

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 <ul style="list-style-type: none"> – Take note of the External Auditor's report. – Approve the 2014 financial statements on the basis of the audit opinion issued by the External Auditor. – Adopt the draft resolution for approval of the 2014 financial statements. – 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. 	Annex 1 § 4 and Annex 1 to the External Auditor's report § 5 and Annex 2 § 5 and Annex 3

1 In application of article 148 of the UPU General Regulations, the Swiss Federal Audit Office, External Auditor appointed by the Government of the Swiss Confederation, audited the Union's financial statements for 2014.

2 Following its audit, the Swiss Federal Audit Office signed an audit opinion on 12 June 2015, which appears as Annex 1 to the External Auditor's report.

3 Its audit report is submitted to the Council of Administration in accordance with article 38.1 of the Financial Regulations concerning approval of accounts. In accordance with established practice, the Swiss Federal Audit Office will present its report (Annex 1) to Committee 2 in person.

4 Committee 2 is invited to consider the audit report and to approve the 2014 financial statements.

5 For this purpose, Annex 2 presents a draft resolution, and Annex 3, a draft letter to be sent to the Government of the Swiss Confederation.

Berne, 24 September 2015

Bishar A. Hussein
Secretary General



External Auditor's report

UNIVERSAL POSTAL UNION (UPU)

Audit of 2014 financial statements

In accordance with article 148, paragraph 1, of the General Regulations approved at the 25th Congress in Doha in 2012, 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 was entrusted to the country's highest public financial audit body, namely the Swiss Federal Audit Office (SFAO), which thus serves as External Auditor of the UPU accounts.

The terms of reference are defined in article 37 of the Financial Regulations and in the additional terms of reference governing external audit annexed to those Regulations. The members of the SFAO thus mandated fulfil their function autonomously and independently, with the support of their colleagues.

The SFAO provides services in relation to the external audit of the UPU in a manner that is fully independent of its role as the supreme financial oversight body of the Swiss Confederation. The SFAO has a team of highly qualified professionals with wide experience of audits in international organizations.

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- 1 Audit opinion
- 2 Follow-up of recommendations from previous audits

Berne, 12 June 2015

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 we strongly urge the UPU to implement them as of the 2015 closure of accounts.

We note that, for the first time since the adoption of IPSAS, the operating result showed a profit, in the amount of 2.1 million CHF. In comparison with previous financial periods, three main factors influenced this result. First, the account closure entries relating to long-term employee benefits resulted in a decrease of 5.7 million CHF in staff expenses in comparison with 2013. Second, the provision for doubtful debts increased by 1.9 million CHF. And third, the Nairobi international reply coupon (IRC) cycle ended in 2014, resulting in a profit of 3.4 million USD. These three factors alone had a positive impact on the result, totalling nearly 7 million CHF in comparison with 2013. However, the UPU has virtually no control over these factors. Accordingly, our comment from last year remains entirely relevant: the UPU's financial situation is worrisome, and the International Bureau should take both short- and long-term measures to increase its income and reduce its expenses. Furthermore, the above-mentioned profit was completely eliminated by the exchange rate resulting from the conversion into Swiss francs of the various accounting items held in USD. Consequently, the deficit recorded on the balance sheet grew again in 2014 and now stands at 78 million CHF.

The follow-up of recommendations issued in our previous audit reports has shown that the International Bureau has taken action and that five of those recommendations have been implemented. However, 25 recommendations relating to account closure and financial monitoring audits remain open, in some cases since 2011. They are listed in Annex 2 to this report. Moreover, our report includes six new recommendations, relating to various matters such as IPSAS implementation, capital assets, accounts payable and accrued expenses, and employee benefits. These recommendations are detailed in this report.

Finally, we note that the UPU still does not wish to indicate in the notes to the financial statements the salaries of the individuals at the head of the organization, preferring instead to publish the salaries of the 12 senior managers in an aggregate fashion. We would point out that this is not in compliance with IPSAS 20. As was the case in previous reporting periods, we feel that, while it is not necessary to modify our audit opinion, it is our duty as External Auditor to bring this issue to the attention of member countries.

Regulations, standards and information

Financial regulations and purpose of the audit

1 Financial year 2014 was governed by the relevant provisions of the Constitution and of the General Regulations (Doha 2012); by the Financial Regulations and the Rules on Financial Administration, Accounting Organization and Control of the UPU; and by IPSAS.

2 This report describes the audits of the UPU's consolidated financial statements drawn up at 31 December 2014, comprising 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 financial statements.

3 The 2014 accounts of the UPU Provident Scheme were the subject of a separate audit report. The 2014 accounts of the three translation services (Arabic, English and Portuguese) were also the subject of a separate audit and correspondence, given that they are not consolidated and are still kept according to the previous accounting standards (UNSAS).

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 samples based on risk or the relative size of the amounts recorded under the headings examined.

6 The findings were first communicated to the Finance Directorate (DFI) during the meetings of 18 December 2014 and 29 June 2015. The latter meeting served as the final discussion, and was held in the presence of Mr P. Clivaz, Deputy Director General; Mr V. Dubenko, Director of Finance; Mr J.-A. Ducrest, Coordinator of Governance, Risk Controlling and Management Information Systems; and Mr O. Dreier, Chief Accountant, along with Ms S. Houhou and Ms M. Lita, experts from the Accounting and Treasury Programme. The SFAO was represented by Mr D. Monnot, Head of Audit Mandates, and Mr A. Crevoiserat, Audit Manager.

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

8 During the audit work, we regularly met with Mr J.-A. Ducrest and Mr O. Dreier, with other employees in the DFI, as well as with members of other International Bureau directorates, depending on the subject matter.

9 We would like to emphasize the good spirit of collaboration and openness that prevailed throughout the performance of the audit. We would also like to express our appreciation for the helpfulness shown by all the UPU officials whom we approached in providing the information and documents required to carry out our work.

10 In accordance with paragraph 9 of the additional terms of reference governing external audit, the Director General provided us with his comments, which are included in this report.

11 This report was originally written in French; the French version is therefore the official version.

Follow-up of recommendations

12 Annex 2 to this report shows the status of recommendations issued in previous account closure, financial monitoring, and IT audits that have not yet been fully implemented. Many of the recommendations have yet to be fully or partially implemented. The UPU must therefore increase its efforts to implement our recommendations. In particular, we urge the UPU to quickly address the recommendations that we consider to be priorities according to our assessment in Annex 2. We note that, while the status of the recommendations regarding the account closure audits is recent (May 2015), the status of the recommendations made in relation to the financial monitoring and IT audits is older (December 2014). Therefore, in the case of those recommendations, it is entirely conceivable to expect certain measures to have been taken in the meantime.

Examination of the work of the internal auditor

13 During the interim and final audits, we conducted a review of the work of the internal auditor. As a reminder, the internal audit function has been outsourced to a major auditing firm since 2011.

14 The internal audit reports we reviewed contain interesting observations that require action on the part of the UPU. However, the reports did not contain information that directly influenced our audit of the financial statements.

¹ International Standards on Auditing (ISA), published by the IAASB (International Auditing and Assurance Standards Board).

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 (DL.PIM, PTC, etc.).

23 Given that the recommendations made in the previous reports have not yet been implemented, we will not issue new recommendations. Nevertheless, we stress that it is now urgent that outstanding recommendations be implemented.

Comment by the Director General: The General Management confirms its agreement with the recommendations made and underlines the fact that certain activities have been carried out, in particular within the framework of the IT Steering Committee.

24 For the reason given above, we are not issuing a formal recommendation, but we must emphasize that, with regard to internal clients, the roles and responsibilities of the PTC and DL.PIM need to be clearly defined. Furthermore, a common strategy should be developed and closer coordination between the two units should be instituted.

Postal Technology Centre (PTC)

25 Our audits revealed that the PTC also provides services to the UPU that are invoiced to the International Bureau. With 69 staff members (full-time equivalents) in Berne, as well as resources in the Montevideo office, the PTC primarily provides services and IT developments to UPU member countries.

26 Given the size and importance of the PTC, it should be an integral part of the IT risk analysis, in particular in terms of the risk to the reputation of the UPU as a whole. Moreover, the general IT risks of the PTC should be monitored, even though the PTC is an extrabudgetary body that is not funded out of the UPU's regular budget.

Work carried out

27 We noted that the PTC plans to make use of cloud-computing services in the future. We did not carry out any specific analysis of this in our audit. However, we would like to draw the UPU's attention to a few issues regarding the use of cloud computing:

- Is the confidentiality, security and integrity of data guaranteed?
- Can the security of the information system (technical risks) be guaranteed?
- How will situations such as blocks or lock-outs and dependence on cloud-computing service providers be prevented?

The UPU is encouraged to consider these risks, refer to existing standards, and establish clear rules and procedures for the use of cloud-computing services.

Staff and payroll management systems

28 Initial planning has begun regarding the use and potential replacement of staff and payroll management systems. However, concrete projects to replace the Pagole and Sirium applications have not yet been undertaken. This poses an increased critical risk since those applications still run on the Windows XP operating system, for which Microsoft stopped providing updates in April 2014. This means that new security functions to protect against viruses and other security threats are no longer being developed for that operating system. The UPU has informed us that the replacement of those applications has been delayed because of upcoming changes to the staff structure and to the United Nations salary system. Those changes are expected to take place sometime in 2015. In our view, it is vital that a project to replace Sirium and Pagole be undertaken as soon as possible, as their continued use poses a significant risk to the UPU.

Audit of 2014 financial statements

29 The audit carried out related to the 2014 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 financial statements are presented under IPSAS.

JET analysis

30 In auditing the financial statements, we performed an analytical review and detailed tests. In addition, as in previous years, we used an accounting data extraction tool. During the final audit, we asked an external consultant to perform a JET (journal entry testing) analysis. The aim of such an analysis is to support the financial auditors' review work.

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. Those problems were rectified in the 2014 financial statements, with one exception: only the sensitivity analysis as at 31 December 2014 is included in note 24; the comparative analysis as at 31 December 2013 was not provided. We will not make a formal recommendation, however, as we trust that this oversight will be corrected in the next financial statements.

36 The IPSAS Board recently published five new standards that will take effect on 1 January 2017:

- IPSAS 34: Separate Financial Statements;
- IPSAS 35: Consolidated Financial Statements;
- IPSAS 36: Investments in Associates and Joint Ventures;
- IPSAS 37: Joint Arrangements;
- IPSAS 38: Disclosure of Interests in Other Entities.

Those five standards will replace the following standards: IPSAS 6 (Consolidated and Separate Financial Statements), IPSAS 7 (Investments in Associates), and IPSAS 8 (Interests in Joint Ventures). The standards will take effect on 1 January 2017, but potential amendments will require retrospective changes as early as 1 January 2016.

Recommendation No. 1: We recommend that the UPU conduct an analysis of its consolidation perimeter in the light of these new standards in order to determine whether they will have an impact on the UPU, particularly in terms of the potential need to consolidate the translation services.

Comment by the Director General: A study on how the new IPSAS standards will affect the UPU financial statements will be undertaken in 2015.

Internal control system for account closure and financial statement preparation

37 In the 2013 financial statements audit report, we made a recommendation that listed various aspects of the ICS that could be improved in relation to the account closure process. The UPU took certain measures in response to that recommendation. The most positive result is that, for the first time since the introduction of IPSAS, the complete financial statements were available from the first day of the audit. Moreover, new configurations were introduced in the Navision accounting system, meaning that the system can now

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 office software tools to prepare the various tables included in the financial statements. This resulted in addition errors, and some of the tables that should have contained identical figures did not match.
- There continue to be too many manual reclassifications or adjustments with no corresponding accounting entries. As a result, it is sometimes quite difficult to establish the link between the individual balances, the consolidated accounts extracted from the accounting system, and the financial statements.

39 We also note that the balances of certain headings, such as the various categories of net assets listed in note 17, are calculated using an Excel file created by the consultant assisting the UPU with the account closure process. However, this sometimes involves a "scavenger hunt", with a careful examination of that file required in order to be able to validate that the amounts relating to the balances match those in the financial statements. Moreover, some elements in the Excel file are calculated on the basis of difference, which makes validating them very complex.

40 We believe that the process of preparing the financial statements on the basis of the consultant's Excel file should be abandoned. The Excel file can, of course, continue to be used, but only for control purposes. This means that the UPU should from now on prepare its consolidated accounts using the accounting program in place. Furthermore, accurate documenting of all balance sheet positions is required. Accordingly, all balances need to be substantiated using a direct method, by adding the elements that make up those balances and not on the basis of difference.

41 We will not issue a new recommendation, given that recommendation No. 5 from the 30 June 2014 report on the audit of the 2013 financial statements already addressed the issue of improving the ICS for the account closure process. It goes without saying that that recommendation continues to be entirely relevant. Nevertheless, the recommendation must now include the new elements mentioned above. We must stress the importance of taking steps by the next closure period to improve the ICS for account closure and financial statement preparation, given the unsatisfactory nature of the situation identified in the course of this audit.

Comment by the Director General: The work undertaken to improve and automate the process will continue so as to limit manual adjustments and calculations. This will, in particular, allow the financial statements to be generated using the accounting software, which will improve the production process while limiting the risk of errors.

Cash and cash equivalents

42 The balances of the various cash accounts at 31 December 2014 were compared with those obtained from statements issued by the depositories. The cash amounts posted (45.3 million CHF in total) comply with the principle of the availability of funds within 90 days.

43 In accordance with IPSAS 2, note 3 to the financial statements indicates the portion of cash holdings available for use and the portion subject to restrictions. At 31 December 2014, the UPU held 30 million CHF, with the balance subject to restrictions.

Investments

44 Bank deposits for periods exceeding 90 days are valued at 26 million CHF and are confirmed by the various certificates received. In addition, funds totalling 67.2 million CHF have been newly invested in a capital guarantee fund. Investments thus totalled 93.2 million CHF at the end of 2014. With all investments realizable before 1 January 2016, no non-current investments appear on the balance sheet at 31 December 2014.

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 and cash equivalents and the UPU's new strategy to invest nearly 70 million CHF in a capital guarantee fund.

48 During the interim audit, a number of investments were selected and audited on the basis of the account entries and the corresponding accounting vouchers. All those investments were supported by bank statements, and no particular problems were found. We also verified whether the signing rights on the various cash and investment accounts were up to date, which they were.

Accounts receivable (exchange and non-exchange transactions)

49 During the interim audit, we reviewed the situation with respect to debtors. The checks showed that sanctions had been duly imposed on all the member countries that should be under sanctions according to the current rules. Likewise, an examination of existing amortization plans and those created, ending or cancelled in 2014 showed no particular problems.

50 We would again point out that the invoiced interest rates on debts in arrears are 5% for receivables related to services provided and 6% for receivables related to assessed contributions. The billing of interest is done through Navision. However, manual processing is required for clients for whom interest on overdue payments of both 5% and 6% must be billed, as Navision cannot handle two interest rates for a single client. This manual processing increases the risk of error and creates additional administrative work for the DFI. Although we will not issue a formal recommendation, we propose that the UPU take steps at the next Congress so that interest on overdue payments is billed at a single rate.

Comment by the Director General: A proposal to harmonize interest rates on overdue payments will be submitted to the competent bodies (Council of Administration/Congress).

51 Current receivables (from both exchange and non-exchange transactions) represent a net value of 35 million CHF, and non-current receivables (from non-exchange transactions) 1.8 million CHF.

Inventories

52 The value of inventories decreased in comparison with 2013, and is valued on the balance sheet at 356,223 CHF at the end of 2014. They consist of barcode labels, UPU souvenirs offered for sale, postage stamps, and international reply coupons (coupons, paper and holograms). Given the relative insignificance of the amount concerned, we did not check this heading in more detail.

Other current and non-current assets

53 Other current assets total 7 million CHF and include, in particular, prepaid expenses and deferred charges, supplier advances, staff advances, other advances and tax advances.

54 In contrast with the two previous financial periods, simultaneous interpretation expenses to be rebilled were this year put to account correctly as prepaid expenses and deferred charges and not as a decrease in accrued liabilities.

55 Social Fund advances due to be repaid in more than a year's time total 19,100 CHF and are presented under "Other non-current assets".

Equipment

56 Tangible assets amounted to 1.9 million CHF at the end of the financial period. They are broken down into two types: IT equipment and other equipment (machines, furniture and material). The depreciation is based on the straight-line methodology in accordance with the estimated useful life of the asset, as defined

in note 2 to the 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 double review. This shows that the four-eyes review was not sufficiently thorough. We would point out that, in previous audits, our checks also revealed errors relating to assets.

60 We also noted that certain units do not prepare a physical inventory at the end of the financial period, and instead simply sign a document listing the acquisitions made during the period. Such a document is not an acceptable substitute for a complete physical inventory that lists all existing assets.

61 Furthermore, where such inventories do exist, they do not always include assets whose unit value is below the capitalization threshold. It should be noted that there are two types of inventories: an accounting inventory and a physical inventory. An accounting inventory lists the assets that have been capitalized (with a value over 1,000 CHF), while a physical inventory also lists assets that have not been capitalized.

62 The accounting inventory can be produced by Navision (investment accounting), and is used to justify the amounts recorded on the balance sheet. The physical inventory must be subject to review at least once a year, preferably at the end of the financial period. It differs from the accounting inventory in that it also lists assets that are valued at less than 1,000 CHF but that are included for the purposes of internal control and protection of the organization's heritage (prevention of loss and theft). A good example of a physical inventory is the one prepared by the Telematics Cooperative. That inventory lists all the existing assets that the PTC believes need to be inventoried, and it clearly shows which assets have been capitalized and which assets have been recognized as expenses.

Recommendation No. 2: We recommend that the UPU strengthen the ICS as it pertains to asset management by improving the following:

- The four-eyes review of capitalized items must be performed more efficiently in order to prevent the errors regularly identified in our audits.
- All UPU units must prepare a physical inventory as of the closure date, to be signed by the person in charge of the inventory as confirmation of its completeness and accuracy.

Comment by the Director General: Each year since 2011, a complete physical inventory is carried out and validated by the relevant operational officials, and is reconciled with the accounting inventory by the Finance Directorate. The four-eyes review will be improved on the basis of your recommendation.

63 Significant leasing contracts were signed in 2014 for UPU print shop machinery. In our view, these are finance leases. According to IPSAS provisions, such assets are to be capitalized and the associated obligations recorded as liabilities on the balance sheet. However, these are contracts involving multiple elements

(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 a period of five years and total over one million CHF. We noted that the cost of leasing these assets (including maintenance and consumables) is significantly higher than the purchase cost. For example, the lease (including maintenance and consumables) of the most expensive machine totals approximately 600,000 CHF over five years, whereas its purchase price is approximately 321,000 CHF (+87%). According to the information received, no lease versus purchase comparative analysis was conducted. Therefore, there is no way of knowing whether the UPU chose the most cost-effective option. In our view, when dealing with expensive capital assets, such analyses are vital. At the final discussion on 18 December 2014, we were informed that such analyses are typically carried out, but not in this specific case.

Recommendation No. 3: The choice between leasing or purchasing costly capital assets must always be based on a detailed comparative analysis of the advantages and disadvantages of each option. We recommend that these types of analyses be conducted systematically in the future.

Comment by the Director General: We agree with this recommendation, and a reminder will be sent to all directorates.

65 In accordance with the provisions of the accounting manual and IPSAS, the UPU must assess at each account closure date whether there is any indication that an asset has depreciated in value. The UPU duly carried out this depreciation test at 31 December 2014.

66 In the previous audit, we had noted that a new machine for reading international reply coupons had been procured in early 2014. At 31 December 2013, two instalments for that machine had already been paid. As the old machine was still in use at the end of 2013, the UPU had amortized it as in previous years. However, the machine was no longer in use as of March 2014, and we had recommended that it be fully amortized in 2014 so that it would not be maintained in the accounts at a value higher than it represented for the UPU. The DFI complied with the recommended amortizations.

67 In addition, assets acquired in 2013 (WLAN and interpretation system) had not been capitalized under the proper headings. We had agreed with the UPU that the necessary changes would be made in 2014, and those changes were in fact made.

Intangible assets

68 The balance under this heading stands at 285,786 CHF. During the interim and final audits, our colleagues performed a critical review and detailed tests of the different expenditure accounts in order to ensure that the principles for recognition of intangible assets had been followed. The checks did not reveal any particular problems.

Land and buildings

69 The value of the building as recorded on the balance sheet is 28.8 million CHF. We note that the surface rights for use of the land were not recognized. The non-repayable subsidies received in 1970 from the City of Berne for the construction of the building, and those received more recently from the Buildings Programme and the Building Foundation for International Organizations for the renovations, are presented as deductions from the value of the building.

70 The balance of the "Construction assets" account has increased to 4.6 million CHF (up from 3.6 million CHF at 31 December 2013). This amount mainly includes the renovations to the conference area and the clean-up of the area in front of the building. It also includes amounts for other projects (extending the air conditioning in the server room, building an embassy waiting area, conducting preliminary studies on

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.

72 We also noted that amounts recorded in this account do not meet the conditions for being capitalized, in particular the preliminary studies on moving the cafeteria and on fire protection. This means that the expenses for the financial period would have been higher if they had been properly put to account. The amount in question totals 175,303 CHF, and is included at the end of the report in the list of additional entries not put to account.

Recommendation No. 4: We recommend that the "Construction assets" account be analyzed and restated in 2015. First, all amounts included in the balance of that account must be identified. Second, they must be subject to review in order to ensure that they meet capitalization conditions and, if so, that they are recorded in the appropriate accounts and with the proper life expectancies. Amounts that do not meet capitalization conditions must be recorded in the appropriate expenditure accounts. Lastly, at the end of 2015, if the balance of this account is not zero, the UPU will need to be able to specifically identify the elements that make up that balance.

Comment by the Director General: We agree with this recommendation and work is under way.

Accounts payable and accrued expenses

73 The amount of 14.8 million CHF on the liabilities side of the balance sheet was substantiated in the course of the checks.

74 However, we noted that some Quality of Service Fund (QSF) accounts need to be restated. The "Payments pending" account shows a balance at 31 December 2014 of 296,896 CHF but the exact composition of that account could not be provided to us, meaning that a reconciliation is required. We did note that a DFI staff member has taken steps to ensure better monitoring of that account.

75 Furthermore, the balance of the "Accrued liabilities" account, which stood at 315,288 USD (311,189 CHF at the closure rate at the end of 2014), did not change in 2014 or in 2013. That account includes invoices from 2010 relating to the Global Monitoring System (GMS) project that was awaiting approval from the QSF Board of Trustees. Since those invoices relate to a sub-project that has been completed for some time, the balance of that account can no longer be justified and those amounts must be cleared. According to the explanations we received in 2012, that account must be linked with the "Advances for projects to be regularized" account, which also includes amounts relating to that same GMS project (invoices paid by the Union or the Voluntary Fund but that are to be transferred to the QSF once approved by the Board of Trustees). According to our analysis, that account includes mainly invoices from 2010 and 2011. It is presented as a deduction from the "Deferred revenue" account and shows a balance of 626,306 CHF at the end of 2014. It too should be cleared.

Recommendation No. 5: First, we encourage the UPU to continue the work undertaken to ensure monitoring of the balance of the QSF "Payments pending" account. The objective is for the UPU to always be able to identify the amounts that make up the balance of that account. Second, we recommend that the QSF's "Accrued liabilities" and "Advances for projects to be regularized" accounts be analyzed. The amounts making up those balances need to be identified, and those amounts that can no longer be justified for inclusion on the balance sheet must be subject to the necessary adjustments.

Comment by the Director General: We agree with this recommendation and work is under way.

76 The spot checks on the various amounts put to account at the end of 2014 and beginning of 2015 revealed a few problems with regard to periodic delimitation. Indeed, two invoices relating to the 2014 financial period were recorded in 2015, with no corresponding accrued liabilities having been put to account at the

end of 2014. The first invoice related to the work of the consultant who assisted the UPU with the 2014 account closure, while the second invoice related to the actuary who calculated the staff obligations at the end of 2014. As the amounts at issue were small (10,439 CHF and 13,000 CHF), we have not included them in the list of additional entries not put to account that appears at the end of the report, and we will not make a formal recommendation. Nevertheless, we encourage the UPU to put in place a more efficient procedure for reviewing incoming invoices in the new financial period so that invoices can be properly provisioned. Given that the UPU's accounts are closed several weeks after the account closure date, the UPU should normally be able to comply with the principle of periodic delimitation.

Short-term employee benefits

77 The provision for overtime and accumulated leave totals 1.7 million CHF, a slight decrease (-3%) in comparison with 2013. The accuracy and relevance of the amounts were verified by analyzing the individual data concerning UPU staff.

78 However, we noted a discrepancy in the overtime balance for one individual in the Excel file used as the basis for the calculation of ongoing staff obligations. The discrepancy was insignificant, and we did not ask the UPU to make new calculations. Following an additional review, we were informed that, since the transition to the new version of MS Office, direct exports from VisualWeb to Excel are no longer carried out since that procedure leads to uncertain results. A DRH employee must therefore manually enter into an Excel file the end-of-year overtime and vacation balances for approximately 270 people. The risk of error is significant and, indeed, the spot checks conducted at the end of 2014 identified such an error.

Recommendation No. 6: We encourage the UPU to quickly find a technical solution, such as the transition to a newer version of VisualWeb, that does not require the manual entry of vacation and overtime balances for all staff. This measure will help decrease the risk of error in calculating obligations for short-term employee benefits. Until such a solution is put in place, a four-eyes review of the data entered must be performed and documented.

Comment by the Director General: We agree with the recommendation and a technical solution will be examined.

Deferred revenue

79 Deferred revenue is recognized as a liability on the balance sheet for a total amount of 48.2 million CHF, and is stable in comparison to 2013. Deferred revenue represents the assessed contributions for 2015 billed in advance and tied funds received from third parties.

80 As mentioned in note 13 to the financial statements, the GMS advances paid (626,306 CHF at the end of 2014) are shown as a deduction from the funds earmarked for QSF projects in progress, in the same way as QSF capital held on behalf of third parties. We again note that this presentation is justified, provided that these projects are financed either by the QSF (upon QSF Board of Trustees approval of expenses incurred) or by the Voluntary Fund, but in no case by the Union. If those advances were to be covered by uncommitted own funds, they would need to be shown as a deduction from those same uncommitted own funds, and not as a deduction from deferred revenue from foreign funds. Furthermore, as we have already pointed out, we believe that this account should be analyzed and cleared since it contains numerous amounts relating to old invoices from 2010 and 2011 whose inclusion on the balance sheet can no longer be justified. We refer back to recommendation No. 5, in the "Accounts payable and accrued expenses" section.

81 We must point out that the following corrections regarding deferred revenue and own funds were put to account in 2014:

- Correction of EMS Cooperative reserves: a transfer of 135,506 CHF was recorded from the EMS Cooperative's own funds to its deferred revenue in an effort to correct errors in the assignment of results for 2012 and 2013. This reclassification between own funds and foreign funds to correct an error required a retrospective restatement.
- Correction of the RAQUEL01 and GMS reserves: in 2011, 210,066 CHF was incorrectly credited to the GMS reserve instead of the RAQUEL01 reserve. A transfer was made in 2014 to correct that error. The GMS reserve is part of own funds, whereas the RAQUEL01 reserve is included in deferred

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 1 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 we do not believe that the lack of restatement of the 2013 accounts significantly distorts the reading of the financial statements, we will not issue a formal recommendation. Nevertheless, in the future, we would ask the UPU to comply with the provisions of IPSAS 3 and to take all necessary steps to ensure that errors from prior periods are corrected retrospectively in the financial statements.

Advance receipts

83 Advance receipts are recognized as a liability on the balance sheet for a total amount of 90.2 million CHF. The significant increase (+23%) in advance receipts in comparison with 2013 is primarily the result of the increase in assets available to designated operators to carry out QSF projects. Those assets increased from 63.9 million CHF at the end of 2013 to 83.7 million CHF at the end of 2014.

Funds-in-trust held for translation services

84 The three translation services are not included in the consolidation perimeter. They are the subject of separate financial statements that are still presented in accordance with UNSAS. The amount of 7.7 million CHF, shown under current liabilities, represents the three current accounts managed by the Union on behalf of the translation services. The amounts held are as follows: 5.1 million CHF for the Arabic Translation Service, 2.3 million CHF for the English Translation Service, and 0.3 million CHF for the Portuguese Translation Service.

Borrowing

85 The interest-free loan representing funds borrowed from the Swiss Confederation to build the headquarters building is shown under two distinct headings on the liabilities side of the balance sheet. The portion of the loan that is payable in the upcoming year is shown under current liabilities for an amount of 375,760 CHF (the same amount as at 31 December 2013). The portion of the loan that is not payable in the upcoming year is shown under non-current liabilities for an amount of 1.8 million CHF (2.1 million CHF at 31 December 2013). Following the entry into force on 1 January 2013 of IPSAS 28–30 on financial instruments, loans not payable in the upcoming year are shown on the balance sheet at amortized cost by using the effective interest rate method.

86 Calculated on the basis of a discount rate of 1.15%, the value of the theoretical interest for 2014 that the UPU would have had to pay if the loan had been carried out under normal market conditions would be 28,904 CHF. The value of the interest waived until final repayment is due in 2020 is 88,033 CHF.

87 At 31 December 2013, the change to the discount rate of the non-current portion of the loan had been correctly reflected in the financial statements, but not in the accounts. As the amount in question was not significant, we had decided not to ask the UPU to put it to account. However, we did agree that, as of 2014, the UPU would make the correct accounting entries to ensure that the accounts corresponded to the financial statements in terms of the discount rate of the non-current portion of the loan. The necessary action was taken in 2014.

Provisions

88 The provision entered on the liabilities side of the balance sheet concerns proceedings and litigation under way. The provision was increased by 80,000 CHF in 2014 and totalled 180,000 CHF at the end of the

financial period. It represents the best possible estimation of the amount that the UPU might be required to pay for legal disputes currently being heard.

89 In 2015, the UPU carried out a reorganization. However, as that reorganization was announced and carried out in 2015, the related costs cannot be provisioned in the 2014 financial period.

Long-term employee benefits

90 In accordance with the provisions of IPSAS 25, actuarial liability relating to pensions and various other UPU employee benefits has been put to account. The actuarial analysis was performed by the UPU consultant actuary.

91 Long-term employee benefits, calculated in accordance with IPSAS 25 using the projected unit credit method, are shown as a liability on the balance sheet for an amount of 126.6 million CHF. The two most significant amounts concern net obligations to the UPU Provident Scheme (78 million CHF) and after-service health insurance (45.7 million CHF). The details of all the obligations are given in note 12 to the financial statements.

92 The benefits for active staff working or retirees having worked in the three translation services were calculated separately by the consultant actuary, as their respective accounts are not consolidated.

93 We examined the application of IPSAS 25, 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. This important item in the UPU balance sheet is considered to be IPSAS compliant.

Net assets

94 Net assets comprise tied own funds², untied (or uncommitted) own funds³, and reserves. The reserves are made up of the Social Fund, the IPSAS reserve, the building reserve, and the Special Activities Fund. The significant cumulative deficit of Union funds is the result of the switch to IPSAS on 1 January 2011, in particular the recognition of actuarial commitments relating to pensions and various other UPU employee benefits. The UPU closed the 2014 financial period with a shortfall of 78 million CHF on the balance sheet.

95 With its relatively insignificant balance (132,544 CHF at the end of 2014), we question the need to maintain an IPSAS reserve in the accounts, given that the IPSAS project was completed several years ago.

Comment by the Director General: The IPSAS reserve was created following the IPSAS project, which included the implementation of enterprise resource planning (ERP). The balance of the reserve will be used when implementing the salary and HR components of the ERP.

It should be noted that four third-party negative funds were reclassified as a deduction from the own funds of the Voluntary Fund. The funds in question were: RAQUEL01, the Arab Room, IFAD3, and Planet-EU-01. The total amount is 343,866 CHF. In order to be comparable to the 2013 period and consistent with accounting standards, that amount should have been included as a deduction from the Union funds, that is, from the uncommitted own funds and not from the funds of the Voluntary Fund, which are tied own funds. However, given that we were informed by the UPU that revenue is anticipated in 2015 for those funds, that they were included as a deduction from own funds and not presented with deferred revenue, and that that presentation does not significantly distort the reading of the financial statements, we allowed that presentation.

96 We also noted that the "Voluntary Fund" heading in note 17 included certain amounts calculated on the basis of difference, with no way to clearly identify the individual elements that make up the fund. Given that the amount indicated (2,551,630 CHF) is plausible and results in a total that we were able to validate, we allowed it and decided not to investigate further. Nevertheless, we strongly encourage the UPU to take the necessary steps to eliminate such grey areas in the future. The review of the composition of that heading was based on an Excel file created by the consultant assisting the UPU with the account closure process. However, as previously stated in this report, it sometimes involved a "scavenger hunt", with a careful

² Accumulated surplus of other funds and accumulated surplus of controlled entities.

³ Cumulative deficit of Union funds.

examination of that file (numerous work sheets) required in order to be able to validate that the balance amounts matched those in the financial statements. In order to prevent such difficulties in the future, we refer to the section on the ICS for account closure and financial statement preparation, which lists the main shortcomings that still need to be corrected.

Revenue and expenses

97 The Union's revenue and expenses were the subject of analytical checks and detailed tests based on the materiality threshold applied for both the interim and final audits.

98 During the interim audit, detailed tests were performed on the various elements of the February 2014 salaries for 12 Telematics Cooperative employees. The salaries of those 12 individuals were recorded in two different accounts: the Telematics Cooperative and the Voluntary Fund. On the basis of this spot check, we observed that the salaries had been correctly calculated.

99 During the course of our review, we noted that Telematics Cooperative employees, like those of the EMS Cooperative and Voluntary Fund extrabudgetary entities, receive family support allowances of 400 CHF per child, in addition to the existing family allowances. These additional allowances have been paid since 1 August 2012. For the Telematics Cooperative, the allowances were approved by the Director General on 25 May 2012, and by the Telematics Cooperative Management Board on 30 June 2011. We will not comment on the appropriateness of these additional allowances since they were approved in a transparent manner by the relevant individuals and bodies.

100 Nevertheless, we noted that these additional allowances do not appear on the payslips of the employees concerned, owing to technical problems that the UPU is attempting to resolve. We encourage the UPU to find a solution that will ensure that the payslips indicate the full income earned by the employees concerned. These additional allowances are, however, indicated on the salary attestations provided upon request to third parties external to the UPU (for example, to determine the amount to be paid when an employee sends their child to a childcare provider), which is the most important factor. As the payslips have a more internal quality, we will make no formal recommendation on this matter.

101 With regard to the maintenance of personnel files, we noted that certain documents were missing, in particular the family declarations. Those declarations are requested each year, but we observed that, in a number of files, only the declarations from 2007 and 2012 were available. As the necessary documents were provided to us after the fact, we will not make any recommendation on this matter, but we encourage the DRH to improve its file-keeping process.

102 During the interim audit, specific tests were also performed in other areas, such as expenses for consultants' services and external contracts, sales, assessed contributions, interest on accounts receivable, expenses for equipment and supplies, and financial revenue and expenses. No serious problems were identified, and any errors noted were brought to the attention of the individuals concerned either during the audit or at the meeting on 18 December 2014.

103 We note that, at the UPU, the net provision for doubtful debts (2.6 million CHF for 2014) is presented under the heading of "Financial costs". That presentation is justified for that part of the amount that relates to the interest invoiced to countries under sanctions. Indeed, the likelihood of receiving those amounts is low, so it is normal not to present them as revenue in the statement of financial performance and to offset them. However, the provision also relates to other debts that date back more than two years and that, according to the UPU's accounting rules, must be provisioned in full. But in such a case, the expense in question is in no way a financial expense and must instead be considered an operating expense. In our view, there can be no sub-dividing expenses relating to the provision for doubtful debts, and the amount must be fully presented under one single heading. Without making a formal recommendation, we would nevertheless ask the UPU to determine under which heading or headings other international organizations present the provision for doubtful debts. Then, if necessary, the UPU could adjust its presentation so that it is consistent with that used by other United Nations specialized agencies.

Related party information

104 Note 18 to the financial statements shows an amount of 3.6 million CHF for 2014, corresponding to the salaries (annual average) of the 12 senior managers at the UPU (3.5 million CHF for 12 senior managers at the end of 2013). IPSAS 20, paragraph 34 (a), expressly requires that a distinction be made between the individuals at the head of an organization⁴ and the directors reporting to them. We raised this issue in previous reports and formally recommended in the report for 2012 that this distinction be made. In his comments, the Director General stated that the UPU prefers to publish related party information in an aggregate fashion. Although this practice is not entirely IPSAS compliant, we did not modify our audit opinion.

N.B. – We take note of the UPU's preference in this case and note that it is not wholly in compliance with IPSAS 20. However, as in previous financial periods, we find that the issue is not serious enough for us to modify our audit opinion. It is nevertheless our duty as External Auditor to bring the matter to the attention of member countries.

Statement of cash flow

105 We reviewed the positions in the table of cash flows (financial statement IV) and checked the amounts presented against the opening and closing balances. We made numerous proposals for adjustment, and the table presented can be considered free of significant errors.

Financial risks

106 In accordance with IPSAS 28–30, the UPU provides different information on the financial instruments in note 24 to the financial statements. That information was verified and, after the UPU took into account our proposals for adjustment aimed at correcting the identified errors, it is now correct. As noted earlier in this report (see the section on IPSAS implementation), a problem still remains since only the sensitivity analysis at 31 December 2014 appears in note 24, with no comparative analysis. However, for reasons already explained, we will make no formal recommendation.

Segment reporting

107 Information on segment reporting appears in note 25 to the 2014 financial statements. The goal of such reporting is to break down assets, liabilities, expenses and revenue into the various segments. The presentation adopted by the UPU complies with the requirements of IPSAS 18.

List of additional entries not put to account

108 The following table lists the additional entries (not put to account) noted during the audit.

<i>Amount in CHF</i>	<i>Description</i>	<i>Effect on result/own funds</i>
-175,304	Preliminary studies recorded in the "Construction assets" account but that do not meet the criteria for inclusion as assets on the balance sheet.	-175,304
Total		-175,304

109 As the total sum does not exceed the materiality threshold set for this audit, our audit opinion is issued without reservation.

⁴ Director General and Deputy Director General.

Conclusion

110 As a result of the work carried out, we are in a position to confirm that the UPU's 2014 financial statements have been presented in conformity with IPSAS. Moreover, and considering the pre-defined materiality threshold, we also confirm that the accounting data published in the financial statements corresponds to the UPU accounts.

111 Consequently, we are able to issue the audit opinion attached to this report and drawn up in accordance with paragraph 5 of the additional terms of reference governing external audit (annexed to the UPU Financial Regulations).

Swiss Federal Audit Office
(External Auditor)

Eric-Serge Jeannet
Deputy Director

Didier Monnot
Head of Audit Mandates

Annexes:

- 1 Audit opinion
- 2 Follow-up of recommendations

Audit opinion of the external auditor

We have performed the audit of the financial statements of the Universal Postal Union (UPU) at 31 December 2014, 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.

Responsibility of UPU management for financial statements

The management is responsible for drawing up and faithfully presenting these financial statements in accordance with the provisions laid down in the International Public Sector Accounting Standards (IPSAS), and in the Financial Regulations and the Rules on Financial Administration, Accounting Organization and Control of the UPU. In addition, the management is responsible for putting in place internal oversight as it deems necessary to enable the establishment of financial statements that are devoid of significant irregularities, whether resulting from fraud or from error.

Responsibility of the External Auditor

It is our responsibility to express an opinion on the financial statements of the UPU on the basis of our audit. We carried out our audit according to the International Standards on Auditing, published by the International Auditing and Assurance Standards Board (IAASB). These standards require us to abide by ethical rules and to plan and carry out the audit in such a way as to obtain a reasonable assurance that the financial statements are free of serious irregularities. An audit entails implementing procedures designed to gather evidence concerning the amounts and information provided in financial statements. The choice of procedures is a matter for the auditor, as is the evaluation of the risks of financial statements' containing significant irregularities, whether resulting from fraud or from error. In carrying out this evaluation, the auditor takes account of the internal oversight in force within the entity concerned in relation to the drawing up of the financial statements in order to define audit procedures that are appropriate to the situation, and not with a view to expressing an opinion on the efficient functioning of the entity's internal oversight. An audit also entails an assessment of the appropriateness of the accounting methods chosen and of the extent to which the accounting estimates made by the management are reasonable, as well as an assessment of the overall presentation of the financial statements. We believe that the audit evidence gathered provides a sufficient and appropriate basis for our opinion.

Opinion

In our opinion, the financial statements provide, in all significant aspects, a faithful picture of the financial situation of the UPU at 31 December 2014, and of its financial performance and cash flows for the financial year ending on that date, in accordance with the provisions laid down in the International Public Sector Accounting Standards, and in the Financial Regulations and the Rules on Financial Administration, Accounting Organization and Control of the UPU.

In accordance with article 6 of the additional terms of reference governing external audit, annexed to the UPU Financial Regulations, we have also prepared a detailed report on our audit of the financial statements, dated 12 June 2015.

Berne, 12 June 2015

Swiss Federal Audit Office⁵
(External Auditor)

Eric-Serge Jeannet
Deputy Director

Didier Monnot
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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 account closure audits) or December 2014 (for IT or financial monitoring audits).

Recommendation No. 1 of the 6 June 2011 report on the audit of the accounts of the Union, the translation services and the Voluntary Fund for the 2009–2010 biennial period: Within the framework of the global review of the Voluntary Fund, I invite the UPU to finalize the related processes. This review should, in particular, enable the various operational fund managers to focus on the following points: regulatory framework from creation through to liquidation; ICS (person responsible, list of activities of each fund, risks, controls); definition and use of each fund; standardized documentation; monitoring process.

Comment by the Director General: I agree with this recommendation; it will be managed and implemented directly by the operational fund managers.

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

The recommendation has not yet been implemented. This work has not yet started.

Recommendation No. 3 of the 20 December 2012 report on the financial monitoring audit on the process for managing working hours and absences: I invite the UPU to revise and regularly update its HR strategy.

Comment by the Director General: The new cycle (2013–2016) started on 1 January 2013. The Doha Postal Strategy sets the UPU objectives for the cycle. However, as the purpose of the DRH is to provide administrative support to the IB, it requires a certain period of time to better understand the needs and objectives of the other IB directorates, in order to respond in an optimal and comprehensive manner. However, the DRH can already put together its general HR strategy for the new cycle based on the strategy from the last cycle and the Doha Strategy. The DRH could thus present a strategy outline at the next CA session.

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. 4 of the 20 December 2012 report on the financial monitoring audit on the process for managing working hours and absences: I recommend that the UPU update its processes for the management and monitoring of working hours and, in so doing, formalize its related internal control system. Further, an employee departure checklist could be created in addition to the recruitment checklist. The latter could be expanded to include basic training related to the DRH's administrative instructions.

Comment by the Director General: The DRH agrees with this recommendation.

The processes related to the management and monitoring of working hours should be updated using the application available for that purpose (Qualigram). This could be one of the DRH's objectives for 2013 and would result in the updating of the internal control system.

When an employee leaves (retirement, separation from service, death), the DRH uses an internal checklist to perform the necessary tasks. Since the process also concerns other directorates, like the DL and the DFI, it might be a good idea to consider creating a common checklist, if the directors concerned agree on the usefulness of such a tool.

As soon as the rules and administrative instructions have been updated, it would indeed be a good idea to provide staff with basic training on them. This training could be done through e-learning modules designed in cooperation with the DCDEV under the Trainpost project.

Status according to the follow-up conducted in 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 given that ever more services are being recorded in the UPU accounts.

We also noted that the PTC has plans and strategies for its clients. Those strategies relate solely to the IT solutions and environments of external clients, but they should also include the entire UPU environment. Therefore, this recommendation has not yet been implemented. In our opinion, implementation of this recommendation must now be considered a priority.

Recommendation No. 2 of the 13 June 2013 report on the audit of the 2012 financial statements: The UPU should find a solution for providing cover for key members of the DL.PIM team, especially the Applications and Methods Manager, to minimize the risks that this situation presents. The organization should also ensure that it has at its disposal sufficient technical knowledge to integrate and manage the new applications currently being developed.

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:

The 2014 interim audit revealed that this recommendation has not yet been implemented. The checks showed that cover for key business applications is still not guaranteed.

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. The updating of the IT portfolio should involve all UPU directorates and units.

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

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

The recommendation has not yet been implemented. Our checks revealed that project planning exists but is not complete. Take, for example, the operation, maintenance and replacement of the payroll application. This item is included in the project list in the amount of 46,500 CHF, of which only 21,500 CHF has been approved. We are of the opinion that such a budget is much too low, given that the payroll applications must be completely replaced as they have reached the end of their life expectancy from a technological standpoint.

In terms of strengthening teams for large projects, we suggest first implementing the recommendation on reinforcing the IT governance of the entire organization.

Recommendation No. 4 of the 13 June 2013 report on the audit of the 2012 financial statements: I encourage the UPU to continue its project to put in place an organization-wide business continuity management (BCM) system, involving operational and IT stakeholders. This measure should serve to protect individuals and infrastructure, and ensure business continuity in the event of a disaster.

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:

Our checks showed that an organization-wide BCM system has yet to be implemented. However, data safeguards exist. Moreover, separate BCM procedures exist for the IT environments managed by the PTC (secondary calculation centres). The issue of disaster management, such as what to do in case of fire, has yet to be addressed. In addition, existing (partial) DL.PIM, DRH and PTC solutions for preventing incidents and disasters are not coordinated, despite the fact that the PTC also provides IT solutions for the UPU. In the context of IT steering, we encourage the UPU to focus much greater attention on this issue.

Recommendation No. 5 of the 13 June 2013 report on the audit of the 2012 financial statements: I invite the UPU to take the necessary steps for all the organization's requests – i.e. from all directorates, and internal and external clients – to be submitted through the EasyVista system. This tool should be used without exception. I note that the DL.PIM and the Navision application manager intend to formalize the annual or six-monthly review of users' access rights. I feel that a similar procedure should be introduced for all the organization's applications.

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:

The recommendation has yet to be implemented. Nevertheless, we have noted an improvement in the area of separation from service, which is well managed. When the DL.PIM learns that an employee is leaving or that a contract is ending on a specific date, the date of separation is recorded in the Windows notification area. After that date, that individual will no longer have access to business applications, even if the access right to those applications is still valid. This control measure considerably reduces the risk of unauthorized access to business applications.

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 of the IT Steering Committee.

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

The recommendation has not yet been implemented. Indeed, the situation has worsened, given that the PTC also provides services billed to the UPU. This means that the PTC is subject to the same rules as the DL.PIM. The UPU must begin by seeking several bids to ensure that it obtains services at the best cost to the organization. The investment threshold is 20,000 CHF for internal and external suppliers.

Recommendation No. 1 of the 21 January 2014 report on the financial audit on management of procurements and provision of services: We recommend that the UPU formally appoint deputies for the Tenders and Procurements Committee (TPC) members. We also invite the UPU to define key criteria and required profiles for each member and each deputy sitting on this Committee.

Comment by the Director General: This recommendation will be implemented.

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. 2 of the 21 January 2014 report on the financial audit on management of procurements and provision of services: We recommend that the UPU standardize exception requests sent by directorates to the TPC, in particular with a view to strengthening transparency and traceability of information and optimizing decision making by the Director General.

Comment by the Director General: The UPU will take steps to standardize exception requests, as recommended.

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. 3 of the 21 January 2014 report on the financial audit on management of procurements and provision of services: We recommend that the UPU formally define rules stating that, at each session of the TPC, the principle of disqualification should be recalled before the decision is taken.

Comment by the Director General: The UPU agrees with the recommendation and will recommend to the Chair of the TPC that the principle of disqualification be formalized.

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. 4 of the 21 January 2014 report on the financial audit on management of procurements and provision of services: We recommend that the UPU examine whether centralized administrative support for the directorates reporting to the TPC would enhance efficiency and serve the cost-benefit principle.

Comment by the Director General: The UPU will study the possibility of introducing centralized administrative support for the TPC, taking into account resources and structures.

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 by the Director General: The UPU is already in the process of implementing this recommendation, as part of the deployment of the enterprise resource planning (ERP) software.

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 30 June 2014 report on the audit of the 2013 financial statements: We invite the UPU to assess and plan the replacement of applications that are nearing the end of their life cycle or no longer satisfy the needs of the organization. In our view, priority should be given to applications for staff and payroll management, given the financial weight of those processes. Concretely, integration with the Navision environment should be the aim, to further develop the financial solution rolled out in 2011.

Comment by the Director General: The option chosen by the International Bureau to put in place an open IT solution (Navision) will permit the integration of the other applications. In addition, I have tasked the newly formed IT Advisory Committee to identify and plan the application-replacement needs, in the light of objective criteria.

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

The recommendation has not yet been implemented. Concrete projects to replace the Pagole and Sirium applications have not yet been undertaken. This poses an increased critical risk since those applications still run on the Windows XP operating system, for which Microsoft stopped providing updates in April 2014. This means that new security functions to protect against viruses and other security threats are no longer being developed for that operating system. The UPU has informed us that the replacement of those applications has been delayed because of upcoming changes to the staff structure and to the United Nations salary system. Those changes are expected to take place sometime in 2015. In our view, it is vital that a project to replace Sirium and Pagole be undertaken as soon as possible, as their continued use poses a significant risk to the UPU.

Recommendation No. 2 of the 30 June 2014 report on the audit of the 2013 financial statements: The management and review of users and access rights for Sirium, Pagole and Barèmes should be assigned to the DRH and not to the DL.PIM, so as to respect the separation between IT and HR.

Comment by the Director General: I agree with this recommendation; henceforth, the DRH will be responsible for managing access rights to the businesses applications relating to HR.

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

Access rights to the HR systems must be approved by the head of HR. With the staff situation remaining stable, no transfers were necessary last year. However, as noted above, we believe that the priority is now to quickly implement recommendation No. 1 of the 30 June 2014 report. Introducing a new staff and payroll management application will require changes in the access rights for the new functionalities. We will therefore conduct checks in this regard once a new solution has been implemented.

Recommendation No. 3 of the 30 June 2014 report on the audit of the 2013 financial statements: We recommend that the organization resolve the problems related to IT security, in particular by reactivating the IT security committee and implementing the security policy already prepared.

Comment by the Director General: During the recent process of updating the committees, I reactivated this committee in a different form, to enable it to play its full role, in line with your recommendation and the fundamental rules in this area.

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, taking due account of your comments on this matter.

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

The UPU has taken some steps to improve the situation. However, there are still serious shortcomings in the ICS for account closure and financial statement preparation. The status of the situation is set out in detail in the section "Internal control system for account closure and financial statement preparation", found earlier on in this report. We strongly recommend that the UPU implement our suggestions as of the next closure period, given the unsatisfactory nature of the situation identified during this audit. It is essential that the UPU take the following steps:

- Better apply the four-eyes review of the financial statements.
- Use modern office software tools to prepare the various tables included in the financial statements.
- Avoid manual reclassifications or adjustments with no corresponding accounting entries.
- Use the existing accounting programme to prepare the consolidated accounts, and stop using the Excel file created by the financial consultant other than as an oversight tool.
- Ensure the proper documenting of all balance sheet positions (direct justification of all balances, and no longer on the basis of difference).

We consider the implementation of this recommendation to be a priority.

Recommendation No. 1 of the 19 February 2015 report on the financial monitoring audit of the internal control system project: The Director General should formally mandate the ICS Programme Manager to organize internal training on the ICS. The aim should be to present to all UPU staff the results of the work conducted within the framework of the ICS project, as well as the principles, tools and responsibilities associated therewith. Moreover, new staff should be provided with information about the ICS and the code of conduct, which should be presented to them as part of their induction.

Comment by the Director General: As part of the work plan of the programme created in the International Bureau restructuring (see comments concerning recommendation 2 below), information will be provided to all employees and the intranet page will be updated. Moreover, by centralizing the follow-up of recommendations, the DG will ensure that training is given on the code of conduct; this training will be organized by the Legal Affairs Directorate and the Human Resources Directorate.

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. 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.

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 and Administration), for example, the various components of the internal control system (ICS mechanism, internal audit, external audit, audit committee, etc.) accounted for nearly half of the time allocated for the meetings. Through the increasing institutionalization of the follow-up of recommendations, implementation of which will be ensured by the Executive Office in 2015, the DG's position on each suggestion will become even more visible.

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. 5 of the 19 February 2015 report on the financial monitoring audit of the internal control system project: We also recommend that the UPU strengthen its ICS control strategy. The results of the ICS report addressed to the Director General should be used to define the objectives of the mandates assigned to the Internal Auditor, so that a key process can be audited each year over a five-year cycle.

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.



Draft resolution CA xx/2015

Approval of the Universal Postal Union financial statements for the 2014 financial period and the relevant audit report

The Council of Administration,

In view of
the provisions of:

- article 148 of the General Regulations;
- article 38 of the Financial Regulations,

Having examined

- the financial statements of the Universal Postal Union for the 2014 financial period (CA C 2 2015.1–Doc 2. Annex 1);
- the external audit report on the Universal Postal Union financial statements for the 2014 financial period (CA C 2 2015.1–Doc 3. Annex 1),

Having heard

the oral report by the External Auditor to Committee 2 (Finance and Administration) of the Council of Administration,

Decides

- i to approve the Union's financial statements for the period from 1 January 2014 to 31 December 2014, 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.

Draft letter

Mr Didier Burkhalter
Federal Councillor
Head of the Federal Department of
Foreign Affairs
Federal Parliament
3003 BERNE

Subject: External audit of the Universal Postal Union (UPU) financial statements for 2014

Dear Mr Burkhalter,

During its autumn 2015 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. The audit was conducted under its authority, in accordance with the provisions of article 148 of the UPU General Regulations.

As Chairman of the Council of Administration, I wish to underscore the importance that our member countries attach to the quality of service provided by you 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 on that occasion will prove useful for improving the management methods and tools of the Union.

Yours sincerely,

Faleh Mohammed Al-Naemi
Chairman of the Council of Administration