

Universal Postal Union

2017 Internal Audit Function Activity Report

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

I - Introduction

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

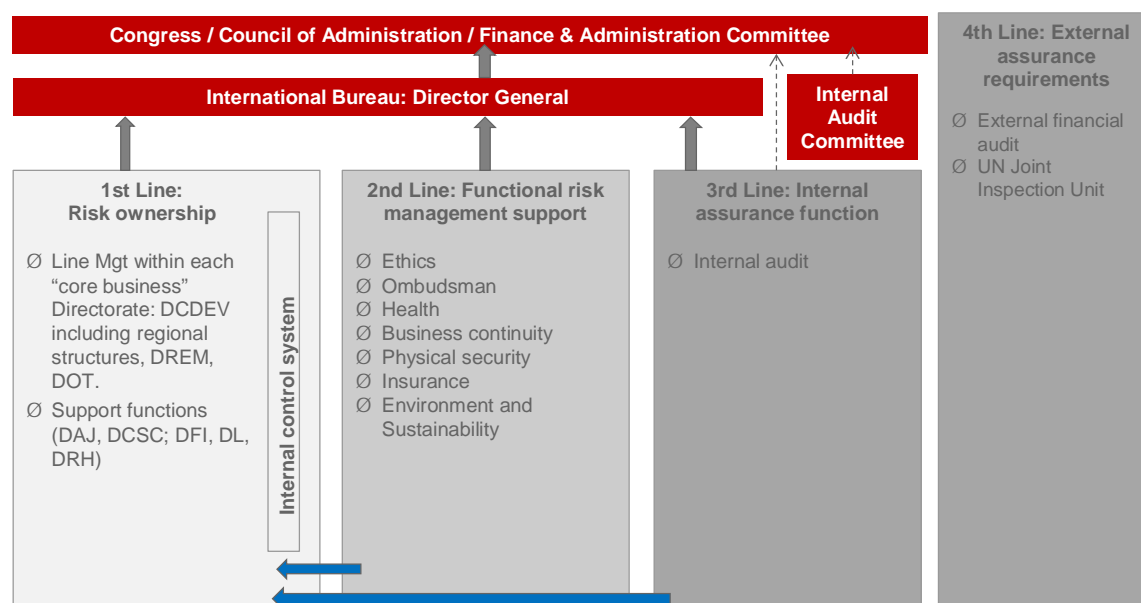
The charter states that “in order to guarantee the internal auditor’s independence, the Director General consults the Council of Administration prior to appointing the internal auditor or terminating its mandate”.

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

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

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



IV – Rationale for the definition of the 2016 and 2017 internal audit plans

As per good professional practices, and key elements of the *Institute of Internal Auditors* standards, the outline of both the 2016 and 2017 internal audit plans were defined based on the following major considerations: the UPU strategic framework, the 2014 UPU risk assessment, the organisational structure, as well as specific expectations from the International Bureau.

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 2016 - 2017

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.

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.

V.a. Internal audit – "Management's responses to Risk 4 (Organisation capacity and agility)". Field work performed from March to April 2017

The Internal audit team reviewed the functioning of the management structure at the International Bureau (IB), which underpins stakeholders' confidence in the context of potential restructuring of the Governing bodies. There were four objectives for this assignment:

- Evaluating the measures taken to reduce risks;
- Evaluating the internal control system, analyzing and evaluating related procedures;
- Assessing the control environment in reference to existing principles;
- Providing advice to improve and help to create added value for the UPU.

The period covered by this review includes, in general, the year prior the Administrative Council and especially the period during which the Administrative Council was held in Bern from April 3rd to April 7th 2017.

We noted four observations that UPU's Management may consider for the further mitigation of risk 4 – Organisation capacity and agility of the UPU.

- *Opportunities to further improve efficiency of sessions:*
 - We noted opportunities to improve the efficiency of sessions with regards to time management.
 - We recommend to review the presentations for appropriateness of content and length prior the sessions. Participants should stick to the agenda and allow reasonable time for discussion and questions.
- *Opportunities to improve quality of discussions and decision making process during sessions:*

- We recommend to publish all presentations in a non-editable format on the document portal prior the sessions to ensure that decisions are made taking into account all parameters.
- *Strengthen controls around participants to the CA Commissions*
 - We recommend to strengthen controls around participants and re-communicate the need for countries to send appropriate skilled resources to attend the sessions.
- *Strengthen controls around document upload and access Management*
 - We recommend to restrict access rights to the document center portal based on roles and responsibilities and consider actions to diminish the number of documents to ensure timeliness of submission.

V.b. Internal audit – “Follow-up on Management’s implementation of previously issued recommendations”. Field work performed from January to October 2017

As per good practices, a specific audit focused on the follow up on the recommendations put forward by internal audit over the period 2011-2016. This review evidenced a completion of 72% of the audit recommendations, whereas 16% are in progress and 12% have not been started yet (as of 10th February 2017).

V.c. Risk-Assessment Exercise – Definition

The internal audit team supported UPU Senior Management in assessing the risks UPU is facing. The objectives of this exercise were to:

- Update the Risks identified in the risk-assessment exercise performed in 2013
- Perform the assessment of the risks identified in term of potential impact (financial, reputational etc.) and in term of likelihood (probability of realization of the risk)

The results of this exercise will be used to define the UPU internal audit plan for the coming years.

To achieve these goals, the following steps will be performed:

- Self-assessment of risks by key stakeholders defined together with UPU (both internal and external)
- Individual interviews performed by EY with each stakeholders to review risk assessments (from August to October 2017)
- Final workshop gathering all internal stakeholders to reach a common vision about each risk, to build-up a final heat-map highlighting the main risks UPU is facing (which will take place on 31st October 2017).

This exercise was started in August 2017 and is currently in progress.

VI – Availability of Internal Audit reports

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

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

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.

Internal Audit has focused on matters of operational or strategic relevance. The table below demonstrates that internal audits performed in 2011-2017 show a strong alignment to the top risks of the organization.

	Title	Relevance of previous internal audit work
1	Role & relevance	2012 (Governance) 2014 (Role and relevance)
2	Products & services	2013 (Product & services portfolio) 2011 (PTC Orientation)
3	Funding	2014 (Funding)
4	Organisational capacity & agility	2012 (Governance) 2017 (Review of Management Structure)
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)

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 2017, this service was called upon once.