage and disclosure of data. In the SFAO’s view, the UPU should look into the possibility of closing off the physical racks in the UPU server room and assigning access rights to the responsible persons according to this principle. The facility managers should not have access to the interior of the closed server racks. From a risk and cost point of view, the UPU has decided not to close the server racks.

Comment by the Director General

The UPU IB does not agree with this evaluation. All the IB servers and related hardware are in physically controlled environments with access controls in place and the risk-related procedures have been reviewed.

45. The SFAO noted that the password settings for the database for two users of the application were not always respected. The rules for the complexity of passwords are not uniformly applied. Password expiry for the database was deactivated for certain users.

Evaluation of the SFAO

The parameters as defined by the UPU do not comply with the organization's own administrative instructions and do not conform to good practice.

Recommendation No. 2 (priority level 2)

The SFAO recommends that the UPU impose password complexity requirements on all users of the Navision database linked to applications, and align the duration of passwords for users of the Navision database with best practices.

The recommendation is accepted.

Comment by the Director General

The UPU IB agrees with this recommendation. The IB password complexity policy has been applied; it should be noted that service accounts are not subject to the expiration policy.

46. The SFAO identified eight users, mainly in the finance service, who had rights to modify all data, and seven other users with rights to modify all data and all items in the application. These seven super-users included two external users. The SFAO also noted that one account was redundant.

Evaluation of the SFAO

In the SFAO's view, there are too many super-users. Critical users need to be closely monitored. There should be only one account per person. External users should either be prevented from having the most extensive access rights, or they should be subject to close, trackable monitoring.

Recommendation No. 3 (priority level 1)

The SFAO recommends that the UPU redefine user access rights so as to reduce the number of super-users and reduce rights to sensitive data, and to monitor and oversee all these users' activities. External staff and any other person making changes to the program should either not have super-user rights, or should be independently monitored and overseen by the UPU.

The recommendation is accepted.

Comment by the Director General

The UPU IB agrees with this recommendation. Limited IB staff are granted access and external users are periodically granted access for maintenance procedures. This recommendation has been implemented.

47. The SFAO notes that there are non-personal users with system administrator rights in the live Navision database. In addition, there is a DFI user in the Navision database. The SFAO also identified 44 users at operating system level on the Navision database server.

Evaluation of the SFAO

The non-personal users with system administrator rights need to be analyzed. Non-personal users at database level create a high inherent risk. On the SFAO's advice, the UPU deactivated a number of users during the interim audit in November 2022. Additionally, the DFI user should not have permanent access to the database. In the SFAO's view, there are too many users at operating system level in the critical database server.

Recommendation No. 4 (priority level 1)

The SFAO recommends that the UPU reduce the risks of non-personal users with system administrator rights in the live Navision database. The following users' access rights should be evaluated: sa; UPU\Svc_NAV2016_Finance; UPU\system_application; UPU\company_pragmantic. In addition, the Navision database owner, who is a user from the finance section, should be deactivated or deleted. Lastly, the SFAO recommends reviewing the number of Windows users on the database server, and reducing this if possible.

The recommendation is accepted.

Comment by the Director General

The UPU IB agrees with this recommendation. All noted accounts have been downgraded to public accounts (UPU\Svc_NAV2016_Finance, UPU\company_pragmantic), disabled (sa), or are necessary for backups (UPU\system_application). A total of 44 users have been removed from the operating system; only administrator and service accounts remain. This recommendation has been implemented.

IT operations

48. The controls relating to IT operations must provide reasonable assurance that any incidents in the system are recorded, examined and resolved and that safeguards are in place.

49. The SFAO observes that three key controls covering IT operations are effective. However, the SFAO did note that, as of 15 November 2022, the UPU had not itself carried out any annual recovery test for its live Navision database in relation to the data for the 2022 financial period. The UPU carried this out for the SFAO as part of the journal entry testing (JET) analysis, and no shortcomings were noted.

Evaluation of the SFAO

The SFAO feels that the UPU should carry out and document an annual recovery test of its live Navision database.

Comment by the Director General

An annual recovery test of the Navision database will be implemented.

Account closure and financial statement preparation procedure

50. In the report of 31 August 2022 on the audit of the 2021 financial statements (No. 21481), the SFAO issued several recommendations on the improvement of the ICS relating to the account closure and financial statement preparation procedure. In auditing the 2022 financial statements, the SFAO was able to observe that the UPU had defined, put in place and carried out internal controls responding to the SFAO's recommendations. The internal controls are documented.

51. At the time of the audit, certain entries were still outstanding for IRCs (international reply coupons) and the QSF (Quality of Service Fund). For IRCs, the final figures were awaited prior to the income from the end of the Istanbul cycle being recognized (see §§ 96 and 126). The allocation of net IRC income for the years 2017 to 2022 to tied own funds from the Istanbul cycle was not carried out (see § 126). As this had no impact on the presentation of the financial statements, the UPU will record it for the 2023 financial period. With regard to the QSF, the closing entries did not fully offset the income from regular contributions (see §§ 95 and 126). The allocation and use of tied own funds was not recorded at 31 December 2022 (see § 126).

Evaluation of the SFAO

The SFAO recognizes the efforts made by the UPU to implement internal controls relating to the account closure and financial statement preparation procedure. The recommendations issued in the report of 31 August 2022 (No. 21481) have been implemented. Most of the audit adjustments noted by the SFAO in the 2022 financial statements stem not from weaknesses in the ICS, but rather errors in applying accounting standards. The SFAO encourages the UPU to continue down this path so as to further strengthen its ICS.

The SFAO expects the UPU to ensure that the financial statements provided for the audit no longer contain any outstanding entries. Allocation and use of tied own funds need to be recorded for the current year at 31 December. The SFAO invites the UPU to annually allocate the net IRC result to the tied own funds for the corresponding cycle.

Comment by the Director General

The UPU IB welcomes the SFAO's assessment of the efforts made by the UPU to implement internal controls relating to the account closure and financial statement preparation procedure, and the implementation of all the recommendations in 2022. On the first day of the audit, the UPU was able to provide the External Auditor with a full management report. From now on, the UPU will apply the net result of IRCs to the tied own funds for the corresponding cycle, and will no longer wait until the end of the cycle to book this operation.

Procedures related to operating expenses (purchases)

52. During its interim audit the SFAO examined the operating expenses process. The SFAO observed a weakness in the regulatory framework for approving expenses the SFAO noted that the extent and scope of delegation of authority by a directorate were not sufficiently formalized, either for the standard process or for the automated process used by the PTC. Moreover, the lists of authorized signatories are not up to date and are not kept available at all times. There is no definition of what makes a digital approval acceptable. Approvals are documented in e-mail exchanges or comments in editable PDF files. The SFAO noted that the problem could be resolved in the future with the introduction of certified electronic signatures.

Evaluation of the SFAO

The SFAO feels that weakness in the regulatory framework for approving expenses represents a risk for the organization.

Recommendation No. 5 (priority level 2)

The SFAO recommends that the UPU establish and formalize unambiguous rules for approval of expenses.

The recommendation is accepted.

Comment by the Director General

The UPU IB agrees with this recommendation. A review of the applicable internal rules will be conducted to address this issue.

(Scheduled date for implementation: May 2024, DFI)

Main results of the audit of 2022 consolidated financial statements

53. The audit carried out related to the 2022 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.

54. The SFAO considers the 2022 consolidated financial statements of the UPU to have been prepared in compliance with IPSAS. It is therefore able to issue an audit opinion without reservation.

55. In addition to the aspects highlighted by the SFAO in the section on the ICS, it has also identified other areas of improvement. The findings and recommendations are presented in the following paragraphs.

Analysis of accounting data

56. In auditing the consolidated financial statements, the SFAO performed analytical procedures and detailed tests. As in previous years, it performed a journal entry testing (JET) analysis.

57. The analysis focused on all individual Union accounts. 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

58. At closing date, the IPSAS Board had published two new standards which would take effect after 31 December 2022:

- IPSAS 41: Financial Instruments (coming into force on 1 January 2023)
- IPSAS 42: Social Benefits (coming into force on 1 January 2023)
- IPSAS 43: Leases (coming into force on 1 January 2025)
- IPSAS 44: Non-current Assets Held for Sale and Discontinued Operations (coming into force on 1 January 2025)

59. IPSAS 41 will entail, among other things, changes to the valuation of investments and depreciation of financial assets such as accounts receivable. The SFAO took note of the UPU's work underway on the introduction of IPSAS 41. The SFAO will review the restatement of the opening balance sheet at 1 January 2023 during the 2023 interim audit.

60. 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.

61. IPSAS 43, Leases, introduces a right-of-use model for lessees that replaces the risks and rewards incidental to the ownership model in IPSAS 13. For lessors, IPSAS 43 substantially carries forward the risks and rewards incidental to the ownership model in IPSAS 13.

62. IPSAS 44, Non-current Assets Held for Sale and Discontinued Operations, specifies the accounting for assets held for sale and the presentation and disclosure of discontinued operations.

63. In May 2023, the IPSAS Board published four additional standards:

- IPSAS 45: Property, Plant and Equipment (coming into force on 1 January 2025)

- IPSAS 46: Measurement (coming into force on 1 January 2025)
- IPSAS 47: Revenue (coming into force on 1 January 2026)
- IPSAS 48: Transfer Expenses (coming into force on 1 January 2026)

64. The UPU will need to familiarize itself with these new standards in 2023 in order to assess their impact on the organization's financial statements and begin preparing for their implementation.

Operational continuity

65. 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.

66. The level of freely available liquid assets and current investments is an important indicator in analyzing the UPU's ability to continue as a going concern. The UPU's financial statements show a decline in cash flow between 2020 and 2022. Given the Union's liquidity management policy, current investments must be taken into account when analyzing the organization's financial situation. Taking the current investments into account, the organization is in a position to honour its current liabilities at 31 December 2022. The SFAO also notes that the cash and current investments freely available to the Union have risen since 2020.

	2022	2021	2020	2019	2018
Cash and cash equivalents	33,558,447	47,511,785	60,075,614	42,461,675	52,731,083
Current investments	68,537,321	87,770,689	56,465,725	50,229,628	38,797,813
Total	**102,097,790**	**135,284,495**	**116,543,359**	**92,693,322**	**91,530,914**
Of which freely available to the Union	32,025,408	29,346,918	19,428,535	20,945,477	23,408,441
Current Union liabilities, excluding advances and deferred revenue	12,733,268	12,896,569	11,700,647	11,479,623	12,289,793

67. 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.

68. Between 2017 and 2019, the Union only partially honoured its guarantee commitments. Between 2020 and 2022, the annual payment of 3.7 million CHF allowed the Union's guaranteed interest to be fully covered. The UPU Provident Scheme achieved a coverage rate of 74.7% at 31 December 2022. This represented a deterioration since

31 December 2021, when it stood at 86.2%. The main reason was the negative performance on investments (-12.6%). The minimum coverage of 85% provided for in article 5bis.2 of the Provident Scheme Constitution was no longer achieved.

69. The SFAO took note of the report of the External Auditor of the UPU Provident Scheme on the financial statements at 31 December 2022. The Scheme, owing to the deterioration in its financial situation, is again unable to cover its liabilities alone, and still needs to draw on the Union's guarantee. It appears challenging for the Scheme to meet the objective of recapitalization to 85% by the end of 2025. If the current measures and the stock market performance in the coming two to three years prove insufficient, the Scheme will need to consider complementary measures. The stabilization measures approved by the Abidjan Congress in 2021 must absolutely be maintained in the long term to ensure the future of the Scheme. Complementary measures might prove necessary in order to achieve the objective of recapitalization to 85% by the end of 2025.

70. The 2021 Congress decided to fully recapitalize the institution over a period of 25 years in two consecutive stages, in order to ensure the continuity of the UPU Provident Scheme:

- up to a coverage rate of 85% by the end of the Abidjan Congress cycle (2025);
- 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.

71. Congress tasked the CA, supported by the International Bureau, with allocating an annual contribution of budgetary resources equivalent to 10% of annual expenditure, until a 100% coverage rate is achieved. Congress also decided 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, should be maintained.

72. To date, only the Union has made payments aimed at recapitalizing the Scheme. Seeking a contribution from the translation services and other UPU entities – the Postal Technology Centre (PTC), EMS, UPU*Clearing and IRC – would be justified, as their staff are also covered by the Provident Scheme. At its May 2022 meeting, the Council of Administration agreed in principle to distribute the financing of the annual guarantee of 3.7 million CHF between these entities and the Union. In autumn 2022, the Council of Administration defined how this decision would be applied. The first such distribution is due in the 2023 financial period.

73. Under article 29 of the UPU Convention, 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. Fulfilling those conditions, the United States (USPS) decided to remain a member of the UPU and self-declare its rates from 1 July 2020.

74. Under that same article 29, the 40 million CHF in fees 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 on 7 August 2020.

75. The 16 million CHF portion has no impact on the readily available liquid assets of the Union as it is earmarked for project funding. The remaining 24 million CHF is to be allocated to recapitalizing the UPU Provident Scheme. The 2022 annual notification from USPS defines the allocation of the 8 million CHF tranche paid: 3,624,800 CHF allocation to the implementation of projects; and 4,375,200 CHF allocated to the tied fund covering the long-term liabilities of the Union. The Union has directly transferred this amount to the Provident Scheme. The United States establishes the distribution of the 8 million CHF annual payment.

76. The renovation work to be done to the building constitutes another factor adversely affecting the readily available liquid assets of the Union. Initial studies estimate the investment needed at 36.5 million CHF. As the organization is unable to meet the cost of this work itself, the International Bureau is in contact with FIPOI [the Swiss Foundation for Buildings for International Organizations] and the Swiss Federal Department of Foreign Affairs, with a view to obtaining financing from the host country. Depositing a loan request requires an estimate of the project costs to be drawn up with a margin of error of +/-15%.

77. The SFAO notes that the recovery of debts has proven difficult for a number of years. The amount of unpaid debt is very high, with the provision for doubtful debts standing at 36.3 million CHF at the end of 2022. The SFAO reminds the International Bureau that the issue of debt recovery is capital. The 2021 Congress adopted an amendment to article 147 of the General Regulations, aiming to improve the recovery of debts. This came into force on 1 July 2022.

78. Nine Union member countries benefited from these regulatory changes in 2022. The Council of Administration agreed to lift the sanctions on these member countries. The countries either paid the last five years' contributions, or settled half of their arrears. The Union and the translation services combined collected 479,408 CHF in recent years thanks to the new resolutions adopted by the 2021 Congress. However, this amount remains marginal compared to the Union's gross open receivables, which stood at 51.7 million CHF at 31 December 2022, of which 28.7 million was fully provisioned. Moreover, part of this income will have to be allocated to projects and not just to the Union's regular budget. As such, it only partially eases the organization's financial woes. The debts towards the Union set aside following the application of these new provisions total 6.4 million CHF.

79. The DFI updated a four-year financial plan with three scenarios (one neutral, one optimistic and one pessimistic) at 31 December 2022. This plan does not indicate any major issues in terms of the amount of liquid assets available to the UPU up to 2025, the theoretical start date of the UPU building renovation project. The DFI presented this financial plan to the Executive Management in December 2022. Recommendation No. 11 of 31 August 2022 (No. 21481) was implemented.

Evaluation of the SFAO

Taking current investments into account, the Union's free cash flow improved further in 2022. The SFAO considers the going concern assumption to be appropriate at 31 December 2022. There is no material uncertainty that might cast significant doubt on the organization's ability to continue in its operations.

Nevertheless, the SFAO believes that the UPU's financial situation must continue to be monitored attentively. Possible additional measures to recapitalize the Provident Scheme, as well as financing of the building renovation, could have a considerable impact on the organization's cash flow from 2025. Debt recovery remains a decisive factor for the organization's liquidity, and it should continue to be monitored regularly, if not strengthened.

Comment by the Director General

The UPU IB very regularly monitors cash flow trends, makes projections and draws on expert analyses, in particular those of the actuarial expert. For debt recovery, in addition to the actions undertaken by the International Bureau, a standing group on recovery of arrears participates in these measures.

Cash and cash equivalents

80. The balances of the various cash accounts at 31 December 2022 were compared with those obtained from statements issued by the custodians. The cash amounts posted (33.6 million CHF in total) comply with the principle of the availability of funds within 90 days.

Investments

81. Total current investments amounted to 68.5 million CHF at the end of 2022. Meanwhile, investments only realizable after 31 December 2023 amounted to 72.4 million CHF and were presented with the non-current assets. Total investments therefore amounted to 140.9 million CHF, up from 120.4 million CHF at 31 December 2021.

82. As a reminder, in 2018 the QSF acquired a number of bonds (for the first time) with maturities ranging from 2019 to 2022. In line with its investment policy, the QSF buys new bonds each year. These bonds are considered as held-to-maturity financial assets. Under IPSAS 29, they are valued at amortized cost, using the effective interest rate method. At 31 December 2022, these bonds were presented in the balance sheet for a total of 86.5 million CHF.

83. During the audit of the 2021 accounts, the SFAO noted a data entry error for a bond. On the basis of the SFAO's recommendation, the UPU defined and introduced a control requiring the four-eyes principle for entry of data relating to bonds.

84. To reduce manual processes in valuing bonds at the end of the year, the UPU partly automated the collection of bond data. During its audit procedures, the SFAO observed

that one bond valued at 1,298,384 CHF at 31 December 2022 was recorded twice in the accounts. The UPU corrected this error (see § 126).

Evaluation of the SFAO

The irregularity identified by the SFAO showed that the ICS for valuation of bonds at year end is not complete.

Recommendation No. 6 (priority level 1)

The SFAO recommends that the UPU introduce a check to compare the balance and quantity of bonds confirmed by the custodian against those recorded in the accounts.

The recommendation is accepted.

Comment by the Director General

The UPU IB agrees with this recommendation. As soon as this error occurred, the IB put in place an additional control consisting of comparing the balance and quantity of bonds confirmed by the custodian with the bonds booked.

(Scheduled date for implementation: March 2024, DFI)

Accounts receivable (exchange and non-exchange transactions)

85. Current receivables (from both exchange and non-exchange transactions) represented a net value of 64.9 million CHF (52.2 million CHF at the end of 2021), and non-current receivables (from non-exchange transactions) 8.0 million CHF (16.7 million CHF at the end of 2021). The decrease in non-current receivables can be explained by the ongoing contract with the US operator USPS for the financing of the UPU Provident Scheme and specific projects on postal security. The 8 million CHF corresponding to the 2022 tranche was transferred to the Union. The remaining balance of 16 million CHF is shown under current assets for 8 million CHF (8 million CHF at the end of 2021) and non-current assets for 8 million CHF (16 million CHF at the end of 2021). The balance of receivable statutory contributions of 22.9 million CHF at the end of 2022 remained stable compared to 2021.

86. During its audit, the SFAO carried out various checks on accounts receivable. The SFAO checked in particular the application of the provisions of the General Regulations concerning imposition of sanctions on member countries, as well as the valuation of open debts at 31 December 2022.

87. Article 150 of the General Regulations describes the criteria that trigger the application of automatic sanctions. The UPU's accounting principles provide that countries under sanctions are subject to a full-value adjustment of their debt. The SFAO observes that, in practice, there is a lag of several months between when the criteria for automatic sanctions are met and when formal notification of the sanctions is sent to the member country. The SFAO notes that seven member countries with combined debts of 447,500 CHF met the criteria for sanctions at 31 December 2022 or 1 January 2023. Sanctions were imposed on some of these member countries in April 2023.

Evaluation of the SFAO

The SFAO believes that these receivables represent indications of impairment, and should be written down at 31 December 2022. The SFAO proposed a supplementary entry. The UPU chose not to adjust the 2022 financial statements. The SFAO accepts this decision, since it has no significant impact on the financial statements as a whole. The valuation of receivables will be adjusted when IPSAS 41 is introduced in 2023, and will take account of sanctions imposed in the following financial year.

The SFAO feels that automatic sanctions should be applied as close as possible to the effective date, to ensure that countries under sanctions do not benefit from their voting rights at the regular annual meetings.

Recommendation No. 7 (priority level 1)

The SFAO recommends that the UPU clarify the date from which automatic sanctions are to be applied to member countries, and reduce the time lag between this date and the formal notification of the member country being placed under sanctions. On this basis, and with a view to the introduction of IPSAS 41, the SFAO recommends that the UPU include a step in the closure process to identify countries that meet the criteria for sanctions at this or a later date, and take them into account in the valuation of receivables, even if the sanctions have not yet been formally notified to the member country.

The recommendation is accepted.

Comment by the Director General

When closing the 2022 accounts, the UPU set the accounts receivable provision using the same method as in the past, in a consistent manner. Already in 2023 the UPU has reduced the time lag between the date of application of automatic sanctions and formal notification of the imposition of sanctions. This lag will be further reduced in the 2023 financial period. The entry into force of IPSAS 41 will also lead to changes in accounting methods and, in particular, the estimation of the provision for accounts receivable.

(Scheduled date for implementation: March 2024, DFI)

Accounts payable and accrued expenses

88. Accounts payable and accrued expenses amounted to 33.7 million CHF at 31 December 2022. During the audit, the SFAO identified five unjustified or missing transactions in the accrued liabilities. Three transactions concerned periodic delimitations of voluntary contributions. The UPU corrected the irregularities identified by the SFAO (see §§ 110 and 126).

Short-term employee benefits

89. Short-term employee benefits comprise provisions for annual leave and overtime. At 31 December 2022, the International Bureau recorded a provision of 88,012 CHF for installation grants.

90. In the 2022 financial period, the Executive Management agreed to the retroactive payment of installation grants for internationally recruited non-core staff totalling

235,247 CHF. This sum did not include the grants for non-core staff who had already left the organization, which amounted to 88,012 CHF. The SFAO feels there is a risk that the organization will actually have to pay these grants to the former staff members. The SFAO proposed a supplementary entry, which the UPU entered in the accounts (see §§ 115 and 126).

Deferred revenue

91. Deferred revenue is recognized as a liability on the balance sheet for a total amount of 96.0 million CHF. It represents the statutory contributions billed in advance, and third-party tied funds.

92. At the end of 2022, the UPU reviewed the accounting procedures for QSF contributions and projects with a view to simplifying them and making the process more efficient. The SFAO reviewed the proposed changes and gave the DFI its comments. The International Bureau will apply the new accounting procedures from 1 January 2023.

Evaluation of the SFAO

The final versions of the accounting procedures for the recognition of ordinary contributions and contributions to the Common Fund, as well as the treatment of project expenses, are IPSAS-compliant.

For the 2023 financial year, the SFAO expects the UPU to close those accounts that will no longer be used. The allocation and use of tied own funds must be carried out in the current financial year at the time of the annual closing.

Director General's comments

The UPU IB has already begun closing accounts, and this process will continue until the end of the year. The allocation and use of tied own funds will be carried out in the current financial year at the time of the annual closing.

93. In checking these accounting procedures, the SFAO identified an error in the presentation of reserves for project evaluation costs. These were classified under net assets, whereas they should have appeared under third-party funds. The SFAO asked the UPU for a restatement of the accounts at 31 December 2021 (see §§ 119 and 126). Deferred revenue thus rose by 545,336 CHF at 31 December 2021, and the net assets fell by the same amount. The UPU also restated the net assets at 31 December 2020 in the statement of changes in net assets (financial statement III) for the sum of 470,344 CHF.

94. The SFAO also noted that for the GMS (Global Monitoring System) projects, the DFI accounts for theoretical advances as expenses rather than actual expenditure. Under IPSAS, these advances should not be entered as expenses. Only actual expenses should be entered in the profit and loss account when they occur. The same is true of the respective revenue. The SFAO analyzed the impacts of this current accounting procedure on the financial statements by comparing entries with those that should have been made in accordance with IPSAS. The SFAO noted that the amounts of the deferred receipts were correct under both scenarios. Nevertheless, the recognition of income and expenses does not occur in the same year under both methods where a project lasts more than a year. This means that expenses and revenue are either undervalued

or overvalued, depending on the year and the progress of the project. Nonetheless, since revenue is recognized at the same level as expenses, the net result is always nil.

Evaluation of the SFAO

In the SFAO's view, the net impact on the financial statements, and particularly the operating account, is not significant. Consequently, a change in the accounting methodology should be applied on a prospective basis from 2023 onwards.

Director General's comments

During the 2022 financial period, the UPU carried out a major review of these accounting methods with the QSF, especially for GMS projects. The adaptation will continue into 2023.

Advance receipts

95. Advance receipts totalled 79.5 million CHF at the end of 2022 (compared to 80.6 million CHF at the end of 2021). They essentially comprise the credits available to designated operators for carrying out QSF projects, amounting to 70.1 million CHF at the end of 2022 (69.7 million CHF at the end of 2021). The distribution of QSF trust costs over the 2022 financial period was adapted during the audit. The assets available to member countries were adjusted by 1.2 million CHF at the end of the audit (see §§ 51 and 126).

96. Advance receipts relating to sold IRCs dropped by 1.5 million CHF compared to 2021 because of the end of the Istanbul cycle. The proceeds from IRCs sold for the Istanbul cycle, totalling 807,532 CHF, were recognized for the 2022 financial period. This entry was not yet recorded in the first version of the financial statements. The SFAO proposed an adjustment of 1,615,276 CHF to correct the advance payments received, and 807,743 CHF to adjust the accounts receivable (see §§ 51 and 126).

Long-term employee benefits

97. Actuarial liabilities relating to pensions and various other UPU employee benefits are accounted for in accordance with IPSAS 39. The actuarial analysis was performed by the UPU consultant actuary.

98. Long-term employee benefits, calculated using the projected unit credit method, are shown as a liability on the balance sheet for an amount of 138.9 million CHF. The two biggest amounts concern net liabilities towards the Provident Scheme (106.4 million CHF) and after-service health insurance (28.6 million CHF). The details of all the liabilities are given in note 12 to the consolidated financial statements. The strong decrease in these two liabilities resulted mainly from a net actuarial gain of 85.6 million CHF. The actuarial gain of 130.6 million CHF due to changes in financial assumptions is offset by actuarial losses due to experience of 6.7 million CHF and plan assets of 38.2 million CHF.

99. 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.

100. 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.

101. The SFAO found no significant irregularity regarding long-term employee benefits.

Evaluation of the SFAO

The UPU has put in place controls to remedy the internal control weaknesses relating to long-term employee benefits identified in the previous audit. Recommendation No. 14 of 31 August 2022 (No. 21481) has been implemented.

Comment by the Director General

The UPU IB welcomes the External Auditor's professional assessment.

Net assets

102. Net assets comprise tied own funds[4], untied (or uncommitted) own funds[5], and reserves. The reserves are made up of the Social Fund, the building reserve, and the Special Activities Fund. At the end of 2021, the shortfall on the balance sheet stood at 87.0 million CHF. The decrease in the deficit is primarily due to the direct actuarial gain in net assets of 85.6 million CHF.

103. As in 2020, the two tied reserves "WNS" and "Barcode labels" – which are part of the tied own funds – had a negative balance (274,751 and 87,034 CHF respectively as at 31 December 2022).

104. The SFAO found three inactive tied reserves at 31 December 2022: Commonwealth for 2,478 CHF; ecomafrica for 12,746 CHF; and QS certification FVO for 58,810 CHF. On the SFAO's recommendation, the DFI made contact with the operational directorates responsible. As no instructions were given in relation to these reserves, the UPU did not close them.

Evaluation of the SFAO

Income is expected in 2023 regarding the negative reserves, and the balances remain reasonable. The balances of the inactive tied reserves are individually immaterial. For these reasons, the SFAO has not proposed that an audit adjustment be made.

The DFI has put in place an annual review of tied reserves aimed at identifying and dealing with negative and/or inactive reserves. It has contacted the directorates

[4] Accumulated surplus of other funds and accumulated deficit of controlled entities.

[5] Accumulated deficit of Union funds.

responsible for these funds to take the necessary accounting measures. Audit recommendation No. 15 of 31 August 2022 (No. 21481) was implemented.

Comment by the Director General

The UPU IB welcomes the External Auditor's professional assessment.

105. In reviewing the financial statements, the SFAO identified a transaction of 300,000 CHF booked directly to net assets. The UPU transferred a voluntary contribution from third-party funds directly to tied own funds without recognizing any revenue. The SFAO requested a correction (see § 126), which the UPU has taken into account in the financial statements.

106. The QSF "emergency fund" reserve intended for financing projects is generated by member countries' available assets; it amounted to 117,221 CHF at 31 December 2022. In 2022, the UPU allocated funds totalling 23,075 CHF to this reserve by drawing directly on the member countries' own assets. The own funds were directly allocated without passing through the operating account.

Evaluation of the SFAO

With the exception of the transactions explicitly provided for under IPSAS, it is not permitted to book entries directly through own capital without going through the operating account. The allocation of 23,075 CHF to the QSF reserve for specific emergency projects is immaterial. The SFAO did not propose any audit adjustment. The SFAO invites the UPU to stop recording transactions directly through its own funds, with the exception of those required by accounting standards.

Comment by the Director General

As soon as this error occurred, the UPU added a new step to the accounting process to limit the risk of entries being booked directly through own capital, in particular by raising staff members' awareness of this issue.

Voluntary contributions

107. The UPU recognized income from voluntary contributions of 17.5 million CHF at 31 December 2022. These consisted in particular of QSF Common Fund contributions and QSF contributions for financing projects. Recognition of the latter depends on the progress of the project, in accordance with IPSAS 23.

108. In the course of its audit procedures, the SFAO found that the UPU had not recognized as income contributions to the Common Fund amounting to 765,377 CHF that were invoiced in 2022 but remained unpaid at 31 December 2022. Under IPSAS, the income must be recognized in the 2022 financial year, as there are no conditions attached to this type of contribution. Allocation to tied own funds is possible only after the income has been recognized by the statement of financial performance (financial statement II). The SFAO requested correction of the voluntary contributions (see § 126).

109. In addition, the International Bureau had to adjust the income of 1,298,925 CHF from ordinary voluntary contributions and the assets available to member countries

presented under advance payments, following finalization of the closing entries for the QSF (see §§ 51, 95 and 126).

110. Given the errors identified in relation to voluntary contributions during the audit of accrued liabilities (see § 88), the SFAO wishes to point out that each voluntary contribution made by a country or another third party must be analyzed on the basis of IPSAS (IPSAS 9 versus IPSAS 23; IPSAS 23 with or without conditions). The classification is used to determine how the income is accounted for.

Sales

111. The SFAO audited the sales recorded in 2022 on the basis of a sample. The sample checks on POST*CODE sales revealed the following:

- Three bills were issued on the basis of a contract which offered a significant discount compared with the usual prices.
- Two bills were issued on the basis of an amendment to the licence agreement signed only by the “Post Addressing Solutions” manager.
- Two bills were issued without a licence agreement.

112. Based on a selection, the SFAO noted the following particularities concerning the services invoiced by the PTC:

- The UPU provides services to three countries (Australia, Brazil and Democratic Republic of the Congo) without having signed a licence agreement. According to information provided to the SFAO, these countries have not responded to the UPU's requests, but are honouring the invoices sent to them.
- The UPU provides services to four countries (Barbados, Bulgaria, Bermuda and Botswana) that are not entirely in line with the contract. The UPU informed the SFAO that the services provided had been modified after the contracts were signed and that no updated contracts had been signed.
- The services provided to one territory (Anguilla) were not billed. The UPU’s practice is not to issue an invoice when the amount is clearly immaterial.

Evaluation of the SFAO

The SFAO's observations do not represent a financial problem for the organization, but rather a managerial issue. The SFAO encourages the UPU to clarify its contract management practices.

Comment by the Director General

The UPU IB notes this evaluation.

Financial revenue and financial costs

113. In an initial version of the 2022 financial statements, financial costs showed a negative balance owing to the recognition of a reduction of 407,360 CHF in the provision for

doubtful debts in 2022. The SFAO asked the UPU to reclassify this variation under financial revenue (see § 126).

Staff costs

114. Staff costs, which amounted to 49 million CHF in 2022, represent the largest expenditure item of the UPU (66% of its total expenditure). The number of full-time-equivalent employees remained stable compared with 2021.

115. With the exception of the reserve for installation grants (see §§ 90 and 126), the SFAO found no significant irregularity regarding staff costs at 31 December 2022.

Travel expenses

116. As part of the audit procedures relating to fraud risk in accordance with ISA 240, the SFAO audited a sample of travel expenses from 1 January to 30 September 2022. The SFAO checked travel accounts, invoices and other proofs of expenditure, as well as the travel approval.

117. The SFAO found errors in two accounts. In one case, the UPU granted an allowance for a night spent on a plane instead of a daily subsistence allowance. In the other, the UPU did not update the daily subsistence allowance in force as of the date of travel.

118. Regarding the process for travel authorizations and reimbursement of expenses, the SFAO notes the following:

- The staff member responsible for processing travel knows the applicable rules.
- The travel authorization and reimbursement process is manual. Authorizations are given by means of e-mail exchanges. Requests for reimbursement and supporting documents are sent in hard-copy form and by e-mail. Each mission has to be approved by the DG.
- The Excel file used for travel accounts does not automatically update the daily subsistence allowance rates and exchange rates.
- The four-eyes principle applied to travel expenses accounts did not prevent the errors found by the SFAO.
- The electronic signature placed on the travel expenses account in application of the four-eyes principle does not guarantee that the person responsible for checking it has actually done so.
- The UPU does not have any IT tool or system that could simplify and streamline the process and reduce the risk of error.

Evaluation of the SFAO

The errors identified by the SFAO are immaterial for the UPU financial statements at 31 December 2022. They do no stem from fraud, but are the result of errors in the application of the rules and rates.

The current process is inefficient and only covers the risk of obvious irregularities caused by error or fraud. Low-value errors cannot be detected.

Recommendation No. 8 (priority level 2)

The SFAO recommends that the UPU review and simplify the process for authorizing travel and reimbursement of expenses, and automate it, taking into account the cost-risk ratio.

The recommendation is accepted.

Comment by the Director General

Efforts will be made to simplify the process. Automation of travel management will be implemented, if the budget permits.

(Scheduled date for implementation: December 2024, DRH)

Statement of changes in net assets

119. The SFAO examined the table of changes in net assets (financial statement III) and checked the consistency of the movements. The SFAO asked for restatement of the comparative figures linked to the erroneous classification of reserves for QSF project evaluation costs (see §§ 93 and 126). The SFAO asked the UPU to present the use and allocation of gross reserves. The International Bureau made the necessary corrections.

Statement of cash flow

120. 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.

121. The UPU made the necessary corrections to ensure that the cash flow table matches the final balance sheet figures, including those linked to the restatement of comparative figures.

Statement of comparison of budget and actual amounts and related note

122. The SFAO checked the statement of comparison of budget and actual amounts (financial statement V), which presents the gross actual expenditure amounts for 2022, excluding the QSF project expenses, which were 681,924 CHF more than the total budgeted for the year.

123. The SFAO checked the reconciliation of the budget values with the table in note 18 – Reconciliation of statement of comparison of budget and actual amounts (statement V) and statement of financial performance (statement II). The budgetary data is thus reconciled with the actual amounts of income and expenses of the 2022 financial year.

Events after the reporting date

124. Note 22 to the financial statements provides information on events occurring after the reporting date. The UPU wished to mention the acquisition of Credit Suisse by UBS as a post-closing event. This event has no material impact on the 2022 consolidated financial statements.

List of additional entries

125. 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 be material if it exceeds 60,800 CHF. The impact of misstatements in the interpretation of the financial statements as a whole is considered material if it exceeds 760,000 CHF in total.

Additional adjusted and unadjusted entries

126. The following table presents the additional entries noted during the audit. Two entries remained uncorrected at 31 December 2022.

Description	Effect on result (CHF)	Effect on net assets (CHF)
Balance before additional entries	**(2,838,530)**	**87,717,098**
Additional corrected entries		
Provision for payment of retroactive installation grants (88,012 CHF, see §§ 89–90 and 115)	88,012	88,012
Unpaid Common Fund contributions not recognized in the operating account (829,605 USD, 765,725 CHF, see § 108)	(765,725)	0
Restatement of presentation of reserves for evaluation of QSF projects 2021 (595,995 USD, 545,336 CHF, see §§ 93 and 119)	0	0
Erroneous accounting of Voluntary Fund revenue (300,000 CHF, see § 105)	(300,000)	0
Reclassification of reduction in provision for doubtful debts (407,360 CHF, see § 113)	0	0
Unjustified accrued liabilities for costs of Chinese translation (70,600 CHF, see § 88)	(70,600)	(70,600)

Description	Effect on result (CHF)	Effect on net assets (CHF)
Two voluntary contributions incorrectly delimited (57,180 CHF, see §§ 88 and 110)	(57,180)	(57,180)
Unjustified accrued liabilities for a voluntary contribution (29,490 CHF, see §§ 88 and 110)	(29,490)	(29,490)
Bond recognized and valued twice (1,407,663 USD, 1,299,273 CHF, see § 84)	1,299,273	1,299,273
Recognition of IRC revenue at end of cycle (874,900 USD, 807,532 CHF, see §§ 51 and 95)	(807,532)	(807,532)
Accrued liabilities for Russian translation costs for 2022 (110,000 CHF, see § 88)	110,000	110,000
Closing entries for ordinary QSF contributions (1,407,286 USD, 1,298,925 CHF, see §§ 51 and 95) and interest generated (90,294 USD, 83,342 CHF)	(1,215,583)	(1,215,583)
Allocation of QSF income to Common Fund own capital (see § 51)	0	0
Balance after additional entries (according to financial statements)	**(4,587,356)**	**87,033,997**
Additional uncorrected entries		
Overvaluation of receivables (447,500 CHF, see §§ 86–87)	447,500	447,500
Allocation of annual IRC results to own-fund accounts per cycle (see § 51)	0	0
Impact of additional entries from previous financial period corrected during current financial period		
None	–	–
Balance after all additional entries	**(4,139,856)**	**87,481,497**

Insufficient information or incorrect presentation

127. The SFAO identified a number of errors in the annex to the consolidated financial statements 2022. All the misstatements have been corrected.

Audit recommendations

128. 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 2023.

129. Of the 26 open recommendations, 14 have been implemented. Implementation of the other 12 open recommendations is in progress.

Recommendations implemented

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

Audit report			**Recommendations**		
No.	**Date**	**Subject**	**No.**	**Type** [1]	**Unit** [2]
20339	28.06.2021	Audit of 2020 consolidated financial statements	2	Management	DACAB
21202	14.12.2021	Electronic advance data project performance audit	1	Management	DOP/QSF
21202	14.12.2021	Electronic advance data project performance audit	3	Management	DOP/QSF
21481	31.08.2022	Audit of 2021 consolidated financial statements	1	Management	DRH
21481	31.08.2022	Audit of 2021 consolidated financial statements	5	IT	DCTP
21481	31.08.2022	Audit of 2021 consolidated financial statements	6	IT	DCTP
21481	31.08.2022	Audit of 2021 consolidated financial statements	7	FS	DFI
21481	31.08.2022	Audit of 2021 consolidated financial statements	8	FS	DFI
21481	31.08.2022	Audit of 2021 consolidated financial statements	9	FS	DFI
21481	31.08.2022	Audit of 2021 consolidated financial statements	11	FS	DFI
21481	31.08.2022	Audit of 2021 consolidated financial statements	12	FS	DFI

Audit report			Recommendations		
No.	**Date**	**Subject**	**No.**	**Type** [1]	**Unit**[2]
21481	31.08.2022	Audit of 2021 consolidated financial statements	13	FS	DFI, DOP/QSF
21481	31.08.2022	Audit of 2021 consolidated financial statements	14	FS	DFI
21481	31.08.2022	Audit of 2021 consolidated financial statements	15	FS	DFI

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

[2]DACAB: Administration and Cabinet Directorate
DCTP: Postal Technology Centre Directorate
DFI: Finance Directorate
DOP/QSF: Postal Operations Directorate, Quality of Service Fund
DRH: Human Resources Directorate

Recommendations still outstanding

131. 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**	**Subject**	**No.**	**Type** [1]	**Unit**[2]	**Initial planned date of implementation**
20091	16.07.2020	IT governance audit	2	IT	DCTP	31.12.2021
20091	16.07.2020	IT governance audit	3	IT	DCTP	31.12.2021
20091	16.07.2020	IT governance audit	4	IT	DCTP	31.12.2022
20091	16.07.2020	IT governance audit	5	IT	DCTP	31.12.2022
20338	24.08.2020	Audit of 2019 consolidated financial statements	4	Management	DL	31.12.2021

Audit report			Recommendations			
No.	**Date**	**Subject**	**No.**	**Type** [1]	**Unit** [2]	**Initial planned date of implementation**
20339	28.06.2021	Audit of 2020 consolidated financial statements	1	Management	DACAB, DPRM	31.12.2021
21202	14.12.2021	Electronic advance data project performance audit	2	Management	DOP/QSF	30.06.2022
21202	14.12.2021	Electronic advance data project performance audit	5	Management	DOP/QSF	31.03.2023
21481	31.08.2022	Audit of 2021 consolidated financial statements	2	FS, Management	DACAB	30.11.2022
21481	31.08.2022	Audit of 2021 consolidated financial statements	3	IT	DCTP	31.12.2022
21481	31.08.2022	Audit of 2021 consolidated financial statements	4	IT	DCTP	31.12.2022
21481	31.08.2022	Audit of 2021 consolidated financial statements	10	FS	DRH	30.06.2023

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

[2] DACAB: Administration and Cabinet Directorate
DCTP: Postal Technology Centre Directorate
DL: Logistics Directorate
DOP/QSF: Postal Operations Directorate, Quality of Service Fund
DFI: Policy, Regulation and Markets Directorate
DRH: Human Resources Directorate

* * *

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

133. The SFAO would like to emphasize the good spirit of collaboration and openness that prevailed throughout the performance of the audit. It also wishes to express its appreciation for the helpfulness shown by all the UPU officials approached in providing the information and documents required to carry out its task.

Berne, 31 August 2023

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

Recommendation No. 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 incorporation of the IT and Methods Programme 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 PTC, 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.

Director General's comments: 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 2023: A process management policy has been published. On this basis, the updating of process documentation can commence. A review is planned for the end of 2023. The SFAO obtained no evidence of the launch of a project to complete the integration of the IT and Methods Programme into the DCTP.

Recommendation No. 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.

Director General's comments: 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 2023: The UPU has begun implementing this recommendation.

Recommendation No. 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.

Director General's comments: 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 2023: The UPU has allocated resources to IT in 2023 with a view to implementing this recommendation.

Recommendation No. 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.

Director General's comments: 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 2023: The UPU has defined the IT strategy for 2022–2025 and established monthly meetings to measure implementation of this strategy. The UPU laid down a first set of principles, relating in particular to architecture, in its IT strategy for 2022–2025. This strategy also sets the objective of creating a service management group, with the aim of exploiting infrastructure synergies. This group could form the blueprint for an architecture body, but it has not yet been established. The SFAO found no significant progress with regard to the methodology, results and target maturity of IT architecture governance. The recommendation has been partially implemented.

Recommendation No. 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.

Director General's comments: 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 2023: For implementation of the recommendation, three phases were planned:

- Phase 1: physical reorganization of the UPU stamp collection and separation of collections A and B (2019–2021). This phase was completed in the first quarter of 2022 by moving collection B into a separate room in the building. During a tour of the organization's premises, the SFAO was able to observe that the stamps are kept in a secure room. The UPU is replacing the stamp protection equipment in 2023. The stamps are in the process of being sorted and classified.

- Phase 2: electronic archiving and digitization (2021–2024). Electronic archiving represents a cost for the organization. The UPU is studying the possible options.
- Phase 3: inventory and valuation of the universal stamp collection (2024–2027).

Recommendation No. 1 from the 28 June 2021 report (No. 20339) on the audit of the 2020 consolidated financial statements

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

Director General's comments: The Executive Management agrees with this recommendation. The International Bureau will carry out an annual strategic risk assessment by means of a "top-down" approach. The Management Committee will meet to assess the main strategic risks identified within the framework of the previous risk assessment.

Status according to the follow-up conducted in May 2023: The UPU Management met in December 2021 to re-evaluate the risks. The minutes from this meeting do not include any conclusion on the current risk assessment. The UPU's new Management has decided to carry out a risk assessment every two years in line with the organization's cycle. The next assessment will take place in 2023 for the Riyadh Extraordinary Congress.

Recommendation No. 2 from the 14 December 2021 report (No. 21202) on the performance audit on the electronic advance data project

To ensure the project's progress at the domestic level, the SFAO recommends that the UPU support each country in line with its specific needs through to conclusion of the project.

Director General's comments: The International Bureau agrees with this recommendation. A comprehensive survey, focusing on operational and interface/connectivity requirements, level of complexity and future operational and financial impacts for each of the technical solutions proposed for this EAD Common Fund project, will be carried out in Q1 2022 via regional workshops dedicated solely to the EAD Common Fund project. The feedback and results of the workshops and surveys will be analyzed and used as a basis for improving the project implementation plan for phase 2 and subsequent phases in order to ensure more efficient and effective support for all participating countries. Moreover, initial mitigation has already been put in place through the recruitment of seven regional postal security managers to provide one-on-one support to the DOs in their respective regions.

Status according to the follow-up conducted in May 2023: The QSF carried out a survey of the 192 member countries. The project team has begun contacting the 110 project participants to obtain clarifications and details of the answers provided, with the aim of obtaining clear and precise information that will enable the project team to more effectively identify the problems encountered on the ground. To ensure the sustainability of the EAD project's results, an updated questionnaire specific to the project will be sent to the 145 designated operators taking part in the EAD project. The responses will be evaluated and taken into account when preparing the project's final transfer plan.

Recommendation No. 5 from the 14 December 2021 report (No. 21202) on the performance audit on the electronic advance data project

The SFAO recommends that the UPU define a transfer plan by the first quarter of 2022.

Director General's comments: The project has been extended by 12 months with a new completion date of May 2023. As such, the transfer plan will be developed with input from all participating DOs from Q4 2022 to Q1 2023. With regard to the technology solutions delivered by the PTC, these will be maintained and supported after completion of the project.

Status according to the follow-up conducted in May 2023: Implementation of the recommendation is under way.

Recommendation No. 2 from the 31 August 2022 report (No. 21481) on the audit of the 2021 consolidated financial statements

The SFAO recommends that, initially, the UPU review the processes and responsibilities assigned to the directorates. Subsequently, the UPU must update the risk and control matrices so as to focus on the key risks and controls, reflect operational processes, and avoid redundancy.

Director General's comments: The UPU International Bureau agrees with this recommendation. Following the final discussion with the External Auditor of the intermediate audit of the 2021 financial statements in December 2021, the UPU IB established an action plan to improve the ICS risk and control matrix. Meetings of all the directorates have been organized to address the following points:

– Responsibility of directorates regarding risks associated with cross-functional processes;

– Introduction in the matrices of the financially significant operational processes specific to the directorates and the risks associated with them;

– Simplification of the risk/control matrices to allow directorates to focus on key risks and controls.

The directorates will review the processes and responsibilities and update the risk and control matrices before the end of the year.

Status according to the follow-up conducted in May 2023: The DACAB has launched a review of its risk and control matrices. The DRH matrix was only adapted in May 2023. That department is responsible for processes that have a financial impact on the annual accounts, which is of key importance for the annual closing. Retroactive application of a risk and control matrix is not possible as it is a day-to-day operational tool. The SFAO will analyze this new matrix during its next audit. During its interim audit, the SFAO noted that there were still areas for improvement in the revised matrices, particularly for the DFI:

- The frequency of controls is not completed or defined for every control.

- The description of the proof of the control is not completed or defined for every control.
- Certain control descriptions assume that it has not yet been put in place.
- External audits are sometimes indicated as controls. The third line (internal audit) and fourth line (external audit) should not form part of the organization's ICS.
- Certain controls are still activities.

Recommendation No. 3 from the 31 August 2022 report (No. 21481) on the audit of the 2021 consolidated financial statements

The SFAO recommends that the UPU ensure that each item identifier is sufficiently linked to the new version to allow for good traceability and to further formalize the development, test and implementation stages, as well as the phases to approve changes and the tests.

Director General's comments: The UPU International Bureau agrees with this recommendation. Technical governance will be transferred to the Postal Technology Centre management, which will be in charge of formalizing change management at the ERP level.

Status according to the follow-up conducted in November 2022: This recommendation has not yet been implemented. The SFAO was unable to link each modification (new version) made to the Navision production environment to the corresponding business requirement or need.

Recommendation No. 4 from the 31 August 2022 report (No. 21481) on the audit of the 2021 consolidated financial statements

The SFAO recommends that the UPU increase password security by limiting the period of validity of passwords for the Active Directory to 90 days.

Director General's comments: The UPU International Bureau partially agrees with this recommendation. According to recommendations from the US National Institute of Standards and Technology, and UN security standards, enforcing regular password resets is no longer recommended. We will implement the best practices of password and user access management as applied to the other UPU IB IT systems.

Status according to the follow-up conducted in November 2022: This recommendation has not yet been implemented. The UPU should either modify the corresponding administrative instruction, or implement the recommendation.

Recommendation No. 10 from the 31 August 2022 report (No. 21481) on the audit of the 2021 consolidated financial statements

The SFAO recommends that the UPU formally document its key controls in procedures related to staff expenses.

Director General's comments: The UPU International Bureau agrees with this recommendation. The Human Resources Directorate will ensure that the flowchart and the matrix of risks and control are aligned with the operational procedures established, and formally document the organization’s key controls in procedures related to staff expenses.

Status according to the follow-up conducted in May 2023: The DRH risk and control matrix was only adapted in May 2023. The SFAO will analyze this new matrix and the key control documentation during its next audit.

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

Reg. No. 942.22365.003

External Auditor's report

To the Council of Administration of the Universal Postal Union (UPU), Berne

External Auditor’s report on the consolidated financial statements

Opinion

The Swiss Federal Audit Office (SFAO) has audited the consolidated financial statements of the UPU for the financial period ending 31 December 2022, which comprise the statement of financial position (financial statement I), the statement of financial performance (financial statement II), the statement of changes in net assets (financial statement III), the statement of cash flow (financial statement IV), and the statement of comparison of budget and actual amounts (financial statement V), together with the notes attached to the financial statements, including the summary of the principal accounting methods.

In the SFAO's opinion, the attached consolidated financial statements present, in all material respects, a fair view of the assets, financial position and results of the UPU at 31 December 2022, as well as its financial performance and cash flows for the financial year ending on that date, in accordance with the International Public Sector Accounting Standards (IPSAS) and the UPU Financial Regulations.

Basis for the opinion

The SFAO conducted its audit in accordance with the International Standards on Auditing (ISAs). Its responsibilities under those standards are further described in the "Auditor’s responsibilities for the audit of the consolidated financial statements" section of this report. The SFAO is independent of the UPU in accordance with the ethical rules applicable to consolidated financial statements in Switzerland, and it has fulfilled its other ethical responsibilities under those rules. It believes that the evidence gathered provides a sufficient and appropriate basis for its audit opinion.

Responsibilities of the UPU Management with respect to the consolidated financial statements

The Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IPSAS and the UPU Financial Regulations, and for such internal control as it deems necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether attributable to fraud or error.

In preparing the consolidated financial statements, the Management is responsible for assessing the UPU’s ability to continue as a going concern, for disclosing, as applicable, matters related to going concern and for using the going concern basis of accounting unless the Management either intends to liquidate the UPU or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the UPU’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

The SFAO's objectives are to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatement, whether attributable to fraud or error, and to issue a report containing its opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit conducted in accordance with the ISAs, the SFAO exercises professional judgement and maintains professional scepticism throughout the audit. It also:

- Identifies and assesses the risks of material misstatement in the consolidated financial statements, whether attributable to fraud or error; designs and performs audit procedures responsive to those risks; and obtains audit evidence that is sufficient and appropriate to provide a basis for its opinion. The risk of non-detection of a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, deliberate misrepresentations to the auditor or the circumvention of internal controls;

- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the UPU’s internal control;

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management;

- Draws conclusions as to the appropriateness of the Management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the UPU’s ability to continue as a going concern. If the SFAO concludes that a material uncertainty exists, it is required to draw attention in its auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify its opinion. Its conclusions are based on the audit evidence obtained up to the date of its auditor’s report. However, future events or conditions may cause the UPU to cease to continue as a going concern;

- Evaluates the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The SFAO communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that it identifies during its audit.

Berne, 27 June 2023

SWISS FEDERAL AUDIT OFFICE
(External Auditor)

Eric-Serge Jeannet	Martin Köhli
Deputy Director	Competence Centre Manager

Draft resolution CA XX/2023.2

Approval of the Universal Postal Union financial statements for the 2022 financial year and the relevant audit report

The Council of Administration,

In view of
the provisions of:

– article 149 of the General Regulations;

– article 38 of the Financial Regulations,

Having examined:

– the financial statements of the Universal Postal Union for the 2022 financial year (CA C 1 2023.2–Doc 2. Annex 1);

– the external audit report on the Universal Postal Union financial statements for the 2022 financial year (CA C 1 2023.2–Doc 3.Annex 1),

Having heard
the oral report by the External Auditor's to the Council of Administration,

Decides

i to approve the Union's financial statements for the period from 1 January 2022 to 31 December 2022, as submitted and as audited by the External Auditor appointed by the Government of the Swiss Confederation;

ii to thank the Government of the Swiss Confederation for the care with which the external audit of the Union's accounts has been carried out.

UNIVERSAL POSTAL UNION

UPU International Bureau
Weltpoststrasse 4
3015 BERNE
SWITZERLAND

T +41 31 350 31 11
F +41 31 350 31 10
www.upu.int

DRAFT

Mr Ignazio Cassis
Federal Councillor
Head of the
Federal Department of Foreign Affairs
Federal Parliament
3003 BERNE

Berne, xx xxx 2023

Subject: External audit of the Universal Postal Union's financial statements for 2022

Dear Mr Cassis,

During its autumn 2023 meeting, the Council of Administration of the Universal Postal Union examined and took note of the external audit report on the UPU financial statements presented by the Swiss Federal Audit Office. In accordance with the provisions of article 149 of the UPU General Regulations, the audit was conducted under the authority of the Swiss Federal Audit Office.

As Director General of the Universal Postal Union, I wish to underscore the importance that our member countries attach to the quality of service provided by the Swiss Confederation in the production of this audit report.

I would therefore like to express my gratitude to the staff of the Swiss Confederation for their professionalism and for the good working relations maintained throughout the audit process. I would add that the recommendations made during this exercise will prove useful for improving the Union's management methods and tools.

Yours sincerely,

Masahiko Metoki
Director General

Marjan Osvald
Deputy Director General