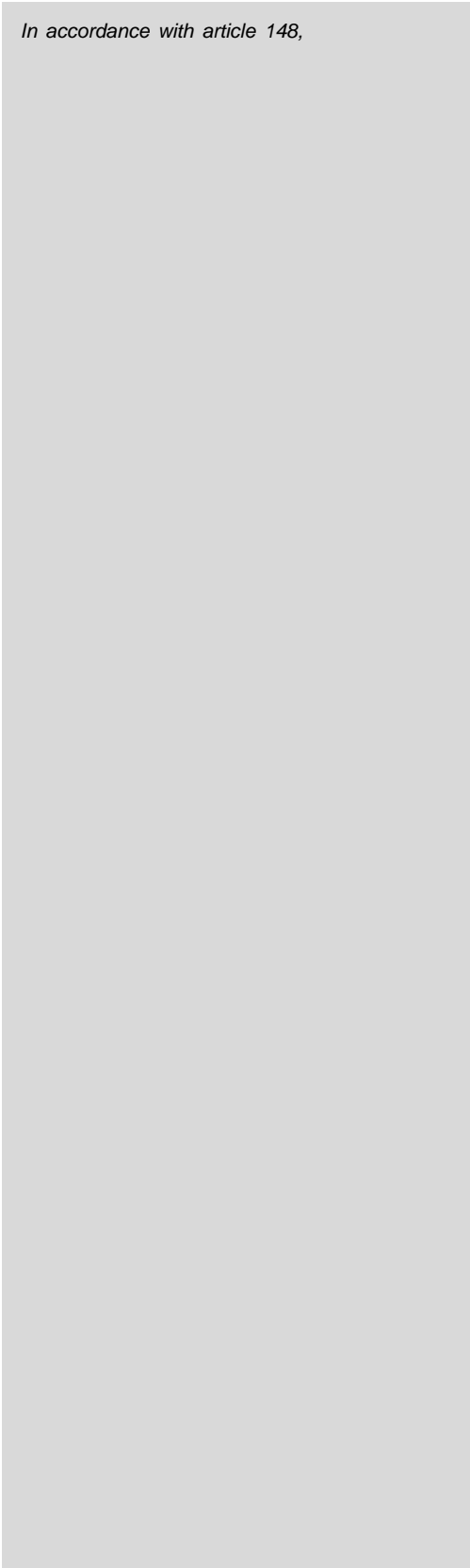


COUNCIL OF ADMINISTRATION**Committee 2 (Finance and Administration)****External audit report on the UPU financial statements for 2014****Memorandum by the Secretary General**
(Agenda item 3)

| 1 Subject | References/paragraphs |
|---|--|
| External audit report on the UPU financial statements for 2014. | Annex 1 |
| 2 Decisions expected | |
| – Take note of the External Auditor's report. | Annex 1 |
| – Approve the 2014 financial statements on the basis of the audit opinion issued by the External Auditor. | § 4 and Annex 1 to the External Auditor's report |
| – Adopt the draft resolution for approval of the 2014 financial statements. | § 5 and Annex 2 |
| – Propose to the Council of Administration that it send a letter of thanks to the Government of the Swiss Confederation and approve the draft letter. | § 5 and Annex 3 |



In accordance with article 148,



Summary of the audit

As External Auditor of the Universal Postal Union (UPU), the Swiss Federal Audit Office (SFAO) confirms that the audit of 2014 financial statements presented under the International Public Sector Accounting Standards (IPSAS) gave a satisfactory result overall, and that it is able to issue an audit opinion without reservation.

It points out that this is the fourth accounting period for which IPSAS has been used. However, despite this past experience, it must be noted that the quality of the account closure and financial statement preparation processes is not yet satisfactory. While improvements have certainly been noted, the financial statements submitted for audit continue to contain an excessive number of errors. To improve the situation, we have proposed various measures, and

Audit standards, information and acknowledgments

4 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.

5 When carrying out spot checks, we selected

15 We also reviewed a comprehensive risk analysis designed to identify and assess the most serious risks that could hinder the achievement of the UPU's strategic objectives. Our review revealed that risk management is an issue of increasing importance to the UPU.

IT audits

Work done

16 During the interim audit performed at the end of 2014, we conducted an IT audit. This focused, among other things, on the activities and systems managed by the IT and Methods Programme of the Logistics Directorate (DL.PIM) and by the DFI. We were also able to review the activities and systems managed by the Postal Technology Centre (PTC). The following areas were covered:

- analysis of the modifications made to the UPU IT environment;
- follow-up on the implementation of the recommendations issued in our 2013 and 2014 reports;
- analysis of the changes made to general IT controls, in particular in the following areas:
 - oversight environment and the integration of IT controls into the internal control system (ICS);
 - management of IT operations;
 - change management;
 - access management;
 - management of programme development/project management.

17 We validated the mapping of IT applications with the person in charge. It was found that the IT environment had not changed from the previous year.

18 The audit revealed that all of the IT recommendations made in our 2013 and 2014 reports have yet to be implemented. We would like to reiterate that our recommendations, if not directed at a specifically named unit, apply to the UPU as a whole.

19 Furthermore, the checks confirmed that IT controls relating to the financial system are in place and are centrally operated. Those controls were documented as part of the implementation of the UPU's ICS.

20 No changes have been made to the management of general IT controls since last year. One positive point we noted was the integration of financial system access rights into the iDiL central management system, thus making it possible to track activities relating to the granting of access rights.

21 The practices put in place to ensure the proper functioning of the IT environment continue to be used. However, business continuity management (BCM) for all of the UPU's IT environments has not yet been introduced. The audit of the staff (Sirium) and payroll (Pagole) management systems revealed that the concept of security is based on having data and programme back-ups with the external supplier. However, the UPU has not yet documented or tested this concept for its human resources applications.

22 The steering committee (see recommendation No. 1 of the 13 June 2013 report) today plays only an advisory role. We feel it is important that the committee have a decision-making function for the coordination of IT projects, as well as an IT security management function. It is also important that clear rules be defined regarding the procurement of IT services by internal clients and from service providers external to the UPU. Those rules will need to be applied by all entities concerned

24 For the reason given

31 Three separate analyses were performed on the individual Union, UPU*Clearing and IRC accounts. We received the results of these analyses, which facilitated the selection of accounting entries during detailed tests. The JET analyses also highlight unexpected or unusual transactions. The additional work did not reveal any particular problems.

Result for financial year

32 Like the financial statements, the UPU Programme and Budget is established on an annual basis. In accordance with IPSAS 24, the amounts reported in the financial statements have been restated to provide a basis of comparison with those indicated in the budget.

33 With regard to the information contained in notes 20 and 21 concerning revenue and expenses, we checked the reconciliation of the budget values with the table in note 19 – Reconciliation of statement of comparison of budget and actual amounts (statement V) and statement of financial performance (statement II). The budgetary data is thus reconciled with the actual amounts of the revenue and expenses of the 2013 financial period. The excess revenue for the 2014 financial period equals 2,133,628 CHF (excess expenses of 1,518,795 CHF in 2013).

34 As regards the budget implementation in general, we refer to the International Bureau's comments in the financial statements.

IPSAS implementation

35 IPSAS 28–30 on financial instruments took effect on 1 January 2013. In note 24 to the 2013 financial statements, we had identified several problems, such as the lack of a sensitivity analysis and of a table comparing the UPU's different financial instruments, broken down by currency.

automatically convert accounting item balances in USD into CHF, with no manual adjustments using Excel tables required.

38 However, the financial statements submitted to us contained multiple errors, mainly as a result of the following factors:

- The four-eyes review of the financial statements was not performed or was not performed properly.
- The UPU did not use modern

45 Bonds totalling 10.7 million CHF at 31 December 2013 were fully sold in 2014.

46 As indicated in note 7, only 1.8 million CHF of the investments and fixed-term deposits is available to the Union without restriction. The balance is subject to restrictions.

47 The significant increase in this position (+68 million CHF between 2013 and 2014) should be looked at in relation to the decrease in cash

in note 2 to the financial statements. In line with IPSAS, the various heritage assets, such as the stamp collection, were not capitalized.

57 During the interim and final audits, we conducted detailed tests on equipment capitalized. The following problems were identified:

- Chairs and partition panels were capitalized despite the fact that the net unit value of those items was below the 1,000 CHF threshold indicated in the accounting manual for the capitalization of assets. The problem stemmed in particular from the fact that rebates had been applied to certain assets but the unit value of those assets was not recalculated.
- Microphones for the conference rooms were not capitalized in the appropriate accounts.
- An electronic inventory system was recorded in the financial accounts at a different price than in the assets sub-ledger.

The different problems identified were brought to the DFI's attention and the necessary corrections were made.

58 A critical review and detailed tests in different expenditure accounts were also performed to check that the principles for accounting of tangible assets had been followed. The checks showed that two scanners meeting the conditions for capitalization had not been capitalized. These cases were also brought to the DFI's attention, which made the necessary corrections.

59 Given the asset capitalization errors identified, we believe that the internal control system in this area is not sufficiently effective. Indeed, all erroneous accounting entries were subject to

(machine leasing, maintenance, and use of consumables). In such a case, IPSAS specifies that recording the assets and liabilities on the balance sheet can only be done when the exact fair value of the various elements is known. Although the UPU submitted a request to the lessor, the lessor did not provide the implicit rate of the lease or the costs of the various elements of the lease. Without that information, it is impossible to calculate the finance charge of these finance leases. As a result, these leases were treated as simple leases and were not recorded on the balance sheet.

64 The above-mentioned leases involve significant amounts, given that the obligations relating to the five most expensive machines are for are

moving the cafeteria and on fire protection, and equipping Montgomery Blair Hall with an interpretation system). However, a residual amount of 21,461 CHF could not be specifically identified by the UPU.

71 According to the information received, all of the projects for which amounts were recorded under "Construction assets" have now been completed or will be completed very shortly. Therefore, a review is required and the various elements need to be recorded in the appropriate asset accounts. Provided that no new building projects are undertaken in 2015, we expect the balance of this account to be zero at the end of 2015.

at which

72 We also noted that amount

end of 2014. The first

revenue. This reclassification between own funds and foreign funds to correct an error required a retrospective restatement.

- Correction of consultants' fees recorded under the Voluntary Fund instead of the QSF: a total of 163,340 CHF for GMS project expenses between 2011 and 2013 was recorded under the Voluntary Fund instead of the QSF. The correction was made in 2014, with the funds being put to account under the Voluntary Fund. The correction of that error required a retrospective restatement.

82 However, we noted that the necessary restatements at 31 December and 31 January 2013 were not made in the 2014 financial statements. IPSAS 3 specifies that entities must correct prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery. Because the accounts at 31 December 2014 reflect the correct situation and because

financial period. It represents the best possible estimation

Audit opinion of the external auditor

We have performed the audit of the financial statements of the Universal Postal Union

Follow-up of recommendations from previous audits

As indicated in paragraph 12, this annex sets out the status of the recommendations issued in previous audit reports that have not been implemented as of the end of May 2015 (for

Status according to the follow-up conducted in December 2014:

The recommendation has not yet been implemented. The next follow-up of this recommendation will take place during the upcoming financial monitoring audit in August 2015.

Recommendation No. 6 of the 20 December 2012 report on the financial monitoring audit on the process for managing working hours and absences: To guarantee a certain degree of transparency and uniformity between directorates, and to establish a double-checking system (employee and supervisor), I invite the UPU to prepare an internal directive dealing with the allocation of working days to the headings of the Programme and Budget. Spot checks could also be carried out regularly to compare this allocation to the actual working hours calculated by VisualWeb.

Comment by the Director General: The External Auditor has observed that the monthly allocation of working hours in relation to the Programme and Budget is carried out differently in the various directorates. The recommendation to publish an internal directive could indeed improve the transparency and uniformity of reporting in this area. The DRH could prepare a draft directive on this subject and submit it to the Management Committee prior to publication.

Status according to the follow-up conducted in December 2014:

The recommendation has not yet been implemented. The next follow-up of this recommendation will take place during the upcoming financial monitoring audit in August 2015.

Recommendation No. 1 of the 13 June 2013 report on the audit of the 2012 financial statements: I invite the UPU to reinforce its IT governance for the whole organization, including the extrabudgetary units. This entails setting up an IT Steering Committee which would also have the role of coordinating all IT projects. I propose that the UPU draw inspiration from the COBIT (Control Objectives for Information and Related Technology) framework, which defines good practices in this area.

Comment by the Director General: The UPU agrees with the recommendation and has taken it into account for the work of the IT Steering Committee.

Status according to the follow-up conducted in December 2014:

According to the information we received, the Steering Committee now has an advisory function. In addition, we noted that the PTC provides services not only to external clients, but also to the UPU. Those services are invoiced and recorded in the UPU's accounts. Last year, we pointed out that the IT steering and governance rules should include the services provided to external clients. In our view, this is all the more urgent g123 e UPU.

Furthermore, support for several business applications continues to be provided by external suppliers. Nevertheless, we consider the situation regarding these applications to be stable since they required very little involvement from external suppliers in 2014.

Recommendation No. 3 of the 13 June 2013 report on the audit of the 2012 financial statements: I welcome the initiative taken to optimize the project management process by adapting the HERMES methodology to the organization's needs. However, the current situation does not yet allow for optimal management of projects. This is why I recommended that the UPU introduce a system to improve project management. In carrying out an IT project, it is essential for project managers to be trained and supported by the IT service. u802021

Recommendation No. 6 of the 13 June 2013 report on the audit of the 2012 financial statements: I repeat one of my previous recommendations, which was to put in place a formal process for harmonizing and automating the monitoring of relationships with external suppliers. The review and updating of contracts with third parties are integral parts of this process.

Comment by the Director General: The UPU agrees with the recommendation and has taken it into account for the work ~~life~~

Status according to the follow-up conducted in December 2014:

The recommendation has not yet been implemented. The next follow-up of this recommendation will take place during the upcoming financial monitoring audit in August 2015.

Recommendation No. 6 of the 21 January 2014 report on the financial audit on management of procurements and provision of services: For more professional management and control of contracts, we recommend that the UPU integrate into its strategy a tool adapted to its needs and its IT environment.

Comment

Status according to the follow-up conducted in December 2014:

As noted in the paragraph relating to the follow-up of recommendation No. 1 of the 13 June 2013 report, the Steering Committee today plays only an advisory role. We feel it is important that the committee have a decision-making function for the coordination of IT projects, as well as an IT security management function. The coordination and the implementation of rules and procedures must apply to all areas and units that provide IT services, and not solely to the UPU's internal IT service. As with the implementation of recommendation No. 1 of the 13 June 2013 report, we consider the implementation of this recommendation to be a priority.

Recommendation No. 5 of the 30 June 2014 report on the audit of the 2013 financial statements: We recommend that the UPU take the necessary steps to improve the ICS for the account closure process. The areas for improvement are as follows:

- Improve the consolidation sub-process so that the consolidation produced by the system can be used directly to prepare the financial statements, with no manual adjustments required later on.
- Eliminate manual adjustments to the financial statements without corresponding accounting entries, to ensure that the consolidated accounts in Navision match the financial statements.
- More thoroughly review the work provided by the external consultant.
- Better apply the four-eyes review of the financial statements.
- Use modern office software tools to prevent addition errors.

Comment by the Director General: The ICS has been formalized, and will be audited by you during the 2014 interim audit. In addition, we shall take the necessary measures to further improve the account closure process.

Status according to the follow-up conducted in May 2015:theS

No follow-up was conducted in May 2015. The next follow-up of this recommendation will take place during the upcoming financial monitoring audit in August 2015.

Recommendation No. 2 of the 19 February 2015 report on the financial monitoring audit of the internal control system project: We invite the UPU to consider the possibility of attaching the ICS and Budget Programme to the Executive Office, as this would add value in terms of authority, visibility, cross-cutting and coordination.

Comment by the Director General: This recommendation has already been implemented as part of the International Bureau restructuring announced in early January 2015. The ICS Programme and the coordination of oversight functions were transferred to the Executive Office. The mandate of the Programme Coordinator is now broader, and the direct attachment to the Executive Office ensures the necessary authority, visibility, cross-cutting nature and coordination. However, the Budget Programme remains with the DFI.

Status according to the follow-up conducted in May 2015:

No follow-up was conducted in May 2015. The next follow-up of this recommendation will take place during the upcoming financial monitoring audit in August 2015.

Recommendation No. 3 of the 19 February 2015 report on the financial monitoring audit of the internal control system project: We recommend that the UPU put into place a bottom-up information and control process in respect of the ICS. As a requirement of this process, each directorate should prepare an annual report based on a standardized format to be defined by the ICS Programme. The UPU should also update the post descriptions, in line with the new ICS functions assigned.

Comment by the Director General: The bottom-up information and control process is ensured by the monitoring loops. We will ensure that each director takes formal responsibility for establishing a monitoring loop. With respect to the post descriptions, given that the ICS applies to all employees without exception, it might be more useful to insert a requirement for contribution to the ICS in the annual appraisal forms (e.g. for directors), rather than updating the work descriptions for all staff. The costs associated with the latter option would be too high.

Status according to the follow-up conducted in May 2015:

No follow-up was conducted in May 2015. The next follow-up of this recommendation will take place during the upcoming financial monitoring audit in August 2015.

Recommendation No. 4 of the 19 February 2015 report on the financial monitoring audit of the internal control system project: We invite the Director General to set the tone at the top with regard to the ICS. The recommendations made within the framework of the annual report on the ICS require a position to be taken and follow-up.

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Comment by the Director General: Since the start of his mandate, the Director General has attached increasing importance to the ICS. In the last two sessions of Council of Administration Committee 2 (Finance

Comment by the Director General: Consolidating the coordination of oversight functions within a single entity attached to the Executive Office will strengthen the link between the internal audit function and the ICS. However, it should be noted that, in accordance with the recommendations made as part of the evaluation of the internal audit service (recommendation No. 5), the internal audit mandates are established on the basis of the most recent risk analysis conducted at the UPU (first half of 2014).

Status according to the follow-up conducted in May 2015:

No follow-up was conducted in May 2015. The next follow-up of this recommendation will take place during the upcoming financial monitoring audit in August 2015.

Recommendation No. 6 of the 19 February 2015 report on the financial monitoring audit of the internal control system project: The UPU should put into place a process for identifying and managing risks within each directorate and should incorporate the most important risks in the risk matrix developed for the ICS. The work of formalizing the processes (using Qualigram) should be continued. A quality control process should make it possible to check the relevance of the processes, risks and controls defined.

Comment by the Director General: This process for identifying and managing risks already exists through the monitoring loop, as part of which directorates must identify all risks relating to the ICS in their respective areas. This is all the more true since the integration of the business continuity plan into the evaluation annexes. The work of formalizing processes with Qualigram will continue in 2015; the tool is already used in a number of contexts (Klastoo, DAJ processes, etc.).

Status according to the follow-up conducted in May 2015:

No follow-up was conducted in May 2015. The next follow-up of this recommendation will take place during the upcoming financial monitoring audit in August 2015.

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Approval of the Universal Postal Union financial statements for the 2014 financial period and the rel-

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