Operational Directive Ref. OD.FG.2020.01
Internal Control Framework

Authority:

This Operational Directive (OD) is promulgated by the Chief Financial Officer and Director of Administration, Finance Group on the basis of a delegation of authority from the Executive Director.

Purpose:

The purpose of this OD is to set out the key components and principles of UNOPS Internal Control Framework (ICF).

Effective Date:

This OD shall become effective **immediately.**

Promulgation Date:

03 Sep 2020

Consequential changes:

This OD shall supersede and replace Operational Directive Re. OD.FG.2018.04 - Internal Control Framework. The purpose of the revision is to clarify roles and responsibilities within ICF and reporting processes.

[signature redacted]

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1. Introduction

1.1 UNOPS Internal Control Framework is the system of internal control established across UNOPS. This OD sets out the key components and principles for an effective framework for internal control.

1.2 Internal control can be defined as a process directed by executive and senior management; and carried out by management and personnel to provide reasonable assurance regarding the achievement of objectives related to:

- **Operations** i.e. the effectiveness and efficiency of UNOPS operations, including safeguarding assets against inappropriate use and loss from fraud or error
- **Reporting** i.e. the reliability, timeliness, and transparency of internal and external financial and non-financial reporting
- **Compliance** i.e. ensuring adherence to United Nations and UNOPS regulations and rules

1.3 The underlying principles for the UNOPS ICF are derived from the COSO Framework.

1.4 An effective ICF means that UNOPS can have reasonable assurance that it achieves its operational, reporting and compliance objectives. The assurance is not absolute, as the design and implementation of controls may be subject to judgment, and there will always be risks of unforeseen events or deliberate attempts to circumvent controls.

1.5 UNOPS management shall ensure that internal controls are regularly updated to remain effective to mitigate risks to an appropriate level and to adapt to changes to UNOPS internal and external context and changes to business processes or technology. This includes ensuring that controls are integrated into business processes and automated to the extent possible, so that risks from judgement and deliberate attempts to circumvent controls are minimized. It also includes ensuring that any redundant or excessive controls are identified and updated to improve efficiency of business processes.

2. Responsibilities

2.1 The Executive Director is responsible and accountable to the Executive Board for maintaining an effective internal control framework in UNOPS.

2.2. UNOPS executive and senior leadership is responsible for establishing a strong control environment, which shall be supported by management at all other levels across UNOPS.

2.3. UNOPS senior leadership in geographical (e.g. regions and countries) and functional (e.g. HQ groups) entities are responsible and accountable for defining, implementing, documenting, and continuously maintaining internal controls within their areas of responsibility to ensure that risks are mitigated to an appropriate level.

2.4. It is the responsibility of all UNOPS personnel to comply with and implement UNOPS internal controls, as well as to report any irregularities or breaches to internal control processes to the Internal Control team or Policy Owners. All UNOPS personnel are responsible and accountable to the Executive Director for the regularity of actions taken by them in the course of their official duties.

2.5. The UNOPS Finance Group - Internal Control team is designated as custodian for UNOPS Internal Control Framework and shall be responsible for establishing, maintaining and supporting the implementation of the framework.

2.6. The Internal Control team will regularly assess that the five components and associated principles for UNOPS ICF remain present, functioning and operating together.

3. ICF components

3.1. There are five integrated components of UNOPS ICF:

i. control environment,

ii. risk assessment,

iii. control activities,

iv. information and communication,

v. monitoring activities.

3.2. The effectiveness of these components can be assessed by considering a number of principles that are associated with the components.

3.3. The five components and their associated principles must all be 'present, functioning and operating together' to provide reasonable assurance of the effectiveness of the ICF.

- "Present" means that the components and their associated principles are established within UNOPS policies, procedures and activities.
- "Functioning" means that the components and associated principles are also in fact serving their purpose within UNOPS to achieve the objectives.
- "Operating together" means that the five components function in a coherent manner, where components take each other into account and jointly ensures that actions are taken to mitigate risks to an acceptable level.

4. Control definitions

4.1. ***Preventative Controls:*** Processes initiated to prevent loss or risk from occurring and are integrated within a process. Examples of such activities are, segregation of duties (SoDs); delegation of authority (DoAs) and password controls.

4.2. ***Detective Controls:*** Processes initiated to identify control violations post-occurrence.

Examples of such activities include, reconciliations processes, project dashboards and management reviews (QBRs).

5. ICF Components

Control environment

5.1. The control environment defines the context for the effectiveness of internal controls. Internal controls are only as strong as the attention and attitudes that senior management and personnel direct at them. The control environment therefore involves how executive and senior management establish the tone at the top regarding the importance of internal control, including how they establish and implement expected standards of conduct, and how other levels of management reinforce these expectations.

5.2. The control environment comprises the integrity and ethical values of the organization, the governance and oversight modalities, the organizational structure and assignment of authority and responsibility, as well as the process for attracting and maintaining competent personnel and the organization's ability to hold personnel accountable for their performance.

5.3. UNOPS personnel shall actively participate in the continuous implementation, improvement and maintenance of a strong control environment. This includes proper execution of internal controls administered in compliance with internal policies and procedures. UNOPS personnel shall highlight control deficiencies in a timely and accurate manner.

5.4. The following five principles must be 'present and functioning' in order for the control environment component to be effective:

i. UNOPS demonstrates commitment to integrity and ethical values.

ii. The Executive Board demonstrates independence from management and exercises oversight of the development and performance of internal control.

iii. Management establishes, with Executive Board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.

iv. UNOPS demonstrate commitment to attract, develop and retain competent individuals in alignment with objectives

v. UNOPS holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

Risk assessment

5.5. The risk assessment component captures the processes that UNOPS has in place to identify, assess and manage risks to the achievement of its defined objectives. This presupposes that clear objectives are established to enable the organization to identify and analyze risks to these.

5.6. UNOPS personnel shall participate in the identification, assessment and management of such risks which is performed during risk workshops facilitated by Internal Control with process owners.

5.7. UNOPS management shall validate and sign off on the risk assessments for their functions. Management and process owners shall document remediation plans for unacceptable levels of residual risks within processes.

5.8. Internal Control shall monitor completion of the remediation plans and provide status updates to the relevant stakeholders.

5.9. The following four principles must be 'present and functioning' in order for the risk assessment component to be effective:

i. UNOPS specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.

ii. UNOPS identifies risks to the achievement of its objectives across the organization and analyses risks as a basis for determining how the risks should be managed.

iii. UNOPS considers the potential for fraud in assessing risks to the achievement of objectives.

iv. UNOPS identifies and assesses changes that could significantly impact the system of internal control.

Control activities

5.10. Control activities are the actions established through policies and procedures that help ensure that required risk mitigation directives are carried out effectively. The control activities are performed at all levels of the organization and throughout different business processes. Control activities vary in scope and nature; they may be preventive or detective and they may be automated or performed manually. Control activities include – but are not limited to – authorizations, approvals, verifications, reconciliations, operational performance reviews, and actions to uphold segregation of duties.

5.11. UNOPS executive and senior management shall ensure compliance to policies and procedures and treat non-compliance in a transparent and consistent manner. Executive and senior management shall ensure that risk mitigation directives are performed effectively and monitor remediation plans for unacceptable risk levels.

5.12. UNOPS management shall ensure that control activities are established to adequately secure processes. Management shall employ adequate review and monitoring strategies for control activities within their processes. These review strategies should ensure that control activities are performed in accordance with policies and procedures.

5.13. UNOPS personnel shall execute control activities in compliance with internal policies and processes.

5.14. Internal Control shall provide reports on the status of key controls to management on a quarterly basis.

5.15. The following three principles must be 'present and functioning' in order for the controls activities component to be effective:

i. UNOPS selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

ii. UNOPS selects and develops general control activities over technology to support the achievement of objectives.

iii. UNOPS deploys control activities through policies that establish what is expected and processes that put policies into action.

Information and Communication

5.16. Information and communication is necessary to ensure that management and personnel have the information they need to effectively carry out their responsibilities. This presupposes that relevant and quality information is generated and made available to support the functioning of other components of internal control. It also requires that information is shared through continuous and iterative communication channels.

5.17. Internal Control shall communicate significant risks, to the achievement of objectives, to UNOPS executive and senior management.

5.18. Internal Control shall ensure that there are adequate mitigation measures recorded for significant risks.

5.19. The following three principles must be 'present and functioning' in order for the information and communication component to be effective:

i. UNOPS obtains or generates and uses relevant, quality information to support the functioning of internal control.

ii. UNOPS internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.

iii. UNOPS communicates with external parties regarding matters affecting the functioning of internal control, when necessary.

Monitoring Activities

5.20. Monitoring activities are required to evaluate whether all of the internal control components and their principles are effectively implemented. This may be done through ongoing evaluations built into business processes, or it may be done through separate periodical evaluations. The findings from the monitoring activities, including any identified deficiencies, must be communicated to and evaluated by relevant levels of management.

5.21. Internal Control shall collaborate with UNOPS policy owners and other relevant units, e.g.Risk Management, IAIG and the Ethics Office, in order to effectively protect the organization from unacceptable risk exposure.

5.22. The following two principles must be 'present and functioning' in order for the monitoring activities component to be effective:

i. UNOPS selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.

ii. UNOPS evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management, as appropriate.

6. Implementation of UNOPS ICF

6.1. UNOPS ICF is operationalised through a system of internal controls that are defined and implemented across UNOPS and at all levels of the organization.

6.2. The ICF is a key component of UNOPS organizational and governance structure, which includes building a strong risk and control environment with appropriate delegations of authority and effective segregation of duties, as defined in UNOPS EOI on DoA and in UNOPS FRRs.

6.3. The ICF is closely interlinked with the UNOPS framework for Enterprise Risk Management (ERM). The two frameworks can be seen as mutually reinforcing in providing reasonable assurance related to the achievement of UNOPS operational, reporting and compliance objectives.

6.4. It is the primary responsibility of operational management to identify and manage key risks to operational objectives, as well as establishing effective controls. This is to be documented through the ERM processes, as defined in UNOPS OI on Risk Management.

6.5. It is the primary responsibility of management in standard setting, policy and control entities to identify and manage risks, as well as establishing effective controls, related to reporting and compliance objectives. This is to be documented through risk assessment of key processes in UNOPS standard setting, policy and control entities, which includes finance, procurement, asset management, ICT, legal, and human resources.

6.6. It is important that controls are appropriate and proportionate in relation to the risks they are directed at mitigating to ensure efficiency of operations.