

2016 Internal audit function activity report

For the attention of the Finance and Administration Commission of the UPU Council of Administration

I. Introduction

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

II. Award of the internal audit mandate

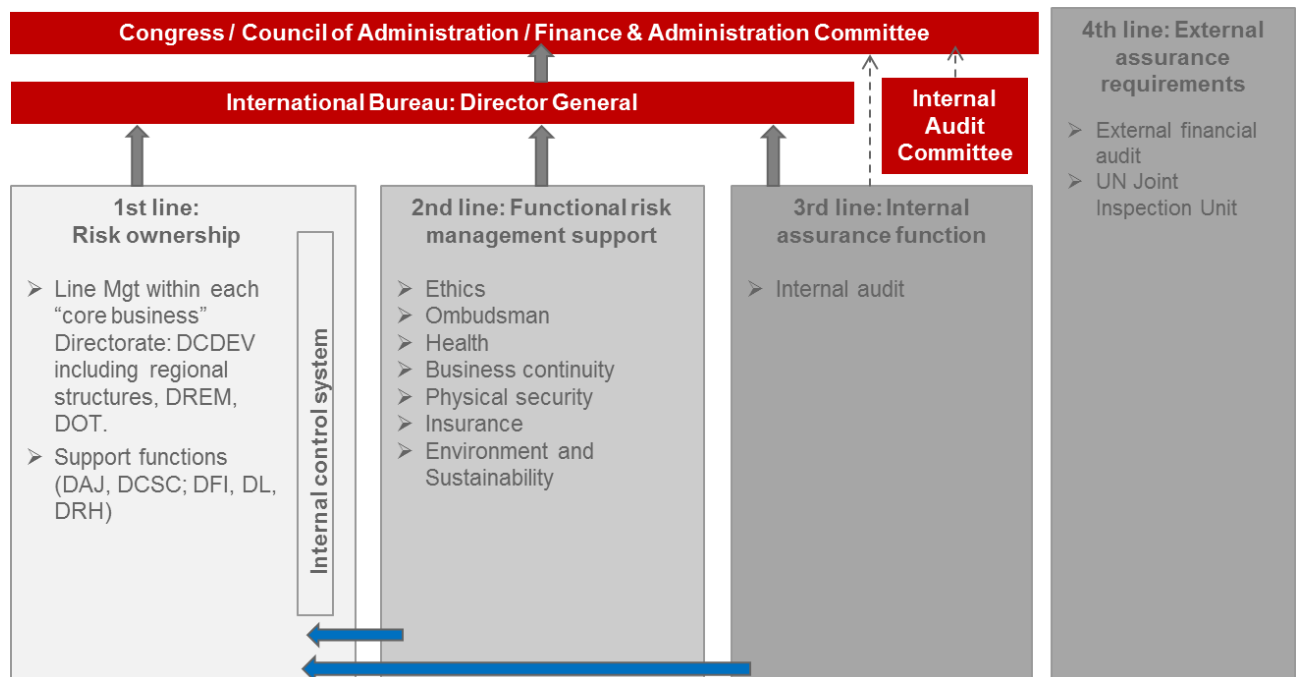
2 The charter states that "in order to guarantee the internal auditor's independence, the Director General consults the Council of Administration prior to appointing the internal auditor or terminating its mandate".

3 Following a pilot year in 2011 and a further "UPU internal audit" tender, EY (then Ernst & Young) was selected by the Tender and Procurement Committee to take over the internal audit function for six years 2012–2017.

III. Internal audit as part of the wider UPU risk management framework

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

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



IV. Rationale for the definition of the 2015 and 2016 internal audit plans

6 As per good professional practices, and key elements of the Institute of Internal Auditors standards, the outline of both the 2015 and 2016 internal audit plans were defined based on the following major considerations: the UPU strategic framework, the 2015 UPU risk assessment, the organisational structure, as well as specific expectations from the International Bureau

7 Each assignment was subsequently scoped in greater details through additional meetings, and finally approved by the Director General. A scoping memorandum was issued for each assignment. The main objectives of those internal audit assignments were to:

- review the risk drivers;
- identify and discuss Management's actions and responses to the risk drivers;
- identify areas of potential further improvement in Management's actions and responses.

V. Conclusions of internal audits performed in 2015–2016

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

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

a Support to UPU International Secretariat – "A risk based approach to the 2016 Congress preparation" Assistance from March to June 2016

10 The internal audit team supported UPU Senior Management in identifying potential risks in the set-up of the International Secretariat for the Istanbul Congress (September 19–October 7, 2016). There were three objectives for this assignment:

- Identify potential risk scenarios: Assistance in the identification of potential risk scenarios in the context of organizing and holding the UPU Congress in Istanbul.
- Identification of mitigating measures: Assistance in the identification of the measures then in place to mitigate risks.
- Definition of further mitigating measures, if necessary: Where required, assistance in the orientation of further preventative measures.

11 We started the project through a workshop with UPU Senior Management in order to pre-identify the risk scenarios and potential improvement opportunities with regards to the organization of Congress.

12 We then facilitated sessions with the Secretaries and Deputy Secretaries in order to:

- Further deepen the understanding of risks related to each session
- Discuss the need for further measures/actions/controls
- Clarify roles and responsibilities with regards to the upcoming Congress

13 Lastly we facilitated a workshop with the international Secretariat including the Chairs and Vice Chairs of each session in order to harmonise the understanding of roles and responsibilities and the risk response with regards to the risk scenarios identified.

b *Internal audit – "Management's responses to Risk 9 (IT Strategy)". Field work performed from July to August 2016*

14 The risk had been described by Management as "The risk is that the IT strategy is not in line with the priorities set by the Governing bodies and the future needs of the organization."

15 The audit concluded on two Priority 1 weaknesses. The associated recommendations were the following:

- Set up an overarching IT governance body reporting to general management (e.g. "IT Steering Committee") which will benefit both existing departments.
 - Composition: To increase effectiveness, the Committee membership should be limited to a number of key individuals with key competencies
 - Mandate.
 - The mid-term mission is to define, implement and monitor the IT strategy. This includes reviewing and adopting technology options, prioritising IT projects and associated resources, monitoring progress across the IT program portfolio, monitoring service levels and IT security threats and responses, ensuring transparent authorising, recording and charging of IT services delivered to the International Bureau.
 - In the short-term the mandate also includes piloting the merger implementation during a transition period (to address change management challenges including people and organisational issues through effective communication between PTC/PIM and management)
- Review the areas outlined where some synergies can be obtained through harmonisation, for instance file storage, collaboration tools (ticketing...)
- Enforce a process so that all internal IT requests should be formally submitted to the IT Steering Committee for review, prioritisation and approval, based on business cases and decisions taken on the basis of a clear set of criteria.
- Take opportunity of the merger between the two departments to strengthen and align project management methodology, thus allowing comparison and tracking of projects.
- For projects affecting business processes (e.g. HR, Finance, DOT...), the projects should be headed and followed up by dedicated project managers from the business in charge of defining functional specifications, testing requirements, monitoring progress versus costs, and tracking potential deviations as well as performing project closure.

16 This report also highlighted two Priority 2 weaknesses which gave rise to the following recommendations:

- Consider the creation of an "enterprise architecture" role to understand the needs of both the International Bureau and external clients, propose enterprise architecture principles to the IT Steering Committee (along a recognised framework such as the Open Group Architecture Framework (TOGAF), and subsequently apply those principles along a migration path. This "enterprise architecture" role is not expected to be a full-time role.
- Develop a set of indicators related to IT service levels in the context of the overall UPU strategy, to be reported to and monitored by the IT Steering Committee
- Consider the creation of an "IT security" role to understand the evolving threats and vulnerabilities, propose responses to the IT Steering Committee, and subsequently implement and monitor the IT security response (including security policies and procedures, end-user awareness, physical security of network and infrastructure and the importance of cyber security topics in general). This "IT security" role is not expected to be a full-time role.

c *Internal audit – "Follow-up on Management's implementation of previously issued recommendations". Field work performed from July to August 2016*

17 As per good practices, a specific audit focused on the follow up on the recommendations put forward by internal audit over the period 2011–2015. This review evidenced a completion of 69% of the audit recommendations, whereas 23% are in progress and 8% have not been started yet.

VI. Availability of internal audit reports

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

VII. Overall alignment and relevance of internal audit work

19 The focus of the External Auditor (Switzerland's Federal Audit Office) is on financial reporting and the associated controls.

20 Internal Audit keeps abreast of UPU developments through regular meetings with Management and attends selected key sessions of Governing bodies (e.g. at the Doha Congress), and the wider reform agenda within the United Nations family.

21 Internal Audit has focused on matters of operational or strategic relevance. The table below demonstrates that Internal audits performed in 2011–2016 show a strong alignment to the top risks of the organization.

	<i>Title</i>	<i>Relevance of previous internal audit work</i>
1	Role & relevance	2012 (Governance) 2014 (Role and relevance)
2	Products & services	2013 (Products & services portfolio) 2011 (PTC orientation)
3	Funding	2014 (Funding)
4	Organizational capacity & agility	2012 (Governance)
5	HR/talent management	2011 (Human resources) 2013 (Succession planning)
6	Financial sustainability	2014 (Funding)
7	Image/communication	2012 (Communication)
8	Resource allocation	2011 (Strategic controlling) 2013 (Products & services portfolio) 2015 (Resource allocation)
9	Security	2016 (IT Strategy)
10	Compliance	2012 (Governance)

22 According to the internal audit charter, the annual work plan may be expanded to include investigations, upon specific request from the International Bureau. In such a case, the investigation would be carried out by a separate, specialised, EY team, in order to avoid any overlap in terms of calendar, people or subject matter with the internal audit plan *per se*. In 2016, this service was called upon once.