

Headquarters Copenhagen

O.D. No. 27

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ORGANIZATIONAL DIRECTIVE NO. 27

INTERNAL CONTROL AND RISK MANAGEMENT FRAMEWORK

1. Introduction and Consequential Changes

- 1.1. The Executive Director of UNOPS hereby establishes a policy on the Internal Control and Risk Management Framework, attached hereto.
- 1.2. The Internal Control Framework issued on 18 October 2005 ("OD 9") is hereby renamed "Internal Control for UNOPS Offices". OD 9 remains valid. In areas where there is a conflict between OD9 and OD 27, OD 27 shall prevail.
 - 1.2.1. OD 9 will be updated after the completion and approval of the revised Financial Regulations and Rules for UNOPS and the roll-out of Atlas version 9.0 later this year.
 - 1.2.2. The status of OD 9 will be communicated at that time.

2. Purpose

- 2.1. The purpose of this document is to inform all UNOPS personnel of the internal control and risk management instituted at and by all levels of authority to secure, in the performance of his/her duties, the accountability of the Executive Director for the funds entrusted to him/her.

3. Final Provisions

- 3.1. This Organizational Directive shall enter into force immediately.
- 3.2. The Deputy Executive Director is hereby authorized to issue such Administrative Instructions, Guidance Notes or Advisories that may be necessary to effect the implementation of this Organizational Directive.



Jan Mattsson
Executive Director, UNOPS

INTERNAL CONTROL AND RISK MANAGEMENT FRAMEWORK

Purpose of this Document

1. The purpose of this document is to inform all UNOPS personnel¹ of the internal control and risk management framework instituted at and by all levels of authority to secure, in the performance of his/her duties, the accountability of the Executive Director for the funds entrusted to him/her.

Definition of Internal Control, Risk and Risk Management

2. Internal control is a system of policies and procedures applied by UNOPS personnel through a sequence of delegations of authority, designed to provide reasonable assurance that operational, financial and compliance objectives are effectively and efficiently met.

3. All levels of management are responsible for enforcing control processes to keep the Organization on course toward its financial goals, to help it achieve its mission, to minimize risk, and to manage change effectively.

4. The objectives of internal control include, but are not limited to, reliability and integrity of operational and financial information, validity of transactions, safeguarding of assets, and compliance by all UNOPS personnel with applicable regulations, rules, policies and procedures.

5. Risk is defined as the uncertainty that surrounds future events and outcomes. It is an expression of the likelihood and impact of an event with the potential to influence the achievement of UNOPS' objectives and goals. Risk management is the systematic approach to setting the best course of action in areas of uncertainty by identifying, assessing, understanding, acting on and communicating risk issues².

The Components of Internal Control

6. **Control Environment** provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes integrity and ethical values, management's business philosophy and operating style, organizational structure, assignment of authority and responsibility, human resources policies and practices, and competence of personnel³.

7. **Risk Assessment** is the identification and analysis of relevant risks associated with achieving the objectives of the Organization⁴. Business managers should assess

¹ "UNOPS personnel" means staff members under 100, 200 or 300 series contracts of the United Nations Staff Rules and contractors under the Individual Contractor's Agreement ("ICA") contracts.

² United Nations Office of Internal Oversight Services (OIOS).

³ *International Standards for the Professional Practice of Internal Auditing (Standards)*, The Institute of Internal Auditors, 2004. (Note: The Standards defined "Control Environment" to include "management's philosophy" and not "management business philosophy" as adopted by UNOPS.)

⁴ OIOS

risk based upon the types of activities performed, organizational structure, staffing levels and attitude within their unit.

8. **Control Activities** are the policies and procedures established to ensure that management's directives are implemented. Control activities occur throughout the Organization at all levels in all functions. These include activities such as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and separation of duties⁵. Business managers must know UNOPS policies and procedures and supplement them with leadership.

9. **Information and Communication.** Information must be identified, captured and communicated in a form and timeframe that enables people to carry out their responsibilities. Business managers need solid lines of communication between the sub-units and central functions and within their unit. Internal information, as well as external events, activities, and conditions must be communicated to managers, to enable them to make informed business decisions and for external reporting purposes⁶.

10. **Monitoring** is the process that assesses the quality of the internal control system's performance over time. Monitoring is accomplished through routine activities, separate evaluations or a combination of both. Monitoring should ensure that audit findings and recommendations are adequately and promptly resolved⁷. Business managers are responsible for monitoring the activities performed within their unit.

Internal Control Activities

11. **Establishing a Control Awareness Environment** ensuring that personnel is properly trained, is knowledgeable of policies and procedures, and receives feedback on a regular basis, is key to a good control environment.

12. **Separation of Duties** ensures that certain functions such as initiating, authorizing, recording and reconciling transactions are performed by different individuals. The amount of separation possible within a unit would depend on its size and structure.

13. **Authorization and Approval Responsibilities** should be limited to as few individuals as possible. Any delegated authority should be clearly documented. Supportive documentation should be scrutinized for validity, completeness and accuracy.

14. **Physical Control of Assets** is the responsibility of business managers within their units to ensure proper accountability of assets.

15. **Monitoring** – Monitoring activities by business managers would include review, feedback sessions, internal evaluations and quality control.

⁵ *Internal Control: A Tool for the Audit Committee*, AICPA, Inc., 2005

⁶ *Ibid*

⁷ *Guidelines for Internal Control Standards for the Public Sector*, Internal Control Standards Committee (INTOSAI), 2004

UNOPS Internal Control

16. UNOPS broad control requirements are contained in the United Nations Staff Regulations and Rules issued by the United Nations General Assembly and the Financial Regulations and Rules applicable to UNOPS issued by the Executive Board of United Nations Development Programme and United Nations Population Fund (“Executive Board”). The Executive Board is under the authority of the Economic and Social Council.

17. Pursuant to UNOPS Financial Regulation 10.1, the Executive Director has the authority, under certain formal conditions, to establish detailed financial rules for UNOPS to ensure effective financial administration and the exercise of economy. Such financial rules are deemed to elaborate in a more detailed manner on the Financial Regulations and provide wider control. In regard to personnel matters, the Executive Director administers the United Nations Staff Regulations and Rules.

18. Furthermore, the Executive Director has established procedures for implementation of the Financial Regulations and Rules. To that effect, a series of organizational directives and administrative instructions, procurement and human resources manuals and various standard operating procedures and guidelines have been issued.

19. The General Assembly has authorized the establishment of administrative machinery to advise on disciplinary cases as contained in Article X of the Staff Regulations dealing with disciplinary measures. Separate administrative machinery has also been established under Article XI of the Staff Regulations for any appeal against an administrative decision by staff members alleging the non-observance of their terms of appointment.

UNOPS Oversight Apparatus

20. UNOPS Financial Regulation 10.2 and related Financial Rules institute the internal audit function to provide for an effective current examination and review of financial, management and operational activities to ensure compliance with internal control requirements. This function is performed by the in-house Internal Audit Office which may also effect investigations.

21. UNOPS Financial Regulation 12.1 stipulates that the External Audit provisions of Article XII of the United Nations Financial Regulations shall apply to UNOPS. Hence, the United Nations Board of Auditors was appointed to independently perform such function which consists essentially of certifying the UNOPS biennial Financial Statements after ensuring compliance with legislation and internal control requirements.

22. Finally, the Joint Inspection Unit (JIU) also has oversight jurisdiction over UNOPS as the Inspectors have the broadest powers of investigation in all matters bearing on the efficiency of the services and the proper use of funds.

Risk Management

23. The benefits of the Internal Control Framework are directly derived from the effective operational activity of the procedures described herein. However, UNOPS must effectively define its “risk tolerance” in order to identify the types of, and the degree of, risk that can be accepted, in order to build its internal control systems accordingly. Working within the boundaries set by the Internal Control Framework, UNOPS management shall seek to define its major organizational risks as an important requirement for setting management work plans on an annual basis. Risk tolerance for an organization is defined periodically, based on the changing business environment and within the mandate set by the Executive Board. The organization shall endeavour to re-evaluate such risk and its strategies to mitigate such risks to the extent possible, and at least annually. The table below sets forth an example of a basic risk mitigation strategy guideline:

Risk Category	Example	Risk Tolerance	Strategy
<i>Personal Security</i>	Loss of Life in Iraq, Sudan, Afghanistan, or other crisis country	As per the governance system for security management of the United Nations System.	Strictly follow UN Department of Safety and Security (DSS) guidelines, such as minimum operating security standards (MOSS) and minimum operating residential security standards (MORSS). Contingency plan for each business unit. Training and regular security drills. Incorporate necessary security measures or avoid taking on a project altogether.
<i>Financial Catastrophic Loss</i>	Major Lawsuit for professional liability, e.g., design flaw in a school building	Medium	Train all personnel, purchase insurance, insure against large losses, risk tolerance measured in acceptable deductibles vs. cost of premiums
<i>Reputation Risk</i>	Client Perceptions of quality, integrity, value of services, brand identity, press relations	Low	Implement Quality Assurance & Client Relations at regional level, provide business development tools, maintain performance standards, hold UNOPS personnel accountable for performance
<i>Compliance Risk</i>	Audit Qualifications, Adhering to relevant Standards for accounting, security, performance	Zero to Low	Maintain superior internal control and financial management procedures throughout UNOPS

Risk Category	Example	Risk Tolerance	Strategy
<i>Vendor Acceptance and Management</i>	Selection process for subcontractors, contracting with third parties	Medium	Sound contracting processes, maintain list of suspended vendors, put in place an effective Headquarters Contracts and Property Committee (HQPC), procurement policies being enforced – shift risk to contractors via tight contract provisions – legal oversight.

24. Once acceptable risk tolerance and risk mitigation strategies are identified, then policies and procedures that are currently implemented, and new initiatives, must be consistent with the agreed risk mitigation ultimate objectives.

Conclusion

25. The Internal Control and Risk Management Framework is binding on the Executive Director and all UNOPS personnel in discharging their responsibilities. It aims to regulate the use of public funds and ultimately give their providers the assurance that their monies are used in accordance with the purposes for which they were intended.

26. The best designed internal control and risk management framework is valuable only if it is consistently applied. It is the responsibility of Management to strictly enforce these controls.